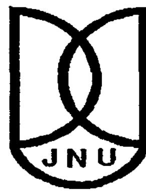
CONVERGENCE AND DIVERGENCE IN THE RELATIONSHIP BETWEEN THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK

Dissertation submitted to Jawaharlal Nehru University
in partial fulfillment of the requirements for the award of the degree of

MASTER OF PHILOSOPHY

VASUDHA DHINGRA



Centre for International Politics, Organization and Disarmament
School of International Studies
JAWAHARLAL NEHRU UNIVERSITY
New Delhi - 110067

2007

Centre for International Politics, Organization and Disarmament

Date: 20-07-2007

DECLARATION

I declare that the dissertation entitled "Convergence and Divergence in the Relationship between the International Monetary Fund and the World Bank" submitted by me for the award of the degree of **Master of Philosophy** of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other university.

VASUDHA DHINGRA

CERTIFICATE

We recommend that this dissertation may be placed before the examiners for evaluation.

PROF. C.S.R. MURTHY

Chairperson, CIPOD

Chairperson
Centre for International Politics,
Organization & Disarmament
School of International Studies
J.N.U., New Delhi

PROF. C.S.R. MURTHY

Supervisor

Acknowledgments

The research work undertaken is a product of direct and indirect efforts of a number individuals. There can be no limit to express my gratitude to them. I would like to begin by thanking God who gave me the strength and the wisdom to pursue this research.

I would like to thank Dr. Archna Negi for offering the course on international financial institutions, from where my liking for studying the International Monetary Fund and the World Bank began. Dr. Negi was instrumental in helping me decide the topic of my research. I am enormously grateful to her for her suggestions.

I deeply thank my supervisor, Prof. C.S.R. Murthy, for his invaluable inputs and feedback which have immensely helped in the evolution of this research. I am extremely obliged to him for encouraging and motivating me as well as providing critical analyses which has abundantly helped in the strengthening of this work.

I am tremendously indebted to Mr. Rose Govindaraj, without whose consistent and unconditional support, both moral as well as academic, this research would not have been possible. I cherish our academic discussions which began with my admission to the M.Phil. programme of the Centre in mid-2005.

My special thanks to Prof. Varun Sahni, Dr. Rajesh Rajagopalan, Dr. Yeshi Choedon, and Dr. J. Madhan Mohan.

I would like to express my appreciation to Dr. Rahul Mukherji and Prof. Partha Mukherji for extending their whole-hearted encouragement in the making of this research.

My sincere thanks to the JNU central library staff, as well as to Mr. Vinod Khullar and Mrs. Savita Chawla of the Centre for rendering administrative services very meticulously and patiently.

Lastly, I would like to thank my parents, sister and all friends and seniors for being the pillars of strength as always.

Vasudha

Vasudha Dhingra

CONTENTS

Page No.s

An Introductory Note 1-3

Chapter I: Institutional Features Between the Fund and the Bank 4-29

Negotiations prior to the Bretton Woods Conference
Negotiations at the Bretton Woods Conference
Membership
Location of Headquarters
Organizational Structure
Decision-Making Powers
Roles and Functions
Summary Observations

Chapter II: Approach to Economic Growth and Development 30-69

Evolution of Ideological and Theoretical Foundations of BWIs
IMF Approach to Lending
Conditionality
Re-emergence of the IMF in 1970s
"Washington Consensus" and the IMF Operations
The Challenge of the East Asian Crisis
Lending Approach of the World Bank
Early Trends in Reconstruction Lending
IDA as Response to the Need for "Soft" Loans
Challenge to Project Lending and Need for More Technical Assistance
Shift of Focus from Output-based to Needs-based Approach
From Project to Programme Lending: The Structural Adjustment Loans
Non-Traditional Activities: Debt and Poverty Reduction
Summary Observations

Chapter III: Areas of Convergence and Divergence Between the Fund and the Bank 70-94

Aspects of Collaboration
Conditionality and Cross-Conditionality
Areas of Divergence
Summary Observations

Chapter IV: Functional and Institutional Problems and the Prospects for Reform 95-126

Criticism against Conditionality and Lending Policies
Mission Creep
Leadership Selection and Staff Recruitment Criteria
Accountability and Decision-Making
Toward Reform
Modest Responses for Change
Wide Ranging Suggestions
Summary Observations

Chapter V: Conclusion 127-132

References 133-136

Introduction

An Introductory Note

The study will trace the historical evolution of the BWIs from pre-1944 Bretton Woods Conference negotiations till present and describe their organizational structure including membership; describe the roles assigned to each of the BWIs.

The present-day International Monetary Fund (IMF or Fund) and World Bank (Bank), together known as the Bretton Woods Institutions (BWIs), are the products of deep reasoned understanding of the victorious allied powers, especially the USA, as to the economic causes of the Second World War, and their desire to restore economic and monetary stability as a precondition for peace and prosperity. The argument of the institutional theorists, like Robert Keohane, who argue that '...national leaders and political elites construct international institutions to serve their understanding of national and domestic needs', holds true in the case of the BWIs (in Murphy 2005: 12). The BWIs were bound not only by a common history, but also by a common ideology -- liberalism, now neoliberalism. John Ruggie's views on 'embedded liberalism' and 'multilateralism' emphasise that '...[the international] institutions serve the needs and advance the interests of several nations and business interests by enhancing cooperation centered upon a shared set of liberal political and economic values' (Murphy 2005: 12).

Not withstanding common history and ideology, the BWIs have pursued distinct policies and viewpoints and have determined the independent courses of action. This study aims to discern the dynamics in the relationship between the two institutions against the common belief that the two always work in tandem with each other, and hence the sobriquet, 'twins'. In so doing, the study will also bring out a few crucial concerns related to the functioning of the BWIs. One such matter is of the continuation of US predominance in the affairs of the BWIs from the beginning of their formation, to the extent that the institutions have been rendered completely undemocratic. Another important concern is the ill-effects of the policies advocated by the BWIs in the borrower

countries, largely due to the US influence and its neoliberal predilection in economic policy-making and thinking.

In order to prove the hypothesis of the study, viz. divergence is as notable as convergence in the relationship between the International Monetary Fund and the World Bank, the research tries to address questions such as What were the important commonalities and differences between the BWIs during their origin?; What is their development ideology and their main lending policies?; What are the main areas in which they cooperate?; In which areas do they have major disagreements?; And what are the gaps in the ideological and institutional structures of the BWIs? A recurrent undercurrent of the study is the continuation of the predominance of the US in the affairs of the BWIs from the time of their formation. To some extent, the study attempts to project that the BWIs, especially the Bank, have been able to adapt themselves relatively better to the outside developments, than being responsive to the demands for internal change.

The study is divided into five chapters. The first chapter traces the evolution of the BWIs from pre-Bretton Woods Conference of 1944. In so doing, it will highlight the crucial misgivings that the two institutions were given equal treatment by their founders. The chapter will also bring out the distinctions and similarities in their organizational structures with respect to their membership; mandates; decision-making power and methods. The second chapter will discuss the impact of development ideologies on the operational aspects of lending activities of the BWIs. The evolution of their roles together with some of the major lending policies of each institution will be examined separately, along with their corresponding theoretical economic underpinnings. It will be observed that the liberal ideas of 18th century form the theoretical foundations of the BWIs, and they have continued to remain under the influence of one or the other variety of liberalism; in recent times, the neoliberal ideology characterising their preferred policy actions. Chapter three will identify and dwell on the areas of convergence and divergence between the Fund and the Bank. To be sure, the two have not always shared cordial relations with each other, and perceptions about interference have not been uncommon. The areas of their diverging viewpoints and practices are as significant as those of their

collaboration. Chapter four will explore the criticisms against the Fund and the Bank on grounds of deficiencies in policy and institutional demands. Important concerns of organizational deficiencies will be dealt with, such as matters relating to the selection criteria of leadership in BWIs; their extending mandates; and decision-making structure and voting rights through quota system. Measures for internal reform as adopted by the BWIs will be examined while referring to various suggestions for structural and functional improvement. The fifth and last chapter will summarise the main findings of the study.

The study is conducted with the help of relevant official documents of the IMF and World Bank. Secondary literature on the subject, including select scholarly books and articles has been extensively used in order to benefit from the analyses and perspectives of the experts. Internet sources have also been referred. A select bibliography will follow, aiming to suggest a range of sources made use of for the study. The research methods are a mix of description and analysis, and the approach adopted is inductive.

Chapter I

CHAPTER I

INSTITUTIONAL FEATURES BETWEEN THE FUND AND THE BANK

The aim of this chapter is to explain the organizational inter-linkages between the Fund and the Bank. It will trace the evolution of the Fund and the Bank by highlighting the negotiations carried out before and during the formal Bretton Woods Conference of 1944 that ultimately led to the establishment of these Bretton Woods Institutions (BWIs). The chapter will also highlight the issues of membership, decision-making and voting procedures, and roles and functions of the two institutions as stated in their Articles of Agreement in order to understand the nuances of the Fund-Bank relationship better.

Discussions to secure world peace and international prosperity through international economic cooperation took-off even before the Second World War formally ended in 1945. The mid-1940s witnessed serious deliberations between countries of the West for the formation of three international financial institutions (IFIs) - the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the International Trade Organization (Peet 2003: 27). In the efforts initiated under the United States and the United Kingdom for building post-war economic relations, 'a major concern was to avoid a recurrence of the anarchical economic conditions, both nationally and internationally, that had existed in the interwar period and that were blamed in no small measure for the outbreak of the Second World War' (Ferguson 1988: 25). While formal negotiations regarding the monetary and financial aspects of the future world economy were held at Bretton Woods in July 1944, those on international trade took place in Havana, Cuba (known as the Havana Conference), three years after the Bretton Woods Conference. However, the International Trade Organization (ITO) could not materialise since the ratification process for its operationalisation was never completed (Ferguson 1988: 25). Instead, the General Agreement on Tariffs and Trade (GATT), agreed to in 1947, replaced the ITO.

The new interrelated international economic order that was developing under the American and British can best be explained in Ferguson's words:

> This triadic structure- the GATT, IMF, IBRD- encompassing trade, monetary and financial relations, was the institutional framework that became operative in the post-war years as the basis of a clearly defined system of international economic interaction. And, while the trade dimension was negotiated apart from the monetary and financial issues, in a real sense the agreements in these areas represented a coherent, interrelated set of arrangements to govern international economic relations. It is from this perspective that many analysts of the post-war international economy speak of the Bretton Woods system, implying thereby certain easily distinguishable features- a specific ideological orientation, a legalistic approach, common membership and the institutional constructs. (Ferguson 1988: 25)

Negotiations prior to Bretton Woods Conference

The negotiations for the establishment of the IFIs began even before the Second World War ended. Formulations were negotiated, essentially between the American and the European delegates led by the British for the creation of what later came to be the International Monetary Fund, and subsequently the International Bank for Reconstruction and Development. The British thinking was more in favour of a currency stabilisation organization on the lines of Keynes's proposal for an International Clearing Union than the less ambitious International Monetary Fund (Oliver 1975: 181).[1] On the other hand, Harry Dexter White, director of the Division of the Monetary Research and deputy in-charge of International Monetary Problems in the US Treasury Department, prepared two drafts in 1942; one was titled 'Proposal for a United Nations Stabilization Fund' and the other was for a 'Bank for Reconstruction and Development of the United and Associated Nations'.[2] Beckhart states that there were perhaps three motives behind the proposals for the Fund: "the desire to establish an institution for international monetary cooperation

[1] Germany was the first to develop a postwar monetary plan for reconstruction and reorganization of the German and European economies after the War. It indicated 'a kind of multilateralism that would bring unprecedented prosperity to Europe.' It was in reaction to the German plan that Keynes laid down his Proposals for an International Clearing Union in April 1941 (Peet 2003: 41).

[2] According to Beckhart, "In format, the White plan resembled a bill prepared for legislative consideration and, in consequence, was lacking in "reader appeal". The Keynes plan, on the other hand, was issued as part of a pamphlet, which viewed the problem of stabilization in its various aspects, and, as a result, elicited immediate reader interest." He also asserts, "In a way it was unfortunate that the two plans were offered simultaneously, for the reason that attention became centered on their detailed provisions, their similarities and dissimilarities rather than on the problem of currency stabilization itself" (Beckhart 1988: 491).

and consultation, to assist in the solution of England's immediate post-war financial problems, and to overcome the reputed defects of the gold standard" (Beckhart 1988: 500).

The French and the Canadians, too, submitted their proposals in 1943. The French memorandum for currency stabilisation was neither too ambitious nor too intricate. It was assumed that it could be made effective immediately, and gradually be extended to other countries, and ultimately be led to a general return of the international gold standard. However, the French suggestions were not explored adequately. Likewise, the Canadian proposal for an International Exchange Union, which appeared to tilt more towards White's plan with some elements of Keynes' ideas as well and also offered new suggestions, was met with half-heartedness on the part of the American and British delegates (Beckhart 1988: 492-493; Peet 2003: 42).[3]

In March 1942, subsequently in September 1943 and then in November 1943, White prepared a final draft of how the Bank for Reconstruction and Development would look like.[4] And as in the case of the Fund, the discussions about the Bank, too, were held mainly between the American and the British experts.[5] Though the November draft of White was still a tentative draft, it formed the concrete basis for negotiations at the Bretton Woods Conference in 1944, and also of the various intergovernmental

---

[3] This is not to say that there were no points of divergence between the American and the British. While the Americans favoured a large political organization with permanent staff, Keynes wanted a small part-time organization to provide a platform to the economic and financial intelligentsia to discuss the challenges of the world economy. However, their plans were footed in common grounds, and both were determined to avoid the chaos of the interwar period. Hence, there were a series of informal discussions between the American and the British officials from 1942 onwards, which helped in the resolution of their differences to a large extent. Together they could easily dominate the negotiations and prevail over plans developed by other countries (Peet 2003: 42-43).

[4] The idea for an international bank to assist in post-war reconstruction was first mooted in a conference in Brussels, in the inter-war period, in 1920. Discussions continued at The Hague in 1930 as well. However, with the outright rejection by the American President Roosevelt of the idea for the creation of an International Bank because of 'the fetishes of the so-called international bankers', the idea remained a flight of fancy. With the outbreak of the Second World War and the accompanying miseries, the world leaders could not take chance yet again. The War helped to bring back politics and economics at the Bretton Woods, which classical liberalism had long separated (Peet 2003: 31-32).

[5] However, Leo Pasvolsky (Special Assistant to the Secretary of State during the war years) once stated that the Bank's Articles of Agreement were drafted more by the British and the Dutch, than by the Americans. This notion is more true with respect to Article IV of the Bank's Articles than any other (Oliver 1975: 179, 196).

communications in this regard between November 1943 and July 1944 (Oliver 1975: 155-59). In February 1944, the US Treasury Department issued a booklet entitled 'Questions and Answers on the Bank for Reconstruction and Development', which contained the general principles of the November draft in a nutshell.

Ground was being prepared to involve other countries in showcasing what the US had conceived for the future international monetary system. In January 1944, Secretary Henry Morgenthau sent informal invitations to forty-four countries for sending their representatives to an international monetary conference without, however, communicating the date of the conference (Oliver 1975: 161).

March and April of 1944 saw representatives of various countries discussing White's Bank draft with members of the interdepartmental American Technical Committee. These exploratory discussions were to ultimately determine whether the Bank and also the Fund should be considered during the forthcoming monetary and financial conference for which Secretary Morgenthau had sent informal invitations. During these meetings, the former Soviet Union proved a tough nut to crack. White's response to most Russian demands was unsympathetic.[6] In the end, Russia opted out of the negotiations. Simultaneous negotiations were also taking place with the delegates from China, Czechoslovakia,[7] among others.

Additionally, following the announcement of Morgenthau on convening the international monetary and financial conference, discussions followed between Britain and its colonies. After the settlement of their differences with the representatives of its Dominions, Britain could join the US in the publication of the 'Joint Statement by

[6] Some important questions raised by the Russians were 'what are reasonable terms?', 'Does reconstruction include rehabilitation and restoration?', 'What is meant by the provision that the expenses of borrowers would be audited by the Bank?', 'How will the Bank determine whether a borrower is eligible for a loan, and how will the expenditure of the Bank loan be supervised?', 'Will the Bank be permitted to make loans to other international agencies?' For an insight into other questions and their response, see Oliver (1975: 164-166).

[7] The Czechs asked whether 'productive' loans meant 'profitable' loans. White's reply was that the "Bank loans would not have to be self-liquidating in the sense that each project would pay for itself, but obviously 'unprofitable' projects would not be financed (Oliver 1975: 167).

Experts on the Establishment of an International Monetary Fund' on 21 April 1944, which helped to pave the way for the formal conference.[8] However, much to the American disappointment, particularly White's, a similar joint statement for the Bank could not be obtained. While not covering all issues concerning the IMF, and not dealing at all with the IBRD, Peet emphasises that the Joint Statement 'did provide a framework to take to Bretton Woods, on which the Americans, British, and Canadian delegations agreed, and which they largely imposed on other countries' (Mikesell cited in Peet 2003: 43).

While the Joint Statement was being prepared, in April 1944, Secretary Morgenthau announced that 44 countries had accepted his informal invitation to attend a United Nations Monetary and Financial Conference. On 26 May 1944, President Roosevelt sent official invitations to 43 countries for such a conference to be held from 1 July 1944 at the Mount Washington Hotel in Bretton Woods in New Hampshire, USA (Oliver 1975: 182).[9] While there was no Joint Statement on the Bank, it was realised that together with the Fund, the Bank would be a response to the harsh experiences of the 1930s, 'which indicated the impossibility of reestablishing multilateral trading partners without international cooperation to secure stable equilibrium exchange rates and to stimulate foreign investments' (Oliver 1975: 163). The stage was now set for the Bretton Woods Conference.

It needs to be emphasised that prior to the pre-Conference meetings in June 1944 at Atlantic City, there were doubts whether the forthcoming Conference could consider the Bank as well for establishment alongside the Fund. However, the harmony achieved at the Atlantic City pointed out that a Bank plan could also be negotiated quickly, and the Bank was placed at the Bretton Woods agenda (Oliver 1975: 182).

[8] At the time of its release, announcement was made that certain countries of the United and Associate Nations have endorsed the Statement, but the exact number of the countries which fully or partially endorsed it was never revealed (Beckhart 1988: 494).

[9] While announcing the personnel of the American delegation to the Conference, President Roosevelt made it explicit that the members were expected to adhere to the principles of the Joint Statement. He also announced that 'modifications were permitted but only if they did not fundamentally alter the monetary plan already proposed.' Hence, from the outset, America was committed to a specific course of action (Beckhart 1988: 494).

Negotiations at the Bretton Woods Conference

At the Atlantic City consultations[10], Keynes and other delegates had prepared a 'Boat Draft' of the Bank plan in order to offer their suggestions and make necessary modifications to the American proposal. There was disagreement among the delegates at the Conference over the nomenclature of the Bank. The British suggestion was to keep it as 'The International Corporation for Reconstruction and Development'; El Salvador proposed 'The International Guarantee and Investment Association' or 'The International Investment and Guarantee Association'; and France suggested 'International Financial Institution for Reconstruction and Development.' Though the kind of purposes anticipated for the Bank were quite different from the accepted nature of a usual bank, yet the word 'Bank' was retained in its title as no satisfactory alternative could be found in the dictionary for this unprecedented institution (Oliver 1975: 183-184). Additionally, as Reddy brings out, the word "development" in the title was introduced more as an after-thought and as a distant objective (Reddy 1985: 19).

The delegates also pondered over provisions of the Bank membership being contingent on the Fund membership, to which White argued that the membership in the Fund would act as an assurance of stability of a country's currency, which would also increase the country's prospects of meeting its liabilities to the Bank (Oliver 1975: 175). The British apprehension of this provision was that it would make it impossible for member-countries to avail loans from the Bank if they withdrew their membership from the Fund. However, in the end, the US delegates had their way on this, as in many other matters. Additionally, Keynes, who was presiding over these meetings, inquired whether the Bank could make short-term loans for reconstruction purposes, and wanted an affirmative answer on this. However, White replied that the US favoured long-term project loans, and that there could be no distinction between reconstruction and development.[11] One significant

---

[10] Secretary Morgenthau invited representatives from Australia, Belgium, Brazil, Canada, Chile, Cuba, Czechoslovakia, the French National Committee of Liberation, India, Mexico, the Netherlands and the Philippines to join the four 'great powers' of the USA, the UK, China and the Soviet Union for further discussions on the matter (Peet 2003: 43).

[11] Oliver emphasises that it must be borne in mind that no one during the years between the world wars proposed that the wealthier nations subsidise the less wealthy, more or less permanently, through grants or

amendment to White's November draft as introduced by the Boat Draft was that only twenty per cent of each member-country's subscription was decided to be used for direct lending by the Bank, and the other 80 per cent was kept to implement the guarantees of the Bank (Oliver 1975: 176).

Much of the wording of the Boat Draft found reflection in the final Articles of Agreement of the Bank, particularly Article IV dealing with Operations. The British suggestions for modifications of the White draft were confined more to policy matters than to management. At Atlantic City, Keynes himself stated that 'the Boat Draft was not intended to conflict in any important respect with the American proposals' (Oliver 1975: 179). As Oliver puts it, 'For the most part, they [British] merely made explicit what had been implicit in the American drafts all along' (Oliver 1975: 179).

The initial days of the Bretton Woods Conference were reserved for opening remarks, adoption of rules and agenda, assignment to committees, and the like. On the opening day of the Conference on 1 July 1944, Secretary Morgenthau was elected as the permanent chairman. Three technical commissions were formed where each country was represented on each commission to consider the International Monetary Fund, the Bank for Reconstruction and Development, and the Other Means of International Financial Cooperation. Harry White chaired the first Commission, John Keynes the second,[12] and Eduardo Suarez (chairman of the Mexican delegation) the third (Oliver 1975: 182-183). The Conference was designed in such a way that the Articles of Agreement of the Fund

---

very long-term, negligible-interest loans. White's conception was of an organization which could make international capital markets more nearly perfect by increasing knowledge about international investment opportunities and by improving the performance of development institutions in borrowing countries. He did not conceive of an organization which would ignore international capital markets altogether. Indeed, he specified that the Bank can make or guarantee loans only if it 'is satisfied that in the prevailing market conditions, the borrower would be unable otherwise to obtain the loan under conditions which...are reasonable for the borrower' (Oliver 1975: 258-259).

[12] Keynes was appointed the chairman of the commission on the IBRD by White in order to divert his attention from further negotiations on IMF. White viewed Keynes as 'the only serious person who could upset his plans.' And White himself handled the proceedings of the commission on IMF to ensure that things move according to his own ideas. Additionally, all secretaries and assistants to the committees were Americans, who themselves selected and proposed subjects to be discussed, they counted the votes, and more importantly wrote the minutes of the meetings and drafted the final agreement. White had trained them at the Atlantic City pre-Conference meeting, and together they formed 'a homogeneous and cohesive team that could understand the main issues and defend the US position' (Peet 2003: 47-48).

were to be completed first before turning to the Bank or Other Means of International Financial Cooperation.

Rigorous discussions and negotiations followed the Conference days. The founders unambiguously perceived the two institutions to work in tandem with each other. To achieve smooth relationship between the Bretton Woods Institutions (BWIs), efforts were made to keep the verbiage of the Bank Articles same as that of the Fund. In fact, the questions of Bank's organization did not gather much attention from the founders, and only the most important Articles (from V to XI) were based on either the November draft or on similar sections of the nearly completed Articles of Agreement of the Fund (Oliver 1975: 204).

Thus, modifications suggested during the Conference were mainly in the nature of clarifications and addition of phrases 'to satisfy the predilections of the Bretton Woods delegates.' (Oliver 1975: 159) As pointed out by Oliver, 'while discussions concerning the Fund dragged on for nearly two years, basic agreement on the Bank was reached in little more than two weeks!' (Oliver 1975: 182).

The Articles of Agreement of the Fund were adopted in a plenary meeting on 20 July 1944 and those of the Bank on 22 July 1944 (Beckhart 1944: 490). Together, the Articles came into effect from 27 December 1945.[13] The Inaugural Meeting of the Board of Governors of the two institutions was convened in Savannah (also known as the Savannah Conference) by the USA on 8 March 1946 to deal with the organizational aspects of the two institutions (Pehle 1946: 1137). At the time of their birth, Keynes baptised the Fund and the Bank as "Bretton Woods twins" (Polak 1997: 473).

---

[13] The Bank was to be officially inaugurated as soon as its Articles were ratified by any group of countries whose subscriptions totaled a minimum of 65 per cent of the total agreed upon at Bretton Woods ($10 billion) by 31 December 1945. A situation for the deadline lapsing threatening the Bank almost arose. The British refused to ratify the Articles until they were promised an American loan, and other countries would not ratify until the British did. Finally, in December 1945, only when the British were assured of a loan that they ratified the Bank Articles and were followed by many more countries to enable the Bank to come into existence a few days before the deadline (Oliver 1975: 209; Peet 2003: 51). Later, the deadline for ratification of the Articles by other countries was extended to 31 December 1946 at the suggestion of Czechoslovakia (Oliver 1975: 224).

It is noted that English was made the working language of the BWIs making the Anglo-Saxon bias in the recruitment criteria abundantly clear (Selassie 1984: 45; Woods 2006: 3). Up to 1951, the combined Anglo-Saxon staff comprised more than 70 per cent of the total professional staff in the Bank, and more than 50 per cent up to 1966 (Selassie 1984: 44).

The BWIs are considered to be part of the United Nations system. The BWIs' formal relationship with the United Nations is defined by a 1947 agreement which recognises them as independent specialised agencies of the UN. The BWIs are also members and observers in many other UN bodies where they have common interests, such as United Nations Development Programme (UNDP), United Nations Program on AIDS (UNAIDS) and World Food Program (WFP) (United Nations 2003). The BWIs are considered as 'special "specialised agency" of the UN (Reddy 1985: 28). This is mainly because the two are not subject to the supervisory control of the United Nations and are thus different from its other specialised agencies like the Food and Agricultural Organization or the International Labor Organization. Nonetheless, there is regular exchange of information and coordination of activities between the two bodies (Reddy 1985: 28).

Membership

The interdependence of the Bretton Woods institutions finds best expression in their membership criteria. Article II, Section 1(b) of the Bank's Agreement states that in order to become a member of the Bank, a country must first be a member of the Fund. Though in the Boat Draft, Britain had expressed its apprehension about the linking of the two institutions' memberships, the justification given by White was two-fold. One was to reduce the risk of free ridership, since membership in the Fund entailed both obligations and rights, but in the case of the Bank, it only meant benefits. And two, it was recognised that stable monetary situation was a necessary pre-condition for the Bank's successful

lending as well as for enhancing the quality of the Bank's loans.[14] White felt that there was no point discussing the Bank unless there was a Fund (Oliver 1975: 174-175, 185; Polak 1997: 473-474). The only issue with respect to the membership that remained to be resolved at the Bretton Woods was whether a country would continue to remain a member of the Bank after having withdrawn from the Fund. Agreement on this was ultimately reached along the lines proposed in the November 1943 draft. It was decided that nations ceasing to be members of the Fund shall also cease to be members of the Bank 'unless three-fourths of the member votes favor its remaining a member' (Oliver 1975: 185). Article IV, Section 3 of the Bank's Agreement states that such a cessation from the Bank will come automatically after three months of withdrawal from the Fund unless there is a majority weight against it (IBRD 1989).

Location of Headquarters

One of the unpleasant disagreements between the American and the British representatives during the Bretton Woods Conference was on the question of location of the BWIs' offices. Keynes insisted that the headquarters of the Fund and the Bank should be located in London, which has been the traditional centre for international finance. Keynes wished this also because he wanted to halt the gradual shift of world finance to New York since the 1920s[15]. At the very least, he wanted that their offices be located in New York than in Washington- under the direct supervision of the US government (Oliver 1975: 207). To be sure, the Americans had always assumed that the headquarters of the two would be in the territory of the largest subscriber namely, the USA itself, and they proposed this to the Bretton Woods Conference. Due to the adamant stand of the UK on the issue, a last minute agreement was reached that the offices would be located in the USA, with the decision on the exact city left to be taken in the Savannah Conference of 1946. At Savannah, the US urged that the Fund and the Bank be located in Washington, D.C. This was met with resistance from Britain and some other countries. However, in

[14] In late 1980s, the Bank's structural adjustment lending was tied directly with the Fund's credit arrangement by means of conditionality (Polak 1997: 474).

[15] The US wanted to replace Britain as the centre of the global economy. According to Secretary Morgenthau, the establishment of the Fund would be the result of years of US struggle to move the centre of international financial activity from London to Wall Street, and in so doing 'create a new concept for international financial dealings' (in Peet 2003: 41).

the end, with some reluctance Washington, D.C. was selected as the site for future international monetary and financial transactions (Pehle 1946: 1137).[16] The justification given for this choice was that it would be easier to avail necessary economic information from the countries through their embassies located in Washington, D.C. (Peet 2003: 52).

Organizational Structure

At Bretton Woods, as noted, the organizational aspects of the Bank were not given serious attention and the pattern of the Fund's structure was followed to such an extent that the Bank's Articles of Agreement dealing with the institutional set-up appear to be the mirror image of those of the Fund.

During the negotiations at Bretton Woods, there was no major divergence of views on the structure of the Fund. A three-tier structural design as envisaged in the White plan was adopted. The Fund was to have a plenary, an Executive Board, and a Secretariat to be headed by a Managing Director. Accordingly, Article XII of the Fund provides for a Board of Governors, an Executive Board, a Managing Director with staff, and a Council if the Board of Governors so decides by a vote of 85 per cent of the total voting power (IMF 1990). Likewise, Article V of the Bank provides for a Board of Governors, Executive Directors, a President and such other officers and staff to perform such duties as the Bank may determine (IBRD 1989). It is interesting to note that although the founders kept the provisions of the Bank's Articles same as that of the Fund, yet there were some cosmetic changes introduced in the language and the nomenclature. For example, the head of the Bank was referred to as the President as against Managing-Director used for the Fund's leader, perhaps, to make it a more appealing designation and cover-up for the loss of image the Bank had faced during its formation.

Like in the Fund, powers that are not given to the Executive Board or the Managing Director lie with its Board of Governors, so does in the Bank. In both institutions, the Boards of Governors are represented by one Governor and one Alternate each by every

[16] It was possible to reach a consensus on the issue, against Keynes's wishes, with the help of the US's Latin American clientele (Peet 2003: 52).

member-country, who then chose their Chairman (IMF 1990: Article XII, Section 2; IBRD 1989: Article V, Section 2). In essence, the Board of Governors represent the egalitarian tradition in decision-making by granting the right of representation to all the members, yet retaining an inegalitarian element of the weighted voting (Ferguson 1988: 67). The Governors serve a term of five years, and may be reappointed if their country chooses to do so. Their Boards meet once every year, and also hold meetings as shall be called by their Executive Board (in the case of Fund) and Executive Directors (in the case of Bank) (IMF 1990: Article XII, Section 2; IBRD 1989: Article V, Section 2).[17] However, the Board of Governors is not the central decision-making organ in these institutions. The decisions that it takes are based on the recommendations of the Executive Directors.

This second tier of decision-making in the BWIs is a limited-membership organ. It has both elected as well as appointed representatives or Directors. Presently, there are 24 Executive Directors each in the Board of Directors of the Fund and the Bank - five are near-permanent Executive Directors of appointed by the five members having the largest quotas,[18] and remaining to be elected by the other member countries.

Quotas were deemed of immense significance since decision-making authority was to be based on them. They are the determining factors of a country's subscriptions, its voting power, and the amount of financing it can receive from the institutions. In short, they are indicative of the size of a country's economy and of its trade volume (Peet 2003: 60; Buira 2007: 228). It is no secret that the quotas are determined by more political calculations than economic. It is held that during the Bretton Woods Conference, the quotas of the United States, the United Kingdom, the Soviet Union and China were politically determined. Raymond Mikesell, who was the brain behind estimating quotas of the member-countries, speaks out in clear words:

---

[17] These annual meetings act as an occasion in which the Governors present their statements on the policies of the institution and the direction they should take in their future course of action (Ferguson 1988: 67).

[18] Quotas were deemed of immense significance since decision-making authority was to be based on them. They are the determining factors of a country's subscriptions, its voting power, and the amount of financing it can receive from the institutions. In short, they are indicative of the size of a country's economy and of its trade volume (Peet 2003: 60; Buira 2007: 228).

> In mid-April 1943, White [i.e. Harry Dexter White, chief international economist at the U.S. Treasury in 1942-44] called me to his office and asked that I prepare a formula for the...quotas that would be based on the members' gold and dollar holdings, national incomes, and foreign trade. He gave no instructions on the weights to be used, but I was to give the United States a quota of approximately $2.9 billion; the United Kingdom (including its colonies), about half the U.S. quota, the Soviet Union, an amount just under that of the United Kingdom; and China, somewhat less. ...I confess to having exercised a certain amount of freedom in making these estimates in order to achieve the predetermined quotas (in Buira 2007: 227).

Questioned by the Committee of Quotas to explain the formula used to determine the quota estimates, Mikesell writes:

> I had anticipated this request and gave a rambling twenty-minute seminar on the factors taken into account in calculating the quotas, but I did not reveal the formula. I tried to make the process appear as scientific as possible, but the delegates were intelligent enough to know that the process was more political than scientific (in Buira 2007: 228).

Due to the substantial delegation of authority by the Board of Governors along with the immense decision-making powers conferred by the Articles of Agreement, the Executive Board of the Fund and the Executive Directors of the Bank are seen as the pivotal decision-making body of their respective institution. The Executive Directors of both the Fund and the Bank are responsible for the overall conduct of their respective institution's general operations, and perform those duties as delegated to them by their Board of Governors. Each Executive Director shall appoint an Alternate with full power to act for him/her when he/she is not present. Elections for elective Executive Directors are conducted after every two years (IBRD 1989: Article V, Section 4; IMF 1990: Article XII, Section 3).

In the case of the Fund, the Executive Directors choose a Managing Director as the head of the institutions, and in the case of the Bank, a President. The heads of the two institutions are not chosen from the Governors or the Executive Directors nor from their alternates. The Managing Director is assisted by a first deputy managing director and two other deputy managing directors (Peet 2003: 60). The Managing Director (of the Fund) and the President (of the Bank) acts as the Chairperson of the Executive Directors, but he/she does not have the right to vote except in matters of tie. The Managing Director and

the President holds office as long as he/she enjoys the confidence of the Executive Directors of their respective institutions. Acting as the chief of the operating staff of their institution, and subject to the general control of their Executive Directors, the Managing Director and the President are also responsible for the organization, appointment and dismissal of the officers and staff of their institutions (IBRD 1989: Article V, Section 5; IMF 1990: Artcile XII, Section 4).

In addition, an Interim Committee of the governors of the Fund was created in 1974 to consider key policy issues on international monetary system. It meets twice yearly and was renamed as the International Monetary and Financial Committee (IMFC) in 1999 (Ferguson 1988: 69; Peet 2003: 60).

Decision-Making Powers

In the 1940s, important developments with a bearing on the Bretton Woods twins took place. The first was associated with the San Francisco Conference of 1945 leading to the establishment of the United Nations system. The second was related to the Bretton Woods Conference. While at San Francisco and other conferences taking place around the same time, such as in Rome and Dumbarton Oaks, the principle of sovereign equality of states was adopted in terms of the decision-making; at Bretton Woods, the proposal for a system of weighted voting in the Fund was flagged, which surprisingly, did not arouse any degree of controversy (Ferguson 1988: 58). Notably, the decision-making methodology laid down in the Articles of Agreement was a stand alone procedure in comparison to the egalitarian method adopted or preserved for other organizations like the United Nations which were taking shape simultaneously before the Second World War ended.

It can be said that at the time of the creation of the BWIs, there was a unique balance in distributing voting power to the member countries. While on the one hand, there was a clear and explicit concern among the founders to ensure equality to the member countries and reinforce the principle of universality and the public character of these institutions, 'as opposed to giving them a structure which simply reflected relative economic and

financial strength in the world economy' (Woods 2001: 86). Thus, the 250 'basic votes' given to all member countries, irrespective of the size of their national economy or relative strength in the world economy, is a clear indication of the principle of equality as prevalent in the BWIs. Each member country also has one additional vote for every 100,000 SDRs of its quota (Buira 2007: 226). On the other hand was the additional weighted votes system apportioned according to the quotas of each member country.

The initial Anglo-American discussions on the Fund underscored the need for safeguarding the authority of the major powers in its decision-making structure. Keynes' 1942 proposal for the Clearing Union underlined a special decision-making role for the US and the UK by virtue of their standing as 'founder-States'. It read:

> ...it would be an advantage if the proposed Union could be brought into existence by the United States and the United Kingdom as joint founder-States...The management and the effective voting powers might inhere permanently in the founder-States (in Ferguson 1988: 59).

The earliest ideas of the US on the question were contained in the 'Preliminary Draft Proposal for a United Nations Stabilization Fund' of April 1942, and touched upon the predicament of choosing an appropriate voting procedure in such an institutional setting as one comprising the interests of small and large states. It reflected that 'a one-vote-one-member arrangement is palpably unwise' (Ferguson 1988: 59). On the other hand, if the voting power was decided strictly according to the proportion of the value of subscription of the members, then it would easily provide control by a few members. There was a danger of losing the international appeal of the institution in this, which could seriously jeopardise the success of the Fund. Moreover, it was doubtful whether other countries would be willing to participate in an international agency where they had limited or no powers or where their powers were virtually hijacked by a few rich States. Thus, neither an elitist nor an egalitarian standard was seen as appropriate for decision-making in the Fund. Ultimately, the American planners sought to design a decision-making arrangement 'that would avoid the two extremes of strict equalitarianism or permanent elitism' (Ferguson 1988: 60).

The subsequent bilateral meetings of the American and the British representatives resulted in a consensus on the voting arrangement and other structural aspects of decision-making in the Fund. Agreement was reached on the principles of weighted voting and majority decision-making.[19] Ferguson states that there was no dispute on the question of weighted voting, rather it was clearly endorsed during the deliberations of the Committee on Organization and Management, which indicated that:

> The Committee realized that the management of the Fund has to be prepared to deal with possible or potential conflicts of interest which ultimately may have to be voted upon. There was no doubt that in the management of the Fund large countries should have stronger representation- and certain privileges (in Ferguson 1988: 60).

Despite overall consensus on the matter, certain aspects of the voting proposals were criticised. Uproar took place on the question of the criteria to be used to determine the allocation of quotas, and hence, the votes in the Fund (and in the IBRD).[20] Dissatisfaction also emerged about the prospects of effective veto which would accrue to the United States under the system of weighted voting. Despite several attempts by countries to include criteria other than purely economic ones, the ultimate decision was to have an allocative system based entirely on economic criteria. Therefore, allocation of votes was to be reflective of the relative importance of the member-countries in the international economic system. At the same time, it was also agreed that the effects of the weighted voting system would be moderated through the introduction of certain uniform number of votes, called basic votes (Ferguson 1988: 60-61). The idea of basic votes was mooted by the US and was viewed as a double-edged weapon. It would, on the one hand, give a sense of participation to the smaller countries in the Fund, and on the other, would dilute the preponderant control of the large countries obtained through a procedure of voting allocations determined exclusively by the economic criteria (Ferguson 1988: 61).

---

[19] According to Peet, White had insisted from the beginning that votes for decision-making in the IMF, and later in the IBRD, would be based on proportion to a member's quota, and not on the democratic one-country-one-vote system; he was not keen on negotiating this issue (Peet 2003: 44).

[20] At the Conference, White elaborated on the reactions of various countries on the agreement on decision-making powers. He explained that 'all countries wanted larger quotas; the more troublesome countries were China, insisting on having fourth place; France and India, both insisting on having fifth place; and all the smaller countries, especially those of the Third World, wanting larger quotas than assigned. The most troublesome country was Australia, which was 'seen to be participating to an extent far beyond the proper role of a country of her size and importance'' (Cohen cited in Peet 2003: 44-45).

For the Bank as well, White argued that the enterprise can be a success only when the debtor countries, along with the creditor countries, had some say in the decision-making process and when they have something to contribute to it (in Gavin and Rodrik 1995: 330).

Thus, each member of the Fund has 250 votes plus one additional vote for each part of its quota equivalent to one hundred thousand special drawing rights (SDRs). In the Bank too, each member country is given two hundred and fifty votes and one additional vote for each share of stock held in the Bank.

Another important feature of decision-making adopted at the Conference was that of majority voting. The American proposal suggested that though decisions, in general, would be taken through simple majority voting, certain decisions would require higher majorities for approval. The Americans set eighty per cent as the requirement of special majority. Though Britain strongly showed its disfavour to this idea which would yield enormous powers to the US in the Fund's crucial decisions, yet through bilateral exchanges again, their differences of opinion were sorted out ending in an understanding that 80 per cent majority requirement would be preserved, but for a very limited number of decisions.(Ferguson 1988: 61).[21] Thus, except as otherwise specifically provided, all matters before the Fund and the Bank are decided by a majority of the votes cast (IBRD 1989: Article V, Section 3; IMF 1990: Article XII, Section 5).

According to Ferguson, the combined rules of weighted voting and majority decisions have served as a system of checks and balances 'to protect the interests of specific members or groups of members, on the one hand, and have facilitated another Fund decision-making practice- the consensus mode' (Ferguson 1988: 65).

[21] However, there was an expansion in the number of decisions that needed special majority- 18 after the first amendment to the Fund's Articles in 1969 and 39 after the second amendment in 1978 (Ferguson 1988: 64).

Roles and Functions

White, in his draft plan for the Fund and the Bank, stated that though a single institution with combined functions of both could be set up, it was believed that it might result in inefficiency, over-centralisation of power, and could run the risk of making costly errors of judgments. He asserted, 'The best promise of successful operation seems to lie in the creation of two separate institutions, linked together by one or two common directors' (in Feinberg 1988: 546). The purposes of the two, he believed, would appear to be common in some senses, yet a closer look would reveal their distinctiveness. He stated:

> The objectives of the Bank, it will be noted, are similar in some aspects to those of the Fund, but a careful examination will reveal that in their most important aspects they are different. The Fund is designed chiefly to prevent the disruption of foreign exchange and to strengthen the monetary and credit systems and help in the restoration of foreign trade, whereas the Bank is designed chiefly to supply the volume of capital to the United Nations and the Associated Nations that will be needed for reconstruction, for relief, and for economic recovery (Feinberg 1988: 546).

TH-14034

On the other hand, White had also elaborated the common purposes of the Fund and the Bank as those 'that would seek to restore confidence in the continued stability of exchanges', and 'both Fund and Bank must seek to develop those conditions in which trade and productive capital movements can be expected to prosper' (Feinberg 1988: 547).

Though Keynes, in his earlier thinking, had proposed a close financial collaboration between his International Currency Union and the Board for International Investment (his alternative to the Fund and Bank), yet he strongly reacted to the American suggestion of appointing the same person to the Boards of the Fund and the Bank. He said:

> It seems to me a thoroughly bad idea. Different qualities are required, and the range of activities of the two would be widely divergent. It must be doubtful, therefore, whether one man can efficiently perform both functions. I should like to see the Board of the Fund composed of cautious bankers, and the Board of the Bank of imaginative expansionists (Feinberg 1988: 547).

However, the American Bankers Association (ABA) was so impressed with the potential overlap of powers of the two institutions, that it went on to suggest the merging of the

two into a single agency, with the Bank taking over the functions delegated to the Fund! However, in the end, the founders' preference for two separate institutions prevailed.

Functions

The International Monetary Fund was conceived as a supranational body mainly to address the economic needs of the European and North American countries in the postwar period (Peet 2003: 56, 63). The first meeting of the Executive Directors of the International Monetary Fund was held on 7 May 1946. The first Managing Director of the Fund, Camille Gutt of Belgium, was chosen in two hours of the meeting (Oliver 1975: 226). The Fund started its operations in 1947.

Conceived to be the centre of postwar monetary system, the Fund was entitled with three dimensional functions: regulatory, financial and consultative. As a regulatory agency, the Fund was to specify the rules and norms for the monetary conduct of its member-countries.[22] Members had to follow fixed exchange rate system and specific currency practices as part of their code of conduct. Additionally, the Fund was to lay down the convertibility standards (as outlined in Article VIII of its Agreement), which the members were to adhere to. The Fund was conceived to possess 'supervisory power' or 'policing function' in order to regulate 'national actions threatening international equilibrium' (in Peet 2003: 46).[23] With respect to the financial aspect of its roles, a clear division of labour was created between the Fund and the Bank. The Fund was created essentially to cater to the balance of payments deficits of the member-countries. Its financial task was, thus, meant to supplement the short-term financing needs of the members to settle their difficult external payments situations (as against the Bank's long-term development loans). Lastly, the Fund was meant to act as an important 'forum for

[22] For the founders of the Fund, the problem of the interwar period was a void of management and 'collective responsibility' and also of a regulatory mechanism. They wanted to prevent the two previous extreme practices namely of 'the rigidity of the exchange rates of the 1920s, and the floating rates of the free-for-all regime of the Depression years.' Thus, it was deemed necessary by the Bretton Woods planners to confer to the Fund the function of regulating the exchange rates (Peet 2003: 45-46).

[23] The Soviets disdained the policing function of the Fund as it would imply demanding investigations of their gold production, gold and foreign exchange holdings, spending of borrowed funds, and so on, which was customarily kept confidential by the Soviets. Eventually, the Soviets refused to ratify the Bretton Woods agreements (Peet 2003: 46).

consultation and negotiation of cooperative solutions to international monetary problems' (Ferguson 1988: 27). This function also placed responsibility on the Fund to review the economic behaviour of the member-countries by providing them a mechanism for annual consultations as underlined in Article XIV (Ferguson 1988: 27). In addition to this three dimensional role, the 1969 amendment of its Articles guaranteed it a whole new role namely, to supplement the stock of international reserves in case this stock is threatened to become inadequate (Polak 1997: 475).

Keeping in line with their intentions, six chief purposes of the IMF were laid out in Article I of its Agreement titled 'Purposes'. These are: (i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems. (ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy. (iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation. (iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade. (v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity. (vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members (IMF 1990).[24]

[24] Although there is no mention of reconstruction or relief work for the Fund nor to deal with international indebtedness arising out of the War, yet its advocates argued at Bretton Woods that it could and it should be used for the purpose. This was essentially to enable Britain to finance needed imports during the postwar transition period. Unless this was done, the advocates emphasised, Britain would be forced in to bilateral trade tactics. However, the opponents had the final word on this by warning that if this was done, it would freeze the assets of the Fund. Also, despite opposition from the Indian delegation, the prohibition on the use of the Fund's resources for recovering from international indebtedness due to the War was adopted at the Conference (Beckhart 1988: 495-496).

These functions clearly indicate that the purpose for the establishment of the Fund goes beyond currency stabilisation. This is why there was a change in the title of the institution, from the proposed 'An International *Stabilization* Fund of the United and Associated Nations' as in White's draft to the new 'International *Monetary* Fund'.

On the other hand, the first meeting of the Executive Directors of the International Bank for Reconstruction and Development was held on the same day as that of the Fund, 7 May 1946. Emilio Collado, US Executive Director to the Bank, was elected as the Chairman until a President was chosen. It was only on 4 June 1946, that the Bank got its first President: Eugene Meyer,[25] editor and publisher of the *Washington Post* was nominated for the post by US President Truman (Knorr 1948: 33; Oliver 1975: 227).[26] The Bank opened its door for business from 25 June 1946.

The IBRD was designed to provide resources to member-countries for mainly two tasks, economic reconstruction of war-torn countries (which essentially meant European reconstruction), and economic development of the less developed countries. However, as its founders intended, reconstruction work was to be the priority concern of the Bank. Since reconstruction was seen as a temporary and also a short-term project, the Bank would then shift to the second leg of its mandate namely, long-term development financing (Ferguson 1988: 26).

---

[25] Meyer had remained a Wall Street investment banker and a government official. Most of the Bank Presidents have been commercial bankers, investment bankers or lawyers with deep connections with New York banking (Peet 2003: 114).

[26] It is interesting to note that the US expected the President of the Bank to be one who enjoys confidence of, and respect by, the American investment bankers, as they would play an instrumental role in the success and failure of marketing the Bank's securities. This indicated the predicament of the Executive Directors in finding a suitable candidate for the post. Secretary Frederick M. Vinson, who replaced Henry Morgenthau, had begun the search in March; however, till the first meeting of the Directors, none was found willing to accept the position. Several prospective candidates were Edward E. Brown (President of the First National Bank of Chicago), Lewis W. Douglas (President of the Mutual Life Insurance Company), William J. Clayton (Assistant Secretary of State). When Meyer accepted the responsibilities associated with the post, no time was wasted by the Executive Directors to appoint him the President. He was elected by a unanimous vote, only to resign after six months in office in the middle of a contestation over the authority of the President of the Bank vis-à-vis its Directors (Oliver 1975: 226-227).

White had emphasised in the November draft that the Bank would guarantee private loans rather than lend its own capital. However, it was thought that some loans would be made directly for small projects or to small countries. Additionally, direct loans would also be suitable to combat situations of depression when private investors are wary of new investments (Oliver 1975: 162). It was also laid out that no 'tests' (which are better understood as 'conditionalities') would be applied by the Bank to the proposed loans other than those which determine the productivity of the loans made,[27] and whether it could be repaid by the borrower country or not (Oliver 1975: 162).

Thus, five purposes of the Bank were outlined in Article I of its Agreement. These are: (i) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries. (ii) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources. (iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories. (iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first. (v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy (IBRD 1989).

[27] In order to determine whether a loan was likely to be productive, an investigative committee of the Bank would take into account the expected increase in the borrowing country's production and balance of payments (Oliver 1975: 162).

The roles and functions of the two bodies had tied them under one system. The third purpose of the Bank clarifies the point. The founders designed the Fund and the Bank to complement the roles of each other, and also those of the new international trade organization which was to come up in subsequent years.

Moreover, over the years, need was felt for widening the operations of the IBRD. This led to the creation of two new agencies namely, the International Finance Corporation (IFC) in 1956 and the International Development Association (IDA) in 1960. Two more affiliates were established, the International Centre for Settlement of Investment Disputes (ICSID) in 1966 and the Multilateral Investment Guarantee Agency (MIGA) in 1988. Together, all five agencies are called 'World Bank Group'. While the IFC is the largest multilateral source of loan and equity finance for the private sector projects in the developing member-countries, the IDA gives loans to members who are usually not 'creditworthy' in the international financial markets. This is also referred to as 'concessional lending', and made to the least developed countries with no interest rate charged. The purpose of ICSID was to facilitate the investment disputes between the member governments and foreign investors. And lastly, MIGA was conceived to provide investment insurance for non-commercial risks (Peet 2003: 112).

With the formation of four more mini-agencies under the World Bank Group, the roles of the Bretton Woods Institutions seemed to overlap in a big way. With the growth of the Fund and the Bank, it was decided for the first time, in 1966, to carve out areas of "primary responsibilities" of the BWIs in order to avoid rendering inconsistent advice to member-countries and possibilities of conflict in their future operations. The memorandum accorded the Fund jurisdiction for 'exchange rates and restrictive systems, for adjustment of temporary balance of payments disequilibria and for evaluating and assisting members to work out stabilization programs as a sound basis for economic advice.' The Bank was endowed with the primary responsibility 'for the composition and appropriateness of development programs and project evaluation, including development priorities' (Mason and Asher 1973: 551). The staff of each of these institutions was

instructed to follow the advice of the other in their primary areas of responsibility. This also came to be known as the 'lead agency' concept.

Furthermore, in 1969-70, the Fund and the Bank agreed to follow standard practices to implement the principles of "primary responsibility", including consultations before sending missions to member countries, debriefing after their return, exchange of information gathered, so on and so forth (Polak 1997: 477). The Pearson Commission[28] in 1969 went a few steps ahead in its recommendation for conducting 'unified country assessments'. The two institutions were not prepared to implement this recommendation until late 1980s when the structural adjustment lending was launched by the Bank, making it contingent upon the Fund's credit arrangement through conditionality.

Following the criticism of the structural adjustment programmes, the two institutions seem to have parted ways.

Summary Observations

The idea for international financial institutions to combat the economic threats originating out of the Second World War was mooted by the United States of America and its European allies, particularly the United Kingdom, and hence, the outcome of the series of negotiations culminating in the Bretton Woods Conference leading to the creation of the Bretton Woods Institutions was essentially based on the Anglo-Saxon traditions, and weighed heavily in favour of American thinking. At the Conference too, criticisms to the White's plan and the November draft of a fundamental character and suggestions of an alternative character were not encouraged. Though developing countries were in a majority at the Conference (27 out of 44), on the whole, barring some exceptions, they could not affect the negotiations or the outcome of the Conference to

[28] In 1968, then World Bank President Robert S. McNamara invited former Canadian Prime Minister and Nobel Peace Prize holder, Lester B. Pearson, to assess the past twenty years' of development assistance and make recommendations for the future. The Commission on International Development, better known as the Pearson Commission, submitted its report titled 'Partners in Development' on 15 September 1969. See Pearson Commission 2007 at http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTARCHIVES/0,,contentMDK:20121526~pagePK:36726~piPK:36092~theSitePK:29506,00.html

any significant extent. As Ferguson states, 'The fact is that the terms of the debate had already been set in the bilateral exchanges between the United States and the United Kingdom, thus in large measure pre-determining the outcome' (Ferguson 1988: 26).

Although Morgenthau intended to make the Conference a high-level one by inviting finance ministers to add political weight to the final agreements, yet due to war and other political considerations, only fifteen governments sent their finance ministers to the Conference. Other than the leading economists of the time, there were government delegates as well in the Conference, who, however, did not possess the appropriate qualifications to attend a conference of international significance (Peet 2003: 40).[29] Additionally, many delegates failed to participate in the deliberations of the Conference, as they did not understand English, which was the official medium of communication at Bretton Woods. At the end, the representatives signed the agreements without having the time, opportunity and skill to read and comprehend them.

Similar sentiments are also expressed by Oliver:

> ... many delegates left Bretton Woods with the suspicion that the Fund and the Bank were American schemes which would be run by Americans with little consideration for the needs and aspirations of the rest of the world. There was also a feeling that many of the crucial problems of postwar international trade had been left unresolved ... (Oliver 1975: 210).

Bretton Woods can then be seen as a mere drafting meeting, formalising the provisions of two institutions agreed upon earlier in the bilateral discussions of the US and the UK, and furthermore between President Franklin D. Roosevelt and Prime Minister Winston Churchill (Peet 2003: 40). And as Eric Hobsbawm asserted, 'the institutions emerging from Bretton Woods were *de facto* subordinated to American foreign policy' (in Peet 2003: 29).

Though Keynes baptised the Fund and the Bank as "Bretton Woods twins", yet even at the time of their origin, they were not identical twins. In subsequent time, they maintained only superficial contacts and grew increasingly apart (Polak 1997: 473). To

[29] For example, Guatemala sent a post-graduate student in economics as its representative (Peet 2003: 40).

be sure, of the two institutions, the IMF was perceived as more important than the IBRD. The founders of the Bretton Woods Institutions left no one in doubt that their main emphasis was on the creation of the IMF (Mason and Asher 1973: 538). The Bank was more of a side-issue during the negotiations. Its Articles bore closer semblance with those of the Fund, as Ferguson says, they were 'virtual mirror image' of the Fund Articles, and were, as a matter of fact, 'formulated in the wake of agreement on the Fund' (Ferguson 1988: 26). Even with respect to its roles and functions, the Bank was not seen a hopeful light. Galambos and Milobsky argue that initially the general perception toward the Bank was that it would not need any special kind of organizational structure, 'since it would operate much like a loan window, merely transferring funds from donor to recipient countries' (Galambos and Milobsky 1995: 159). More importantly, membership of the Bank was mandatorily premised on prior membership of the Fund, thereby belittling the stature of the Bank from the outset.

The next chapter will examine the theoretical foundations of the BWIs. It will study the impact of the dominant economic ideology on the lending policies they frame and adopt for their member countries.

Chapter II

CHAPTER II

APPROACH TO ECONOMIC GROWTH AND DEVELOPMENT

While the previous chapter traces from the historical context the symmetries or synergies between the IMF and the World Bank in terms of their goals, membership, structures and their composition, and other organizational features, the present chapter will first, briefly examine the common and dominant ideology which guides the two institutions and their operations. It will, then, highlight some of the most important policies adopted by the two institutions keeping in line with their philosophy and also the international economic developments.

Evolution of Ideological and Theoretical Foundations of the BWIs

Just as classical political economy was designed as a response to the mercantilist principles of protectionist capitalism, the Bretton Woods Conference and then, the Institutions, too, were formulated in reaction to the state protectionism of the 1930s. The international economic order after the Second World War was formed on the principles of openness, non-discrimination, mulitlateralism, and convertibility of currencies. The US engagement in the classical liberal ideas was reflected in several international conferences of the time—Dumbarton Oaks, San Francisco, Bretton Woods and Havana.

The ideological roots of the BWIs relate to the philosophy propounded by several economic thinkers like Thomas Hobbes, John Locke, David Hume and Adam Smith, writing in seventeenth- and eighteenth century Britain. Smith, in his *The Wealth of Nations* (1776) propounded 'a liberal theory of individual economic effort in a society characterized by competition, specialization and trade' (Peet 2003: 4). He believed that capitalism had its own silent rationality, the 'invisible hand', which possessed the magical ability of transforming private interest into public virtue. Smith's classical liberalism was progressive, scientific and rational. This classical liberal doctrine reacted to the mercantilist principles of direct government intervention in the development of

national economies to the extent to accumulating state capital (Peet 2003: 4-5). In the words of Jacob Viner, mercantilism is 'a doctrine of extensive state regulation of economic activity in the interest of the national economy' (in Crane and Amawi 1991: 4-5). Though there is no unified strand of classical mercantilist thought, but all mercantilists believe that politics cannot be separated from economics (a feature peculiar to the liberal thought). Drawing their political realism from the writings of Thucydides, Machiavelli, and Hobbes, mercantilists argue that if formal state authority does not constraint the pursuit of self-interest (which is one of the core features of classical liberalism), then the result would be a brutal 'state of nature'. This justifies the need for government intervention in the economy both domestically (in the form of national economic consolidation and more effective collection of revenues) and internationally (leading to protectionism). The proponents of mercantilism see the political-economic struggle as a zero-sum game, and for this, states should not spare any effort in protecting their national economies. Underlying this idea is their belief that economic dependence must be avoided; and hence this stream of thought is also known as nationalist economic theory (Crane and Amawi 1991: 4-5). Liberalism, on the other hand, argued for self-regulating, as opposed to state regulating, markets. Smith also argued that 'the gain of one nation is not necessarily based on the loss of another', rather, 'all nations benefited when they traded with each other in a free world market' (Peet 2003: 32). Furthermore, in the international division of labour, interdependence of each nation with the world system increases with international trade. This implies that each nation will have power relative to the other, and not absolute power. J.S. Mill linked trade with peace or economic exchange and political power – 'commerce not only brought about peace, but also rendered war obsolete' (Peet 2003: 32). This classical linkage of trade with peace was the key premise for the creation of the Bretton Woods Institutions.

However, the self-regulated market economies were susceptible to 'system-threatening' depressions in that the surplus accumulated was concentrated in the hands of a few. This new situation demanded a new kind of political state that can intervene to regulate not only its own (state) interests, as in the case of classical mercantilism, but also those of the greater majority of people. During the twentieth century transformation in geo-politics,

British economist John Maynard Keynes postulated his own interpretation of liberal capitalism. Redistribution of wealth and income became the new objectives of the state which allowed it to directly intervene in, and regulate, the market economy. 'Post-war liberalism used state intervention, exercised through various levels of planning and public ownership, in its social democratic versions, and fiscal and monetary policies in its liberal-democratic versions to stabilize economies and redistribute income through welfare programmes, unemployment compensation, the subsidization of education and the free provision of social services.' Keynesian economic theory helped in establishing a 'legitimacy of state intervention in market economies with the aim of achieving growth and employment levels decided on the basis of social policy' (Peet 2003: 6-8). Keynes advocated state intervention in the economy primarily to break away with the problems of unemployment and lack of investment. Keynesian advocacy of state intervention in economy was revolutionary and, in fact, an anti-thesis to the liberal argument that economic prosperity can be best achieved without state management. Nonetheless, it should be noted that Keynes was not advocating protectionism. To be sure, he argued against the beggar-thy-neighbour policies of the interwar years, which he believed could best be accomplished through international economic cooperation, thus retaining some elements of liberalism in this doctrine (Crane and Amawi 1991: 11-12).

In the thirty years following the Second World War, Keynesian intervention dominated mainly in the western European social democracies and in the USA, though as a subdued version (Peet 2003: 6-8).

Eventually, the Keynesian doctrine was opposed by the so-called neoliberals, who argued for reforms.[30] 'Neoliberalism is an entire structure of beliefs founded on right-wing, but not conservative, ideas about individual freedom, political democracy, self-regulating markets and entrepreneurship' (Peet 2003: 8). The doctrine revives the beliefs of British classical liberalism, especially of the nineteenth century. The philosophy positively retains the characteristics of its nineteenth century ancestor (classical liberalism) but

[30] Peet notes that opposition to Keynesianism did not come from the external threat of communism as many project it to be; instead the internal movements for reform by the neoliberals challenged the doctrine (Peet 2003: 8).

negates those of its twentieth century predecessor (social democratic Keynesianism). Contemporary neoliberalism's preoccupation with privatisation of state enterprises and deregulation of private enterprises is a reaction to the social democratic Keynesianism as was classical liberalism's reaction to mercantilism. Friedrich von Hayek and Milton Friedman were the chief neoliberal revivalists (Peet 2003: 8-10). Friedman was perhaps the staunchest critic of Keynesian economics. He fiercely argued against the fixed exchange rate of the Bretton Woods Institutions. Neoclassical economic orthodoxy, he held, was not an advance in the liberal international political economy theory; rather it was a retreat to the original arguments which were challenged in the late 1960s and early 1970s (Crane and Amawi 1991: 13).

Although the leitmotif of neoliberal thought is the efficacy of the market or the unregulated/free market in the extreme Hayekian and Friedmanist style, but to adhere to this diktat in strict terms would entail the end of the IMF itself. Thus, the need for a regulating agency was strongly realised. The challenge was for the Fund to strike a balance between 'aspects of Keynesian regulation with neoliberal demands for deregulation.' Peet describes the IMF's synthesis of the two different approaches as reflective of '...an institution that believes, to the point of abiding faith, in a new kind of global neoliberalism, which preserves aspects of Keynesianism in terms of the need for institutional regulation of the world economy, as long as the IMF does it, but that also prescribes deregulation at the national level, especially in the Third World countries, which become IMF dependencies' (Peet 2003: 105).

This domination of neoliberalism was reflected in the development approach of the BWIs as well. While the two institutions were largely influenced by the neoclassical economics in their policy formulation in the mid-to-late 1970s, by early 1980s, they, too, came to be dominated by the new economic theory (neoliberalism) of the time, which was extensively advocated by the Reagan and Thatcher regimes.[31] At the 1983 annual meeting of the World Bank, Reagan emphatically stated:

[31] The US Treasury Department forced Hayekian views on the Fund and the Bank, threatening the withdrawal of US funding in the absence of compliance (Peet 2003: 13).

> The societies that achieved the most spectacular, broad-based economic progress in the shortest period of time have not been the biggest in size, nor the richest in resources and certainly not the most rigidly controlled. What has united them all was their belief in the magic of marketplace. Millions of individuals making their own decisions in the marketplace will allocate resources better than any centralized government planning process (in Peet 2003: 13).

Thus, the message to the BWIs was clear: 'move against state-led development or else!' Following the neoliberal ideology, the BWIs profess a set of virtually isotropic (read: one-size-fits-all) economic advice and policies to their member-countries, irrespective of the differences in culture or social structure or even the previous economic discourse prevalent in the countries (Peet 2003: 14).

In the 1970s and 1980s, an intellectual shift among the economists and policy-makers took place, which is termed as the 'silent revolution' by IMF's official historian James Boughton. The emergent neoliberal consensus refused to accept the tradeoff between growth and stability (as supposed by the Phillips curve), but argued that price stability is a precondition to growth. This 'silent' intellectual revolution implied that the Fund's new view on growth as an organisational purpose would not bring it in confrontation with its prescriptions of fiscal and monetary austerity (Babb and Buira 2004: 21).

With the collapse of the Soviet Union in the late 1980s, liberalism emerged as the unchallenged victorious theory. Against this backdrop, in 1990, John Williamson, coined the term "Washington Consensus" '...to describe a set of market-oriented reforms that the sluggish state-directed economies of Latin America could adopt to attract private capital back to the region following the crippling debt crisis of the "lost decade" of the 1980s' (Clift 2003: 9). By Washington Consensus, Williamson meant a set of policy reforms that most of the officials at Washington generally agreed would be useful for Latin American countries to meet their debt crises.[32] The Washington Consensus helped

[32] Williamson elaborated ten propositions which formed the core of this Consensus: 'fiscal discipline; a redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure; tax reform (to lower marginal rates and broaden the tax base); interest rate liberalization; a competitive exchange rate; trade liberalization; liberalization of inflows of foreign direct investment; privatization; deregulation (to abolish barriers to entry and exit); [and] secure property rights' (Williamson 2000: 252-253).

in providing an economic policy framework which was desperately needed to fill the vacuum in the economic discourse after the discrediting of central planning and import-substitution trade strategies (Clift 2003: 9). '[It] came to be used to describe an ideological position, a development that Naím (2000) argues resulted from the world's acute need for a new ideology to provide a focus for debate in place of the god that had failed' (Williamson 2000: 255). Although the ten-point policy package was originally designed as a reform agenda for Latin America, it quickly came to be seen as a model for the wider developing world; and came to be equated with "market fundamentalism", a term first used by George Soros (Williamson 2000: 251-252; Clift 2003: 9).

How did this theoretical orientation shape the lending approaches of the Fund and the Bank is a question worth examining.

IMF Approach to Lending

Conditionality

An important feature of Fund lending was conditionality. 'Conditionality' was essentially a US brainchild, the US Treasury to be precise (Mason and Asher 1973: 542). According to Babb and Buira, the US was instrumental in introducing the principle of conditionality in Fund's lending policies during the early years, when '...it [the US] used its veto to prevent loans until the Fund adopted a policy of requiring substantive guarantees from debtor nations.' They assert, 'Forbidden by the U.S. from making loans to Marshall Plan recipients, the Fund was simultaneously blocked by the U.S. government from making loans without defining a strict policy of conditionality' (Babb and Buira 2004: 19).[33]

According to Polak:

> "Conditionality" is a term of art (or perhaps less generously, a bit of jargon) that refers to the conditions of economic policy a lender stipulates as a basis for concluding a loan arrangement and for allowing subsequent drawings under such an arrangement (Polak 1997: 486).

[33] For details on the history, nature and purpose of conditionality, see Buira (2003).

Though it should be noted that the original Articles of Agreement of the Fund did not contain any provision for applying conditions to loans (Babb and Buira 2004: 5), but whatever 'pre-conditions' existed required the member-countries to draw loans from the Fund simply through 'an effective program for establishing or keeping the stability of the currency of the member country at a realistic exchange rate' (Dasgupta 1997: 1092).[34] Whatever conditionalities existed, they were very few and were not rigorously enforced. They were meant to improve macroeconomic management and were demand-side oriented. The Bank was to provide long-term financial support which was supply-side oriented (Dasgupta 1997: 1092). While the US influenced in developing the *principle* of conditionality, the *practice* of conditionality evolved more gradually, '...and was not solidified into a set of clearly-defined performance criteria until the mid-to-late 1950s' (Babb and Buira 2004: 19). The Fund adopted the practice of making access to its resources contingent upon agreement to certain policies, and the standby arrangements[35] became a legal vehicle for this purpose (Mason and Asher 1973: 542; Babb and Buira 2004: 5).

The Fund started distinguishing between various levels of borrowing, and corresponding to it, conditionality was applied. Low conditionality was applied to borrowing from the gold tranche i.e. the gold previously deposited by the member-country with the Fund. Higher degree of conditionality was applied to the upper credit tranches i.e. the foreign currency, mainly US dollars, purchased by a country (Mason and Asher 1973: 540; Peet 2003: 66).

The Fund, for example, made its standby arrangements conditional on the acceptance of policies such as 'eliminating exchange controls and the "liberalization" of trade conditions' – this virtually implied complete withdrawal of state intervention in foreign

[34] However, subsequently, loan conditionality has outgrown this rather simplistic requirement, as we shall see in the coming pages. As Peet points out '...it is not the actual deliverance of the loan but its conditionality that is contested' (Peet 2003: 57).

[35] Standby arrangements enable member-countries to draw up to a specified amount from the Fund, for 12-18 months period. These arrangements are mainly to deal with short-term balance of payments problems (Peet 2003: 61). The first standby arrangement was with Peru in 1954 (Babb and Buira 2004: 6).

trade in order to favour the hand of the market in determining trade dynamics.[36] Additionally, the Fund introduced the practice of phased lending i.e. 'Each phase was made conditional on satisfactory performance by the borrowing country as judged by the IMF – these conditions being laid out in letters of intent starting in 1958' (Peet 2003: 66). Loans received by Chile in 1956 and Haiti in 1958 were drawn in phases. Thus, conditionality was institutionalised in IMF dealings with its member countries, mainly since the Third World countries started to draw regularly from the Fund in the 1950s (due to the boom following the Korean War leading to sharp decline in the prices of raw materials and hence, balance of payments crises). However, the imposition of conditionality was opposed by other member-countries of the Fund which argued for the continuation of the principle of 'automaticity', which meant that as originally intended in the Articles of Agreement, the member countries have an automatic right to withdraw their own deposits, although in US dollars. Nonetheless, the US Executive Director kept vetoing loan requests which did not conform to the American position. The new practice was that prospective borrowers would now have to approach the USA directly for prior approval in order to draw large amounts of foreign currency (Peet 2003: 66).

It was only in 1969 '...that the Fund's *de facto* policy of conditionality was given *de jure* legal sanction, through an unassuming amendment to Article V, section 3(a)' (Babb and Buira 2004: 5).[37] Gradually, the conditionalities expanded in volume and form. Generally, the Fund conditionalities include the following prescriptions: '(a) devaluation to bridge the gap between official and market exchange rate of the currency of the country concerned, (b) demand management, mainly by way of reducing government expenditure, to reduce domestic effective demand and consequent inflationary pressure, and (c) reduction of fiscal deficit, as a proportion of GDP, below 4 per cent' (Dasgupta 1997: 1095, 1097). Thus, while the initially intended purpose of conditionalities was

[36] The purpose of the Fund, as explained by Knorr, is '...to facilitate the revival of multilateral trade, the principal requisite of which is the free interconvertibility of currencies for trading purposes' (Knorr 1948: 22).
[37] According to the amendment, 'The Fund shall adopt policies on the use of its general resources, including policies on stand-by or similar arrangements, and may adopt special policies for special balance of payments problems, that will assist members to solve their balance of payments problems in a manner consistent with the provisions of this Agreement and that will establish adequate safeguards for the temporary use of the general resources of the Fund' (Babb and Buira 2004: 5).

'...to protect the Fund from requiring prior agreements that IMF officials thought would cut the risk of borrower noncompliance', it subsequently came to include rationales ranging from '...the need to "signal" world capital markets that a country is a safe and even promising place to invest, to the need to tie a government's hands in the face of domestic political opposition roused by the hardships that IMF-mandated measures can cause' (Kapur and Naím 2005: 101). For a long time now, IMF conditionalities included '... privatization of public enterprises, trade liberalization, the reform of banking and bankruptcy legislation, anti-poverty measures, and the prevention of money-laundering and terrorist financing...', while recently, the expanded concerns include such diverse elements as fight against global terrorism; institutional reforms such as fighting corruption and money laundering; and governance-related conditions (Babb and Buira 2004: 3, 12).

During the 1960s, rapid fluctuations in the fixed exchange rate system were taking place in the global trading arrangement. The Fund was criticised for being unable to deal with these speedy changes. Idea for some kind of international collective reserve unit (CRU) was put forward in 1962. Subsequently, the Committee of Ten (the ten leading economic powers), at the suggestion of the Fund's Managing Director, Pierre-Paul Schweitzer, decided to amend the original Articles of Agreement in order to set up a Special Drawing Account from which member countries can exert Special Drawing Rights (SDRs).[38]

In 1971, the fixed exchange rate system pegged to the US dollar got a jolt with the US suspending the convertibility of dollars held by other countries into gold. With the two main bases of the Fund namely, the gold exchange standard and the par value system, emasculated, the original Bretton Woods system was brought to an end. Also, the developing countries started avoiding conditionality-loaded IMF loans by borrowing from private sources. Consequently, the number of Fund's lending programmes reduced

[38] According to Peet, 'This [SDR] became a new kind of international reserve asset by 1970 just as the gold and oil crises drastically altered the international political economy and, with that, the role played by the IMF' (Peet 2003: 67). However, Mason and Asher argue that the Fund increasingly adopted the standby arrangements than the SDRs '...both because the former are better adapted to the requirements of stabilization programmes and because they offer more effective opportunities for using influence (Mason and Asher 1973: 540).

considerably. 'Desperate for customers, the Fund even found itself having to soften some of the conditions required for its loans' (Babb and Buira 2004: 8). This gave an impression '... that the ability of the IMF to regulate world financial conditions was at least greatly diminished, and perhaps finished.' However, this was not to be. In 1970s, '... the IMF re-emerge[d] as an international lending organization on a different, and eventually more powerful basis' (Peet 2003: 68-70).[39]

At the same time, a contrary trend was emerging. The penurious condition of Britain that made it move desperately closer to the Fund served as an indication to the developed countries that '...the IMF was the last of the last places for states to look for external financing' (Peet 2003: 70). Until the 1970s, it was primarily focused on the financial concerns of a few industrial countries, particularly Britain and Italy, after which these countries stopped drawing resources from the Fund (Bird 1996: 477).[40] Since 1977, it has been mostly the Third World countries and post-communist regimes that have used the Fund's facilities extensively. A study by Mark Harmon points out that '...harsh IMF treatment of these desperate Third World applicants has only reinforced the reluctance of the First World countries (as with a potential French application in 1983) to seek financing from the Fund' (in Peet 2003: 70-71).

Re-emergence of the IMF in 1970s

The shift in the Fund's clientele has also to do with the fact that after the collapse of the Bretton Woods system in 1971, the essential role of the Fund for stabilising the exchange rate system was eliminated. The Fund was, thereby, pulled into a more specific role of rectifying the balance of payments difficulties faced by the developing countries (Bird

[39] How this was made possible is a complex story. To put it succinctly, the British economy was on a decline during the period, making it the largest user of IMF funds for the first 25 years of the Fund's operation. The US government of Lyndon Johnson offered to support the draining British pound through a secret agreement which called for Britain to maintain its defence commitments on the east of Suez and for deflating its economy. The deflation part of the agreement made the country apply for IMF standby arrangement with conditions stricter than the previous times. Though the Labour government in Britain wished to '...re-inflate the economy behind a barrier of import restrictions, rather than borrow from the IMF,' yet further pressure on the pound and the impending need to repay the loan to the Bank for International Settlements (BIS) created a dire need for the British government to approach the IMF in 1976. Thereby, the IMF was seen to be emerging as a powerful lender (Peet 2003: 70).

[40] Since 1976, no industrial country has entered into arrangements with the Fund. The last of developed countries to take loans from the Fund were UK and Italy (Dasgupta 1997: 1092; Polak 1997: 478).

1996: 477). Thus, in the late 1970s, in the words of Peet, '...the role of the IMF effectively changed from being a means of collaboration on exchange rates and payments, mainly among industrial countries, to being a means of First World control over Third World economic policy' (Peet 2003: 71). Dasgupta adds that, 'Its [Fund's] role as a world body also declined, as the rich countries found other ways of funding their deficits, e.g. from global capital market...Though IMF regularly publishes world surveys, etc, it plays no global surveillance role in the world economy and it carries no influence with the rich country governments.' Since then, the Fund clientele has also been confined to the less developed countries (Dasgupta 1997: 1092).

As a result, the Fund introduced a new facility called the extended fund facility (EFF) in order to provide medium-term assistance to the Third World countries. The facility aimed at addressing balance of payments problems in countries which needed long-term solution due to say, structural maladjustments in their production and trade or 'slow growth and an inherently weak balance of payments position which prevents pursuit of an active development policy.' More so, a Trust Fund was established from the sales of its gold holdings to provide longer-term loans to low-income countries at low rates of interest (Polak 1997: 480-481; Peet 2003: 72).[41] The Fund now offered larger financial assistance; in 1979, it also extended its repayment period from its normal three-five years to four-eight years, with maximum up to ten years (Polak 1997: 480; Boughton 2001: 19-20, 43).

An equally crucial international development that led to a significant transformation in the IMF's position in the international monetary system was the oil crisis of the 1970s during which there was 'a massive shift in the geography of international payments.' There were two extreme situations: on the one hand were the oil-producing states which had accumulated huge balance of payments surpluses, and on the other hand were the non-oil producing, mainly Third World countries, which experienced serious balance of

[41] The IMF funds greatly increased by increasing the quotas paid by member countries, and also through instituting supplementary financing facility based on additional borrowing from members. Between 1972-1978, the Fund approved more than hundred standby arrangements, mostly for large amounts and for longer duration of repayment (Peet 2003: 72).

payments deficits. This gave enough scope for the IMF to pitch in and 'rescue' these countries from the crises (Peet 2003: 71). This was also a lucrative opportunity for private financial institutions, primarily the commercial and investment banks, to step in. The scale of private lending to the Third World countries greatly increased in mid-1970s.[42] However, the procrastinated repayments from the debtor countries made the private financial institutions wary of further lending thereby disrupting the flow of resources to the Third World countries to handle their balance of payments deficits. While all this led to the impression that the IMF's position would decline, and those of the private banks increase, events happened in the reverse order. The signal of indebtedness on the part of the debtor countries made the Fund stand firm: '...the institution rose to new prominence, with new functions and greater powers of control over even more dependent countries' (Peet 2003: 72). The Fund's response to the oil crisis was quick. Managing Director, Johannes Witeveen, decided that the Fund should play a guiding role in settling the financial difficulties of the debtor countries emerging from the oil crisis. A 'special temporary oil facility' was set up by the Fund in 1974 with the help of borrowings from member-countries to enable the Third World countries to pay the higher oil prices.

Having said this, it should be noted that the Fund's new lending arrangements did not provide loans unconditionally. Rather, the degree of conditionality increased considerably as the Fund moved from the First World to the Third World countries, and as EFF was introduced in the Fund's lending scheme. In fact, the scope of conditionality expanded even more in the 1960s, when several Western European and Third World countries joined the IMF (Peet 2003: 73).

In the late 1960s and the 1970s, the Fund asserted that the standby and other financial arrangements would be made conditional upon 'programmes'. A standard stabilisation programme of the Fund, of the time, incorporated the following tenets: abolition or liberalisation of foreign exchange and import controls; devaluation of exchange rate; anti-

[42] The private lending agencies were less concerned with the socio-political responsibilities attached to the loans, and more with the interest earned. They provided loans mainly to middle-income industrialising Third World countries from where the repayment was assured (Peet 2003: 71-72).

inflationary domestic programmes; and greater space for foreign private investment (Cheryl Payer in Peet 2003: 73). Not only did the Fund, under the garb of correcting balance of payments crises and under the guise of conditionality, engage itself in 'financial programming' of the borrowing country's monetary, fiscal and other economic policies, but it also clearly outstretched its powers which were originally applied only in the context of exchange rate system. Strictures from Third World countries soon followed highlighting the 'special treatment' given by the Fund to the First World countries and, by that means, its discriminatory approach to developing countries. It was only in 1979 that the Fund introduced *Guidelines to Conditionality* and proposed to restrict its application to a bare minimum, yet with no obligation for the Fund staff to adhere to them. It is worth highlighting some of the aspects of the *Guidelines* as brought out by Peet:

> It was agreed that 'in helping members to devise adjustment programs, the Fund will pay due regard to the domestic social and political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payments problems'. But the *Guidelines* also said that the managing director of the IMF would recommend approval only when *he judged* that the country's adjustment programme was consistent with the Fund's provisions and policies, and when *he thought* that the programme would actually be carried out' (Peet 2003: 73-74; emphasis added).

"Washington Consensus" and the IMF Operations

In the decade of 1980s, the application of conditionalities expanded dramatically, with the average number of structural conditions per programme rising from two in 1987 to 12 in 1995 to 16 in 1997; the number being highest during the Asian financial crisis, with programmes in Korea containing 94 structural conditions and those in Thailand being 73 and 140 to Indonesia (Babb and Buira 2004: 5, 11-12).[43] In 2002, the Fund again issued *Guidelines to Conditionality*, emphasising on, among others, the parsimonious use of conditionalities (IMF 2002; Babb and Buira 2004: 5; Buira 2003: 10).[44] However, it is

[43] Babb and Buira assert that there have been three stages of expansion of conditionalities: 1950s marked the first stage with the development of monetary and fiscal approach to the balance of payments crises; the second stage emerged in the 1970s with the increase in IMF's involvement with the private creditors, and included conditions which ensured prompt and orderly repayment of debts; and the third stage began in the 1980s with the development of 'structural' conditionality, and continues till present, depending on the discretion of Fund's management and staff (Babb and Buira 2004: 6-7).

[44] The review of the previous guidelines was necessitated by the strong criticisms against the intensification of the conditionalities by the Fund, or 'creeping' conditionality, thereby compounding the problems of

noted that the new guidelines '...do not insure countries against additionality of conditions...the guidelines or the staff statement do not spell out what is appropriate conditionality' (Vasudevan 2002: 4279). In effect, prospective borrower countries had to put the 'corrective measures' in place even before their standby loan was approved.

In the wake of the severe debt crisis during the1980s, the financial institutions used the formula of 'rescheduling' to handle the debt crisis. From 1982 to1985, to be able to meet their default payments, the indebted countries were provided with loans from the IMF, commercial banks and other lenders. Under rescheduling, the countries were supposed to receive some 'respite' in order to put their finances back in order, and commence repayment of their debts again. However, this 'respite' was again not unconditional. Countries had to follow IMF-sponsored adjustment measures which included '...raising taxes, raising tariffs, devaluing the currency and usually reducing government expenditure...' (Peet 2003: 76).[45] In this way, rescheduling was seen as '...a transformation of short-term debt into long-term bonds' (Peet 2003: 108). Debt relief also took the form of 'payment rescheduling' on the part of the creditor countries, sometimes on low-interest or concessional terms, and at other times, together with new loans. In order to deal with debt relief, the creditor countries formed a committee in consultation with the IMF, hosted by the French Treasury, known as the Paris Club. The Paris Club repeatedly rescheduled the debts, which led the official lenders to find a new approach of dealing with these countries.

In October 1985, James A. Baker III, Secretary of the US Treasury in the Reagan administration, made a proposal in the light of the deteriorating debt situation, known as the Baker Plan. He suggested that the IMF and the World Bank should strike a close collaboration and pool their resources to increase the amount of loans available with both these institutions as well as from the commercial banks. However, he further suggested that '...loans would be made conditional on 'policy improvements in the macroeconomic

adjustment. For details on the differences between the Guidelines of 1979 and 2002, see Vasudevan (2002: 4279).

[45] More stringent adjustment measures were avoided at this stage as the problem was seen as one of temporary 'illiquidity' i.e. '...lack of assets, such as cash, immediately available for settling financial obligations' (Peet 2003: 76-77).

framework' under structural adjustment programmes (SAPs) – the 'policy improvements' being in line with right-wing notions of the causes of growth (markets, privatization, deregulation of private enterprise, reducing state deficits, and so on)' (Peet 2003: 77). The Baker Plan was immediately accepted by the Fund (Peet 2003: 77; Babb and Buira 2004: 21).[46] However, eventually, in three years' time, the Baker Plan was seen as a failure,[47] and new (read: more extreme) debt reduction measures were searched for (Peet 2003: 79).

The next year, in 1986, the Fund introduced 'structural' conditionality, by launching structural adjustment facility (SAF), which was expanded to the Enhanced Structural Adjustment Facility (ESAF) in 1987 and continues to be in vogue till present. Structural conditionality aims at '...the fundamental transformation of the underlying institutions governing national economies.' This was a major departure from the Fund's previous lending practices. While the conditions imposed in the previous decades were both limited and temporary, the new conditions intended deeper changes which were almost impossible to reverse, like privatisation and trade liberalisation. The change was in parallel to the change in the philosophy of the Fund: from promoting the agenda of fiscal and monetary austerity to advocating 'market fundamentalism' (Babb and Buira 2004: 9). A perceived argument in defence of structural conditions was that the Fund's mandate not only called for correcting balance of payments disequilibria in member-countries but also to promote growth, and was taken to be consistent with one of its purposes as stated in its Articles of Agreement providing that the Fund shall '...contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.' Structural conditionality was based on the premise that the best recipe for growth was liberalisation of market forces, privatisation and a reduced role of the state in the context of monetary stability (Babb and Buira 2004: 10).

[46] The commercial banks were apprehensive of the Baker Plan in the absence of formal guarantees from official sources. Thus, while the official lending from the Fund (and the World Bank, as well as from the Government of Japan) increased, that from the private banks decreased. Net lending from public sector stood at $15.7 billion from 195-1988, and from private sector at $12.8 billion (Peet 2003: 78).
[47] This was probably due to a decline in the private sector contribution to international lending.

In 1987, under pressure from the UNICEF and others on the Fund's lending policies, the Managing Director of the Fund, Michel Camdessus, changed his stance from initial insistence on management of poverty by national governments to a direct involvement of the Fund with the governments to discuss the distributional aspects of its programmes. Its policy framework papers were to include measures to protect the well-being of vulnerable sections of the borrower countries. However, doubts continued to loom over the probable consequences of these changes as persistence of the 'hard core' (ideology) continued. 'IMF-backed programs...continue to focus on measures that tighten domestic credit, enhance fiscal revenues, reduce government expenditures, and adjust the exchange rate (Bird 1996: 493).

Searching for newer ways to counter the debt crises, Nicholas Brady, new Secretary of US Treasury in the Bush administration, declared, in 1989, that the only way to deal with the debt crisis was by encouraging the banks to engage in 'voluntary' debt-reduction arrangements.[48] This was known as the Brady Plan.[49] Under this new strategy, the debtor countries had to implement similar principles of the Baker Plan, like market-oriented structural adjustment, but this time '...in exchange for a reduction of commercial bank debt and, often, new loans from commercial banks and multilateral lending agencies...In effect, the banks, as creditors, would grant debt relief in exchange for greater assurance of the collectability of the rest in terms of principal and interest' (Peet 2003: 79). As with the Baker Plan, the IMF at once adopted the Brady Plan, and linked debt reduction with structural adjustment. The US Treasury, on the other hand, pressurised the initially reluctant creditor banks into making the so-called Brady deals. A typical Brady deal led to nearly 30-35 per cent forgiveness of a country's debts (Peet 2003: 79).[50] 'Aided greatly by a serendipitous and massive decline in world interest rates, the Brady Plan thus

[48] The call for more extreme measures for debt reduction also emerged out of a growing concern among the creditors that some loans would never be repaid (Peet 2003: 78).
[49] The plan was a result of the previous work done by David Mulford, under-secretary for international affairs in the US Treasury Department (Peet 2003: 78).
[50] However, as Peet points out, 'Behind these flurry of debt rescheduling and relief activity, strong political pressure was exerted by national governments, especially the USA, usually operating in concert with the Paris Club and the IMF. The main concern of this group of actors was preserving the banking system in the face of the possibility of repudiations of hundreds of billions of dollars in unpayable debts' (Peet 2003: 79).

provided substantial relief to qualifying countries and brought an end to the debt crisis as an international threat' (Boughton 2001: 32).

As noted above, James M. Boughton, official historian of the IMF, refers to the increasingly pro-free market shift in the IMF conditionalities as part of a 'silent revolution' in economic policy-making. To quote Boughton:

> The term "silent revolution"...refers to a shift in the prevailing paradigm for international economic and political relations, away from tendencies toward autarky, insularity, mercantilism, and governmental planning and control over economic activity; and toward a common set of beliefs and policies based on open international trade and finance, competitive pricing and production decisions, and cooperation between countries. To a great extent, the silent revolution of the 1980s resulted from a shift in economic philosophy toward a new classical synthesis in which government has an indirect role in, but not a direct responsibility for, ensuring national economic prosperity; in which private economic activity is promoted through good governance and the development of physical and social infrastructure. That shift was not born in the 1980s; in some aspects and in some countries, such trends had long been apparent. Nor did it occur as a complete or final revolution in more than a handful of countries. From a global perspective, the silent revolution could also be described as a Quiet Evolution (Boughton 2001: 3-4).

Speaking in the same vein at the annual meeting of the boards of governors of the Fund and the Bank in 1989, Michel Camdessus, former Managing Director of the Fund, highlighted the subtle but dramatic transformation taking place in the countries' approach to the IMF lending. He asserted:

> These countries were now willingly embracing market- and export-oriented policies. Long-standing ideological divisions between those favouring open and unified market pricing and those insisting on widespread state controls, were gradually being resolved in favour of economic liberals in many parts of the world (Peet 2003: 101).

Thus, in the 1980s, new classical economics came to dominate economic opinion, whereby the governments were expected '...to play only an indirect role in guiding the economy by creating the preconditions for sustainable growth, but not to assume direct responsibility for ensuring full employment or high rates of economic growth.' It is also noted that while in the 1970s, countries were reluctant to adopt this approach, by the end of 1980s, many turned towards it. 'So – a 'silent revolution' in which the superiority of

free enterprise, IMF style, was inevitably recognized as sound, good sense by governments all over the world' (Peet 2003: 101).

The Challenge of the East Asian Crisis

In the mid-1990s, the question of the Fund's original mandate was challenged. Its Interim Committee, in September 1996, asked its Executive Board to enquire the scope for amending its Articles of Agreement in order to address the issues arising from the growth of international capital flows. Next April, the Committee announced that the Fund's Articles could be amended to help the institution in promoting 'orderly liberalization of capital movements.' What this effectively meant was '...removing national (state) regulations on financial markets in member countries and removing all restraints on the free international movement of capital and all kinds of financial instruments and transactions – what the Fund called 'an open and liberal system of capital movements'' (Peet 2003: 80). It is noteworthy that in line with this decision of the Committee, the September 1997 joint meeting of the Fund and the World Bank in Hong Kong had planned to delegate the Executive Board the task of amending the Fund's Articles so that the institution could '...openly and actively promote capital account liberalization and extend its jurisdiction over global capital movements – a momentous expansion of the Fund's original powers.' However, another crisis broke out in a geographically distant land – South East Asia – which halted the amendment of the Fund's Agreement (Peet 2003: 80; Reddy 2003: 3305).

According to the IMF, the 'East Asian crisis,'[51] as it is commonly called, '...stemmed from internal weaknesses in the financial and governance systems of the affected countries' (Peet 2003: 80, 82). As Stiglitz points out, the Fund adopted defensive rhetoric, and along with the US Treasury, it '...quickly sought to blame the problems on the borrowing countries, and in particular on their lack of transparency' (Stiglitz 2003:

[51] On 2 July 1997, a speculative attack on the Thai currency of *baht* led to a sudden decline in its value by 25 per cent. This was followed by further waves of speculation involving the currencies of Korea, the Philippines and Indonesia, leading into the 'East Asian crisis'. The swift and abrupt fluctuations in the currency values of these countries incapacitated the banks; their GDPs dropped sharply; and there was a sizable increase in their unemployment levels. The so-called fast-paced 'miracle economies' started to teeter (Peet 2003: 80-81).

211). However, the Fund was not spared from criticism. Both, Keynesian liberals and Friedmanesque neo-liberals alike, targeted the IMF policies in East Asia. The financial liberalisation which was already taking place at that time was seen as a crucial contributing factor to this crisis by pumping massive flows of speculative capital in and out of these countries (Peet 2003: 82). Stiglitz calls the Fund's capital account liberalisation as '...the single most important cause of the East Asian crisis, and the crisis itself the worst since Great Depression' (Stiglitz 2003: 212) He attributes premature capital and financial market liberalisation, as enforced by the Fund on these countries, to be responsible factors for the East Asian crisis (Stiglitz 2003: 211-212). The consequences of the East Asian crisis have been so grave for the Fund that it has still not been able to revive its credibility, especially in the eyes of the developing economies. In the words of Stiglitz, 'Together with the IMF, it [the US Treasury] had told the countries that followed the "right policies" – the Washington Consensus policies – they would be assured of growth. The East Asia crisis cast doubt on this new world view 'unless it could be shown that the problem was not with capitalism, but with the Asian countries and their bad policies' (Stiglitz 2003: 213).

In 1996, the Fund launched its Heavily Indebted Poor Countries (HIPC) facility. The purpose for its creation was to manage and even 'resolve' the debt problems of the extremely indebted and poor countries – originally amounting to 41 countries, mostly in Africa, with a total debt of nearly $200 billion (Peet 2003: 95). According to IMF, its HIPC initiative would enable '... a *permanent solution* to these countries' debt problems by combining substantial debt reduction with policy reforms to raise *long-term growth* and reduce poverty' (Peet 2003: 96; emphasis added). Debt relief was to be granted when the 'international community' decides to adopt 'sound' policies. In 1999, the HIPC initiative was widened; it now also provided 'interim' debt relief i.e. between the decision and completion stages, in order to immediately reduce the debt service costs (Peet 2003: 96). Subsequently, in 1999, the ESAF was replaced by the poverty reduction growth facility (PRGF), which aims at providing ten-year loans at 0.5 per cent interest rate; but unlike ESAF, PRGF contains fewer structural conditions, and emphasises on 'pro-poor' performance criteria (Peet 2003: 98; Babb and Buira 2004: 11). The Fund asserts that the

PRGF aims at doing mainly two things: immersing poverty into structural adjustment; and building broader participation and greater country ownership of the economic programmes which go along with the loans. Under the new facility, conditionality is claimed to be more selective; and the focus is on '...the social impact of policies and more emphasis is on 'governance' – this includes accountability for public resource management, budgets that are more pro-poor and pro-growth, and increased flexibility for government budget targets' (Peet 2003: 98). However, it must be noted that though the name of the new facility suggests a fundamental transformation in Fund's approach to lending, yet, in most respects, PRGF contains features that resemble previous lending programmes and facilities, '... and contain the standard elements of fiscal and monetary, debt-related, and structural conditionality' (Babb and Buira 2004: 11).

The Fund's clientele also kept shifting throughout its history. At its inception, the IMF played no significant role in the economic matters of the developing countries. At the beginning of the 1980s, while on the one hand, the Fund was heavily involved in lending to African and Asian countries, the debt crisis, on the other hand, saw the Fund's engagement with middle-income Latin American countries, particularly Argentina, Brazil and Mexico (Bird 1996: 477).[52] Boughton points out that during the same period, the Fund was also preoccupied with centrally planned and socialist countries like China (joined Fund in 1980), Poland (rejoined Fund in 1982), and Czechoslovakia (rejoined Fund in 1986). Thus, its membership was near-universal by the end of 1980s (Boughton 2001: 45, 48). The 1990s saw a further shift in Fund's clientele to the lowest-income Third World countries (Bird 1996: 477- 479). At present, all IMF member-countries are developing, transitional post-communist countries or middle-income 'emerging markets' (Peet 2003: 62).

[52] Since 1982 onwards, the major developing countries realised that they were better off taking loans from consortium of banks than being subdued by the Fund's conditionality and scrutiny of their policies (Polak 1997: 478).

Lending Approach of the World Bank

Oliver states that 'the Bank's beginning did not inspire much confidence in the American public. Nor was the prestige of the organization high in Europe' (Oliver 1975: 227).[53] This was because of the disappointments the British representatives faced at the Savannah Conference as most of their demands were unmet.[54] Galambos and Milobsky hold that the Bank's role was vaguely sketched and that it was '...launched with a general recovery and reform mission ...' (Galambos and Milobsky 1995: 159). The early years of the Bank witnessed ambiguities over what the institution was supposed to do and how, as the guidelines provided in its Articles were rather vague.[55] As noted in Chapter One, the name of the institution is suggestive of the lack of a well-defined understanding among the founders about the specific role of the Bank, as the founders first perceived of "reconstruction" and only later of "development". This was also to do with the fact, as stated by Emilio Collado, the first US Executive Director to the Bank that, 'The Bank was sort of a stepchild in the beginning days of Bretton Woods' (Galambos and Milobsky 1995: 161). Dasgupta observes that in the draft plans of Keynes and White for an international bank, development of the less developed countries was not even thought of. 'Both the twins [BWIs] were to operate, nearly exclusively, in the interest of the developed countries alone (Dasgupta 1997: 1091).

Early Trends in Reconstruction Lending

In the initial years of its coming into being, many countries brushed aside the Bank and continued with bilateral lending (Oliver 1975: 227).[56] While letter of loan requests were sent by a few countries like France, Czechoslovakia, Poland and Chile, these were not

---

[53] It was thought that if American investors could be encouraged by Bank guarantees to extend reconstruction loans to European governments (and to low-income nations), the Bank would indeed be a useful supplement to an otherwise restrictive International Monetary Fund (Oliver 1975: 169).

[54] Oliver states, 'The British had returned from Savannah feeling that the Fund and the Bank were little more than schemes of the United States to gain control of world trade. They had opposed the selection of Washington as the site for the Bank and the payment of large salaries to the officers and Executive Directors, and they had been overruled by the United States on both issues' (Oliver 1975: 227).

[55] For example, Galambos and Milobsky point out that the Articles of Agreement of the Bank did not clearly state as to whether its focus is on short-term economic recovery (from the War) or long-term development (Galambos and Milobsky 1995: 161).

[56] Examples include, Soviet-Polish loans, Soviet-Swiss loans, British-Czech loans, and the US-UK loans (Oliver 1975: 227).

complete.[57] This led to a delay in the Bank's lending operations, and it was only when the first annual report of the Bank's Executive Directors was published that the procedure to be followed in handling loan applications was spelt out.[58] The rather long procedure of deriving loans from the Bank became a source of criticism since the early days of its operations, as several European countries argued that it is the primary purpose of the Bank to provide loans for reconstruction use, and that it should come without undue delays, and without investigation on the manner in which these would be used (Oliver 1975: 230).[59]

It was only on 9 May 1947, two years after Bank's functioning, that the first loan was announced to France.[60] Soon after, loans were approved for the Netherlands and Denmark.[61] In case of the Dutch loan, it was argued by the critics that the loans were used directly and indirectly for financing military operations in Indonesia. Thus, the question of Bank's supervisory role in the use of its loans was thrown in the open (Oliver 1975: 243). Though the Soviet 'satellite' countries never received any Bank loan for quite a long time of Bank's formation,[62] yet the European countries, steeped in economic

[57] Chile demanded $40 million, Czechoslovakia $350 million, Italy and Iran $250 million each, Mexico $209 million, Poland $600 million as loans (Knorr 1948: 34). It was predicted that the Bank's first reconstruction loan would be given to Denmark, followed by Chile for development, and then to France. The applications of Czechoslovakia and Poland would not be considered unless political stability was restored in these countries. However, all political speculation came to an end when Meyer announced his resignation as President of the Bank (Oliver 1975: 234).

[58] As per the procedure laid down before initiating the loan request, preliminary 'conversations' between the applicant country and the President would be held. The latter would brief the Directors. Only when the Directors deemed fit for the Bank to pursue the loan, would they authorise the President to continue with the loan negotiations with the applicant. At the same time, an ad hoc Loan Committee was to be set up to examine the loan applications in the light of the Bank's Articles of Agreement (Oliver 1975: 230).

[59] Additionally, there was another hurdle in Bank's lending capacity. All the applicant countries had requested for dollars, however, the Bank had only $150 million available in September 1946. Therefore, it became apparent that if the Bank were to grant dollar loans to each of the applicants, it would have to effectively rely on external sources of finance (Oliver 1975: 231-232).

[60] France received a loan of $250 million repayable after 30 years starting from November 1952 with an interest rate of 4.25 per cent per annum (Knorr 1948: 34). France was given priority for Bank's loans as it was the Bank's belief that if the French economy was restored to a pre-war status of production, then it would be become easier for the recovery of the entire Europe. The French loan of $250 million used up over one-third of the Bank's dollars. It was decided by the Bank to enter the private investment market of the US in order to obtain additional loanable funds (Oliver 1975: 242-246).

[61] Loans given to The Netherlands, Denmark, and Luxembourg were $195 million, $40 million and $12 million respectively. All credits were in US dollars, barring Luxembourg, which was partly in Belgian currency (Knorr 1948: 34).

[62] The US government had blocked the loan to the Communist-led government in Poland for fears of its political effects. Poland finally withdrew from Bank membership in March 1950 (after being a member

slump, had already started looking east to the Soviet government for assistance. On 5 June 1947, the US proposed the European Recovery Program (ERP), essentially to counter the influence of the Soviet Union over its European neighbours (Oliver 1975: 230, 244).[63] As early as spring of 1947, the Bank was alleged to be 'impotent' for not being able to do what the European Recovery Program (commonly known as the Marshall Plan, after US Secretary of State, George Marshall) did. In fact, as some scholars have asserted, the Bank had to never engage in the assigned task, as European reconstruction was very well taken care of by the Marshall Plan (Reddy 1985: 20; Dasgupta 1997: 1091).[64] The Bank, on its part, hailed the American proposal 'as a potential supplement to the Bank's lending program, and advised that great care should be taken to insure that the Bank's loans were used productively' (Oliver 1975: 244). With the ERP being proposed, the external financing role for reconstruction work in Europe came to be assumed directly by the USA from 1948 onwards. Consequently, the IBRD was able to redirect its focus on the economic development of the Third World countries (Oliver 1975: 244). The Bank also started giving emphasis to the technical assistance programmes, such as the Point Four Program as put forward by President Truman in 1949 (Blough 1968: 176).

While realising that its staff would have to assist borrowers in formulating development programs to identify fundable projects, the Bank thought it best for itself to confine to the financing of infrastructure projects such as dams, roads, and other public utilities owned

since January 1946). Czechoslovakia was suspended from Bank's membership in September 1953, after being unable to pay the prescribed quota, and finally on 31 December 1954, it was expelled (Oliver 1975: 246).

[63] It became apparent soon after the war had ended that the massive reconstruction needs of Western Europe could not be met by the Bretton Woods institutions alone. Taken together with the strategy of containment adopted by the Truman administration in the United States in 1947 to confront what was perceived as the Soviet threat, the urgency of economic reconstruction dictated, in the thinking of American political leadership, an approach outside the framework of the prevailing international economic arrangements. This was the seen as the rationale behind the US-sponsored European Recovery Programme (Ferguson 1988: 28-29).

[64] An immediate consequence of this American aid programme was to make temporarily irrelevant the carefully crafted Bretton Woods institutions. This is evident from the marginal use of IMF and IBRD resources by the European countries when ERP assistance had started to flow in: whereas in 1947-48, the European countries used $558 million and $508 million of the Fund and IBRD credit respectively, in 1949-50, they borrowed only $71 million from the IBRD and nothing from the Fund. Minimal use was made of IMF resources by the membership in the early years of the 1950s, the 1950-54 years witnessing a total use amounting to $411.7 million, compared to $777.2 million in 1947-49 (Ferguson 1988: 29).

and controlled by governments (Oliver 1975: 239-240).[65] It is important to note that the Bank refrained from, and religiously refused to provide lending to state-owned industrial projects, including mining, manufacturing and petroleum, and also state-owned development banks. These pertained to the governments of the Communist bloc, and the reasons are more ideological than practical (Blough 1968: 166-167).

Robert Garner, Vice-President under President McCloy, made a case for a sister organisation of the IBRD which could ascribe to equity financing sans government involvement.[66] Keeping in view the limited flexibility to give promotion to the private entrepreneurs in economic development, the International Finance Corporation (IFC) was established in 1956, through separate Articles of Agreement (Blough 1968: 153-154).[67] Garner was the new affiliate's first President.[68]

IDA as Response to the Need for "Soft" Loans

During the 1950s, there was a wave of intellectual interest in matters of 'underdevelopment' and with theories defining such terms, like the sociological modernisation theory and development economics. The IBRD showed an increasing interest in the issues of income distribution and poverty reduction. In the first decade of its operations, 43 per cent of the Bank's lending was done to industrial countries of Europe and also to countries like Australia, Japan, New Zealand and South Africa, mainly classifying as programme loans. As far as developing countries were concerned, the Bank's lending was mainly for infrastructure projects up to an initial period of a

---

[65] The largest category of Bank's lending was in transportation projects amounting to 43.1 per cent of total loans and credits made in the fiscal year 1965-1966. This was followed by electric power projects accounting for 28.6 per cent in the same year, and then industry (including manufacturing and mining) at 20.7 per cent. Agricultural development projects accounted for 13.6 per cent. With a shift in Bank's traditional lending categories, it made its first loan to the education sector in 1962, which accounted for 3.0 per cent of its 1965-1966 fiscal budget (Blough 1968: 160-161). For geographical distribution of Bank's loans for the fiscal year 1965-1966, see Blough (1968: 167-168).

[66] Garner was wedded to the private enterprise system, which made him apprehensive about the requirement of the Bank's Articles that made lending to private enterprises conditional on government guarantees. Hence, this led him to propose for an affiliate organisation of the Bank which could carry on this task relatively in an independent manner (Oliver 1975: 240).

[67] Some of the officials and staff of the IFC are same as those of the Bank, but it is run as a separate agency, though as an integral part (or Affiliate) of the World Bank Group (Blough 1968: 153-154).

[68] Garner claimed that he was the intellectual father of the IFC, and had worked on it seven-eight years prior to its establishment (Galambos and Milobsky 1995: 170).

decade and a half (Meier 1971: 242; Polak 1997: 474). The Bank's focus of lending shifted from reconstruction of the industrial countries to the advancement of the less developed non-communist countries (Galambos and Milobsky 1995: 165).

As Peet indicates, the main reason for this sudden concern for the poor masses was the miseries brought about by the Cold War between the US and the USSR, 'with the Third World as its hot spots and ideological battlegrounds' (Peet 2003: 115-116).[69] The Bank focused its lending to the poorer countries of the world, rather than to Europe or other rich non-European countries. In addition, the concept of 'development' widened to include poverty alleviation other than the traditional areas of lending like transportation and electrical power projects. Even more, the sector-wise lending also came to take account of the agricultural sector along with the industrial infrastructure investment.[70] However, the Bank was not seen as an adequate and appropriate institution for carrying this task forward. This was essentially because the Bank levied near-market interest rates, but the need was for a type of an aid institution (Peet 2003: 115-116).

Moreover, the 1950s witnessed a confrontation between the rich and the poor countries, manifested in issues such as trade and balance of payments policies, division of the world income between the industrial and primary production, and the incessant shifts in the international balance of power.[71] As a consequence of this showdown, in so far as the Bank was concerned, a new wing was added to it in the form of a special 'grant-type' fund, namely the International Development Association (IDA), which Mason and Asher

[69] The growing concern was also due to the fact that aside usual Bank missions and official staff travels, the Bank presidents themselves visited the Third World countries for a some kind of a situational reality check (Peet 2003: 115).
[70] The Eisenhower, and later, the Kennedy governments in the US increased the foreign aid to the Third World countries. The latter government insisted that the aid would act as 'an investment for peace'. As asserted by Gwin, the US policy vis-à-vis the Bank in the late 1950s and early 1960s was influenced by three factors: 'building a strong organization to promote a 'free and open world economy'; leveraging funds from the private market and other countries to ease the burden on the USA; and supporting countries deemed important to US interests' (Gwin in Peet 2003: 116).
[71] Oliver asserts that in some ways the oil crisis of 1973-74 was a result of this confrontation 'with the world seeming to be divided into the rich, the poor, and the petroleum-exporting nations' (Oliver 1975: 263).

termed as an 'elaborate fiction' (Mason and Asher 1973: 380).[72] As Oliver highlights, the IDA, initially encouraged by the American Congress, was seen as an attack by the Bank to answer the mounting criticisms of the Third World countries in the United Nations and other international platforms. At the same time, the IDA was an attempt to provide a means of getting out of the 'creditworthiness dilemma', which had made it impossible for countries like India and Pakistan in 1958 to avail Bank loans (Oliver 1975: 264). In the words of Mason and Asher:

> Pre-IDA analysis of creditworthiness was more or less stood on its head with the advent of IDA. Until then, economists wrote their economic reports to demonstrate that countries *were* creditworthy and thus qualified for Bank loans. In 1961, the desire was to show that countries were not creditworthy and thus they qualified for IDA credits (Mason and Asher 1973: 401).

Moreover, as Oliver points out:

> The decision made early in the Bank's history to charge all borrowers the same interest was no longer operative. By providing the least creditworthy countries with a mix of Bank and IDA loans, preponderantly the latter, the Bank was offering assistance to the highest risk areas of the world at the lowest rates of interest... The major objective of a world development institution would appear to be to equalize per capita income among nations, while the major objective of the world bank would appear to be to maximize the growth of gross world product... Because of its evolutionary learning experience during its years of operating under a restrictive charter and a relatively small lending capacity, the Bank may now be better qualified than otherwise to manage the development of the world (Oliver 1975: 267, 392-393).

Even more crucially, it was realised that the Bank's "hard" loans had limited usability, especially with respect to countries which were not capable of servicing loans on conventional terms. Thus, the need was felt for grants or "soft" loans,[73] which would provide financial assistance for a longer period of time with very low rate of interest.

[72] The idea of adding an aid agency to the IBRD's lending structure was first mooted in 1951 as a means of achieving President Truman's objectives of Point Four programme which included among others, 'making the benefits of scientific-industrial progress available to underdeveloped countries as part of the Cold War.' The concrete proposal that laid the foundation of the IDA was made in 1959 by the US Treasury Secretary Robert B. Anderson. Thus, like the IBRD, the IDA too, was a US brainchild. While recommending the IDA to the US Congress for its approval, Anderson said, 'it showed the rich countries' commitment to helping the poor countries advance their economic life under free institutions.' However, a Special United Nations Fund for Economic Development was formed in 1958; and it was the US intention to 'pre-empt that organization and keep development funding with the Bank' (Peet 2003: 116-118). The Executive Directors, officers and staff of the IDA and the Bank are same; thus, for operational purposes, the two organisations are one (Blough 1968: 154; Galambos and Milobsky 1995: 171).

[73] 'Soft' loans imply loans over long periods of time and at very low rates of interest (Peet 2003: 117).

Reddy makes a similar point by stating that with the entry of some Asian and a large number of African countries, the Bank found itself ineffective to play the role of intermediation. The Bank was '...not in a position to lend money to countries if they are suspected to be so poor that they may not be able to repay' (Reddy 1985: 22). An affiliate was, therefore, needed which can take care of the special interests of the new countries without jeopardising the Bank's position. However, it was also debated whether it would be wise for the Bank to provide both hard and soft loans. Thus, after a prolonged hiatus, the institutional gap was filled by the establishment of the IDA, and IDA credits also came to be known as 'soft' loans. The IDA was meant to provide "development credits", i.e. loans rendered for a span of fifty years with no interest rate, except a marginal annual 'service' charge, and with no governmental guarantee (Blough 1968: 153-154). The IDA is funded by what is called the Part I (high per capita income) countries.[74] In turn, it funds the Part II (lowest per capita income of under $375) countries, which are over 80 in number (Oliver 1975: 264).[75] According to Blough, the IFC and the IDA were established in order to fill the gap in the supply of external capital flows that could not have been otherwise done without bringing major changes in its philosophy and methods of operation (Blough 1968: 153).

Challenges to Project Lending and Need for More Technical Assistance

When the Bank tried to make a dent in development lending, 'the differences between reconstruction and development became painfully apparent' (Oliver 1975: 254). Aside

[74] Since the IDA credits are provided on rather the lowest charges of interest, to the extent that it is virtually seen as grant-in-aid, the IDA needs to replenish its pot to be able to keep the flow of its credits going. This is made possible with the help of special contributions by some benevolent countries and by the transfers from the Bank's Supplemental Reserves itself. However, some Part I countries have not always made their contributions at all, and some have not made on time, the most refractory contributor being the USA. During negotiations for the second replenishment of the IDA, American negotiators vehemently opposed the request of Bank President George Woods to contribute $400 million every year. The US finally agreed to contribute only $160 million a year, with a further tag attached of using the American contribution only to pay for American goods and services, thereby giving birth again to the issue of tied loans, which was first the bone of contention during the Bretton Woods Conference. Additionally, it challenged the non-political character of the Bank as Executive Directors began wielding enormous powers hitherto denied to them, and member countries started being vocal about how 'their money' should be put to use (Oliver 1975: 264-266).

[75] The chief recipients of the IDA funds in the 1970s were India and Pakistan (Oliver 1975: 264). Throughout the 1980s, big developing countries like China, India and Indonesia continued to be the Bank's regular clients, 'attracted with longer maturities and technical assistance associated with Bank loans' (Polak 1997: 478).

European countries, a few non-European countries like Australia and Japan also qualified for the Bank 'programme lending'. However, majority of the less developed countries did not have indigenous development programmes, neither the managerial talent nor the technical expertise to prepare and/or administer such programmes. Garner stressed that 'Advice was more important than money', and with its first mission to a less developed country - Colombia, the Bank realised that even the best of its projects could go haywire by the malfunctioning of the borrowing country's economy as a whole. Thus, it was increasingly felt that 'an appraisal of an entire country, including the *honesty* and *wisdom* of its government, was at least as important and probably more difficult than an appraisal of individual projects' (Oliver 1975: 255; emphasis added). In short, the Bank accepted that project lending could not take place in vacuum.

Moreover, the Bank personnel came across complex situations of development issues in the Third World countries. Mostly, the recipient countries lacked technical resources and trained personnel to design and implement the Bank-sponsored development projects. This led the Bank to intervene indirectly in the internal matters of these countries by providing technical assistance through outside consultants on an ad hoc basis. Eventually, it was realised that there was a need to transform the temporary character of technical assistance to a permanent one, thereby making a case for direct intervention by the Bank, which soon started sending missions abroad with its own personnel (Galambos and Milobsky 1995: 166). Before the establishment of permanent missions to member-countries, the Bank's Development Advisory Service provided 'experts' to members seeking high-level advice on development finance. Back in 1948, a training program for the junior government official was started; and in 1956, the Bank established the Economic Development Institute (EDI) to help improve the economic administration of its industrially less developed member-countries by providing them technical assistance, mainly in the form of conducting economic surveys and studies (Blough 1968: 176-177; Oliver 1975: 255; Galambos and Milobsky 1995: 170-171).[76]

[76] From the start, EDI had an academic flavour to it. Its first director, A.K. Cairncross, was a distinguished economist from the University of Glasgow. The Ford and the Rockefeller foundations financed half of the EDI's operating budget for the initial three years (Galambos and Milobsky 1995: 170).

However, till the late 1960s, the Bank remained a more passive institution. According to Oliver, '...it [Bank] operated more in the shadow of the bilateral aid programs of its wealthier members...The Bank was still a small, unbureaucratic, friendly organization' (Oliver 1975: 251).[77] During early 1960s, the Bank was facing diminishing investment opportunities in the infrastructure projects of its traditional borrowing countries. George Woods, appointed as Bank's President in 1963, stressed that 'The *solution* lay in a new and more risky lending policy with longer repayment schedules, more technical and other kinds of direct assistance, and loans primarily in agriculture – including potential involvement in the *politically* contentious area of land redistribution' (Peet 2003: 118; emphasis added). With this vigour, the Bank not only expanded its organisational staff by almost three times, but even its lending doubled; its areas of lending extended further to include water supply, sanitation, and the like; and its membership base also increased, with more countries from Africa joining the institution. All this also led to greater cooperation with other international organisations, particularly the UN agencies such as the FAO and UNESCO (Peet 2003: 118). Additionally, the Bank's assistance to the development banks increased sharply, accounting to 18 per cent of all Bank lending in 1968. As these funds were aimed at private, instead of public, enterprises in the borrower countries, it reflected a transition in Bank strategy (Galambos and Milobsky 1995: 176). This was also a time when the Bank's criteria for lending changed from its traditional creditworthiness measure to the income per capita measure. This broadened the clientele of the Bank to include the middle-income countries as well.[78]

Thus, as Galambos and Milobsky put it:

> ... The Bank's mission was changing, incrementally but decisively, during these years. The long-term process of becoming more deeply involved in the social and economic affairs of recipient countries was accelerating, carrying The Bank into projects and programs which were framed in terms of their ability to transform in a significant manner the potential of populations and socio-economic systems (Galambos and Milobsky 1995: 175).

[77] The Bank's relatively small structure and the cordial relations between its staff and higher management is evident from the fact that Robert Garner, who was soon to retire from the IFC Presidency, invited the entire staff to his Virginia farm for a summer picnic! (Oliver 1975: 252).

[78] For example, India and Pakistan received 70% of IDA credits in the 1960s. However, despite such radical transformations taking place within the Bank, Woods was disillusioned with the lack of support for his efforts to further transform the institution, finally leading to his resignation (Peet 2003: 119).

Shift of Focus from Output-based to Needs-based Approach

Robert McNamara (former Secretary of Defense, and former CEO of Ford Motors Company), who assumed Bank presidency in 1968, was instrumental in bringing back the theme of poverty reduction to the Bank's development dictionary. During a 1966 speech, he emphatically indicated that 'without development there can be no security'. What is significant to note is that McNamara believed that 'poverty could be eradicated through direct policy intervention...' (Nogués 1998: 83).[79] Additionally, the Bank introduced a new concept of 'ownership' of policies. During his tenure, economic growth was given immense significance. According to this view, economic growth was seen chiefly as '...a process of overcoming bottlenecks or gaps, and many quite uneconomic investments could be justified by this model' (Nogués 1998: 83). For example, by following this perspective, the Bank unobjectionably provided loans to public enterprises as long as this was seen as helping to overcome some kind of development bottleneck.[80] At this time of Bank's history, it did not attach much substance to competitive markets; rather it was obsessed with the planning model (Nogués 1998: 83). A different view is presented by Peet, who states:

> Under the McNamara presidency, the Bank continued to believe fundamentally in the efficacy of free markets, but took more equivocal view of ownership, believing that managerial competence was more important than private enterprenuership, so that loans could be made under public ownership systems within an overall conception of greater governmental intervention in the development process -- it should be added that this political position was not shared by many of the Bank's staff, or by some donor governments (Peet 2003: 119).

However, the main dilemma was in defining poverty alleviation policies within the framework of the Bank's existing project-based lending operations. Such a definition

[79] The reasons for this increased occupation with questions of poverty reduction apparently combined the 'genuine, compassionate generosity with the realization, intensified by the Vietnam disaster, that US national security was incompatible with a world of poverty...' (Peet 2003: 119). In 1973, at Nairobi, McNamara drew a comparison between the relative poverty of the poor in the rich nations and the absolute poverty of the poor in poor nations. He regarded absolute poverty as 'a condition of life so limited as to prevent realization of the potential of the genes with which one is born; a condition of life so degrading as to insult human dignity – and yet a condition of life so common as to be the lot of some 40% of the peoples of the developing countries' (Oliver 1975: 267).

[80] As President of the Bank, McNamara re-fashioned the institution's activities in a dramatic way. In the first two years of his presidency, he increased the total IBRD loans and IDA credits to $1,784.2 million from $953.6 million. Further, in 1970, this was increased to $2,286 million, a 28 per cent hike (Galambos and Milobsky 1995: 176).

must have to appeal the Bank's principal shareholders and one that the borrower countries can accept. From late 1960s to early 1970s,[81] the Bank and the IDA were engaged with numerous projects such as urbanisation, population, family planning, tourism, education, rural development, aviation, sites and services and agricultural research along with the already existing ones of industry, agriculture, telecommunications, water, power and transportation – all accumulating in what came to be known in the late 1970s as the 'basic needs approach' to lending, which implies that more attention should be given to the needs rather than the output while allocating resources (Oliver 1975: 252; Galambos and Milobsky 1995: 178; Peet 2003: 118, 120). In the words of Galambos and Milobsky, '...the organization [the Bank] formalized the shift from what the "new boys" called a financial (and by implication relatively passive) mission to a developmental (hence pro-active) mission. It also began to play a more active role in coordinating its programs with those of other international organizations, including the U.N.:' (Galambos and Milobsky 1995: 178). Thus, the work of the Bank came to be measured 'more in terms of the successful development of member countries than of the number of projects approved, the lack of defaults on past loans, or the rate of returns on equity' (Oliver 1975: 276). Furthermore, development itself came to be measured not only in terms of the increase in the real gross national product but also by means of 'improved pubic health, more equitable income distribution, declining rates of population growth, and greater political stability' (Oliver 1975: 276).

---

[81] In 1971, the Bank marked its twenty-fifth anniversary without much clamour. However, the Bank was working well. It had lend $20 billion to its borrowing countries; was assisting 80 countries in their annual reviews of development programs; and was also working in close collaboration with other multilateral development agencies as well as governments of industrially advanced nations to coordinate the financial flow of resources to the countries of the less developed areas of the world (Oliver 1975: 251). From 1961 to 1971, the strength of the Bank's professional staff increased by three fold, from 400 to 1300. During his presidency, McNamara increased the staff by 75 per cent to handle the dramatic increase in the activities of the Bank and the IDA. He not only brought in a large number of "new boys", but he also continued with the legacy of George Woods of strengthening the role of the economists in the Bank's programmes. In line with Woods' reorganisation mission, McNamara also added 13 new departments and eight new overseas offices of the Bank. It should be noted that the Bank used the term 'department' instead of 'divisions' to highlight its decentralised structure, so that technically it is referred to as a multi-departmental organisation. This change in terminology was similar to the decentralised structure in the Ford Motors of which McNamara was the CEO (Galambos and Milobsky 1995: 162, 176-177, 180-181). However, the increasingly complex structure of the Bank also had a flip side to it, which amounted to increasing tensions between the staff and the new leadership. It is beyond the scope of this chapter to delve into these issues. For details on this and for a detailed study on the Bank's phases of re-organisation till McNamara's presidency, see Galambos and Milobsky (1995: 176-178, 185-190).

In mid-1970s, it was decided that the Bank would take charge of large rural development projects – a theme which followed for the rest of the decade in its operations. The Bank loans and technical assistance were provided for key agricultural inputs such as fertilizers, seeds, etc. and infrastructure such as water, roads and electricity.[82] However, the Bank could not execute the task effectively.[83]

From Project to Programme Lending: The Structural Adjustment Loans

While on the one hand, finding the project lending ad hoc and inadequate,[84] and on the other hand, faced by the first oil crisis leading to critical balance of payments situation in the Third World countries, in 1979 the Bank began focusing on 'programme' lending[85] in order to bring 'reforms' in recipient countries, mainly the middle-income countries. This time, however, 'reforms' connoted structural adjustment lending (SAL)[86] which aimed at promoting export-orientation and trade liberalisation (Peet 2003: 121).[87] Alongside

[82] Such types of loans were to be aimed at small farmers in a particular geographical area, thereby being termed as 'project'. The idea was that Bank lending in agricultural sector would increase the productivity of agricultural goods, which would provide surpluses that can be sold in the market to raise income of the rural poor (Peet 2003: 120).

[83] The Bank encumbered several difficulties in giving loans to the agricultural sector. In the words of Peet: '...such projects proved to be easier to outline on paper in Washington than to carry out in the field: it turned out that little was known about rain-fed tropical agriculture in Africa, the prime regional target of Bank lending, and that attitudes and institutions were more difficult to change than technology. Even more, major land tenure reforms were a prerequisite of any agricultural development aimed at the poor. Otherwise loans went mainly to middle-income and richer farmers, increasing income inequalities. As a result of all this, even the World Bank's own Operations Evaluation Department called most such projects 'failures'' (Peet 2003: 120).

[84] Financing large projects by the Bank came under heavy fire. It did not necessarily make constructive and judicious use of external and/or local funds. Also, in some countries there were hardly any big projects worth undertaking (Blough 1968: 158).

[85] Programme loans included 'impact' loans, which provided foreign exchange to debtor countries to facilitate a switch of their internal resources to a development aid programme. There were also, what are called, 'maintenance' loans, which provided foreign exchange to less developed countries to help them purchase materials and replacement parts to build up their existing capacity. Loans to local development banks also, usually, qualified as programme loans (Blough 1968: 158-159).

[86] It is interesting to observe that initially the idea of structural adjustment was not designed for the less developed countries at all. Instead, it aimed at restructuring the economies of the developed countries of the world, including the OECD countries, after the oil crises. Only subsequently, with a number of developments taking place in the 1970s, the emphasis shifted to the less developed countries. Thus, 'adjustment got priority over other policy objectives such as poverty alleviation and redistribution (Dasgupta 1997: 1094).

[87] An International Trade Division was also created in the Bank. Fourteen of the twenty-five IBRD borrower countries, or 56 per cent, received trade-related adjustment operations after 1985, resulting in a presumption that this pushed their entry into the GATT. Between fiscal years 1985-1996, out of the total

SALs, which would aim at policy-based (as against project-based) loans, covering several years, sector adjustment loans (SECALs) were also to be provided to promote sector lending. The new lending was meant to facilitate 'direct support for specific policy reforms decided upon during 'dialogue' with the borrowing country' (Peet 2003: 121, 123).[88]

The essence of structural adjustment lending is best capture by Peet:

> ...'structural adjustment' came to mean a process of change in the international financial system, and in the economic positions of individual countries, that was necessitated by the oil price increases of 1973-73 and 1979-80. Most basically, structural adjustment meant 'a combination of supply- and demand-side policies ...directed towards the transformation of the structure of an economy in response to serious disequilibria, aiming both to restore macroeconomic equilibrium and to improve microeconomic efficiency'. Initially this meant using capital accumulating in surplus countries, as with the oil-exporting members of OPEC, to sectorally transform borrowing countries towards export-orientation. Subsequently it meant establishing macro-economic policies that might produce stable prices, full employment and a positive current account balance, all intended to 'restore internal and external balance' to an economy. It also meant micro-economic policies aimed at increasing the efficiency of the supply side of an economy, as with privatization, increasing tax incentives to producers, changing trade policy, and so on. So in general the structural part of adjustment entailed two broad movements: changing the structure of incentives towards profit orientation, increasing the role of markets as compared with states and augmenting private property rights; and restructuring the sectoral composition of an economy towards tradable (and especially exportable) goods (Peet 2003: 126-127).

---

number of adjustment loans made by the Bank, the share of trade policy in these loans as one of the conditionalities remained as high as 70 per cent. Another estimation of the growing importance of trade liberalisation in the Bank's lending approach can be calculated from the number of trade-related working papers in relation to all the working paper series (WPS) published by the Bank. 'Out of a total of 1,638 articles published between 1988 when the WPS appeared and August 1996, 290 (i.e., 18 per cent) fall into the selected category.' In Eventually, the Bank came to consider trade policy as a critical element of its development policy. It is believed that in the absence of ITO, it was only natural for the Bank to interpret its Articles of Agreement, particularly Article I, Section 3, which calls for promoting 'long-range balance growth of international trade' as broadly as to include trade liberalisation and trade-related policies as one of its policy objectives and also to financially assist member-countries in their transition from closed to open trade economies. See Nogués (1998: 84-86, 90, 93-95, see especially Figures 2C.1 (p.84) and 2C.2 (p. 87)).

[88] However, what these 'specific reforms' constituted was not spelt out, though the trend towards liberalisation was to continue. Additionally, in 1981, the Bank came out with a report on development in sub-Saharan Africa, prepared by the Bank's African Strategy Review Group, coordinated by Eliot Berg. The findings of the report suggested that the existing state controls over trade were ineffective. It recommended that '...private sector activity should be enlarged, that agricultural resources should be concentrated on small capitalist farmers and that countries should follow an export-oriented development strategy.' The report was severely criticised by the African countries whom the Bank was '...supposed to help, and with whom 'dialogue' had presumably taken place' (Peet 2003: 121-122).

As explained by Dasgupta, the Bank argued that the raison d'etre for introducing structural conditionality in its lending was fungability, i.e. the member-countries were able to invest in areas in which the Bank was also providing project loans, thus, the countries used Bank resources for purposes different from those intended. To avoid this practice, the Bank argued that it was necessary to consider the overall view of the country's economy and be able to influence its overall policy direction (Dasgupta 1997: 1092-1093).[89] Thus, with an introduction to SALs, as Feinberg asserts, 'The Bank moved away from its nearly exclusive emphasis on discrete projects to the provision of non-project, balance of payments loans aimed at broader economic reform' (Feinberg 1988: 549).[90]

During the 1980s, the Bank underwent a historic transformation in its economic thinking (as a result of change of guard in the USA and the UK, and the consequent imposition of neoliberal agenda by the Reagan and the Thatcher regimes), and embraced trade policy and trade liberalisation as its preeminent goals. Also, with the coming of Anne O. Krueger as the Bank's new chief economist in 1982, brought about '... the most significant and long-lasting shift in its economic thinking away from planning and toward markets' (Nogués 1998: 83). In the words of Nogués:

> Today it is fair to say that the Bank's management and staff endorse the idea that markets play a crucial role in the economic growth process. It goes without saying that they also hold very different views regarding the economic role of governments than those held during the 1970s and early 1980s. This was an

[89] In 1980, the Bank laid out the general conditions based on which SALs could be acquired by the borrower countries. It was argued that the Third World faced new kinds of economic hardships such as deteriorating terms of trade and increasing current account deficits, which made it inevitable for them 'to reconsider how they might 'adjust' their development patterns and economic structures' (Peet 2003: 121).

[90] Asking as to what the ultimate objectives of development were, the *World Development Report* of 1987 stressed that the answer was 'faster growth of national income, alleviation of poverty, and reduction of income inequalities.' While referring to the SALs and SECALs, the *Report* evinced that the Bank acknowledges the necessity to have new instruments in place to support the developing countries' development agendas. Three essential policy interventions for achieving faster growth in these countries were also discussed in the *Report*: trade policies should be increased to international competitiveness [linkage with GATT]; policies should be aimed at macroeconomic stability [linkage with the Fund]; and complementary policies which improve resource allocation should be adopted (Peet 2003: 124-125). During the halcyon days of structural adjustment from late 1980s to early 1990s, the Bank made loans averaging to $100 million each to fifty countries each year, predominantly to African and Latin American countries (Peet 2003: 127).

intellectual revolution within the Bank that few remember today...(Nogués 1998: 83).

According to Peet, the new approach of the Bank reflected principles of classical liberalism. He says:

> It drew directly on Adam Smith's argument that industrialization and the division of labor, key to increased productivity, would mean that progress depended on the ability to trade widely – for small countries this meant that progress depended on the ability to trade freely with the rest of the world. It also drew on Ricardo arguing that trade allowed a more efficient employment of the productive forces of the world, and on Mill in saying that consumers ultimately benefited through lower prices and being tempted by things they had not previously thought attainable – the latter could revolutionize a country whose resources were undeveloped for want of energy and ambition in the people (Peet 2003: 125).

Thus, by the end of 1980s, 'a set of structural adjustment policies based in a rightist interpretation of neoclassicism was firmly in place' (Peet 2003: 125). In its country reviews as well, the Bank urges its member-countries '...to make the private sectors the main actors in the economic scene, and to reduce the role of the state in the economy to the minimum (Dasgupta 1997: 1092).[91]

The persistent emphasis on policy intervention[92] continued in the early 1980s. The Bank continued to give more prominence to, '...the new driving forces of macro-economic policy, stabilization and balance of payment adjustments, all understood within a more right-wing doctrine of the strict limits of governmental intervention and the virtues of flexible, self-adjusting free markets' (Peet 2003: 109).[93]

---

[91] The Bank's new thinking and its heavy focus on structural adjustment lending was also evident from the various World Development Reports published during the 1980s. For example, the 1983 WDR emphasised that 'foreign trade enabled developing countries to specialize, exploit economies of scale and increase foreign exchange earnings.' The 1984 WDR stressed on 'growth scenarios' arguing that '...developing countries would improve their positions by changing their economic policies: avoiding overvalued exchange rates, reducing public spending commitments, having an 'open trading and payments regime' that encouraged optimal use of investment resources.' In 1985, the Bank admonished that a drift away from liberalisation would slow economic growth. Likewise, in the 1987 Report, 'efficient industrialization' was stressed as the fundamental economic policy (Peet 2003: 124-125).

[92] It is believed that combining the two interventions of the Bank namely, direct loans and setting policy conditions, the Bank became the most important development institution in the world. As one scholar puts it, 'The World Bank...is to economic development theology what the papacy is to Catholicism, complete with yearly encyclicals' (Peet 2003: 111).

[93] However, the Bank was not able to generate much support form the Reagan administration. A reduced US support to these institutions was argued. Against objections raised by the State Department, the Treasury Department with the backing of President Reagan cut the US contribution to the IDA

Additionally, from the mid-1980s, the notion of 'good governance' became a recurrent theme in Bank's dealings with member-countries. The emphasis was given to principles of efficiency, orderly and accountable administration. It is believed that this new emphasis on the concept of 'good governance' was a response to the sharp criticism[94] received by the Bank (and the Fund) for its austere policies and structural adjustment loans adopted due to a renewed stress on growth as indicated in the Baker Plan of 1985. The Baker Plan was a clear indication for a stronger role and more involvement of the World Bank in managing the debt crisis (Peet 2003: 109). It was significant for it re-started the development grandiloquence – strategies for poverty alleviation and generating growth in Third World economies. 'On the assumption that no country has ever faulted on a World Bank loan, an increase in Bank lending was seen as a catalyst for private bank lending' (Peet 2003: 109). The Bank effectively carried on the poverty-alleviation baton till the end of 1980s and ahead, with a stress on more specific policies.

Non-traditional Activities: Debt and Poverty Reduction

With a U-turn in the Bank's development philosophy, and with the recommendations of the Brady Plan of 1989, the Executive Directors approved the use of Bank's resources for purposes of debt or debt-service reduction for the heavily indebted countries. The Brady Plan made '... debt reduction contingent on 'policy reforms' supervised increasingly by the Bank rather than the Fund.' What emerged a few years later was a new policy intervention, in concert with the IMF, named Heavily Indebted Poor Country (HIPC) initiative in 1996.[95] This was '...an attempt at reducing the external debt of the world's

---

replenishments by 25 per cent '...with the clear indication that future [US] participation [in the Bank] was conditional on a drastic change in Bank policy away from any notion of state-directed development.' Director of the Office of Management and Budget, David Stickman, asserted that 'the organs of international aid and so-called Third World development...were infested with socialist error.' Beryl Sprinkel, US under-secretary of Treasury and a protégé of Milton Friedman, ordered a probe to find out if the Bank had 'socialist tendencies'! (Peet 2003: 122-123).

[94] In 1987, just when the Bank's *World Development Report* argued that the purpose of development is to bring about faster growth, alleviate poverty and reduce income inequalities, the UNICEF came out with a report titled *Adjustment with a Human Face* highlighting the 'deteriorating health and education conditions, the worsening employment situations and the falling incomes in countries undergoing structural adjustment' (Peet 2003: 128).

[95] It is held that the new approach of the Bank was in response to the increasing criticism of the Bank's policies, including voices heard from within. For example, the Wapenhans Report (named after a Bank's

poorest countries - those eligible for highly concessional assistance from the IDA, and that also face an unsustainable debt situation even after the application of traditional debt relief mechanisms (such as under the Paris Club agreement)' (Peet 2003: 126). The Bank uses a Trust Fund to forgive fifty per cent of the annual debt service on existing IDA debt of a heavily indebted borrower country (Peet 2003: 128). However, the usual caveat applies here as well. Countries seeking assistance under the HIPC initiative must implement 'integrated poverty reduction and economic reform programs' (Peet 2003: 128).

In 1997, the Bank made a drastic step forward in its relations with non-government organisations. It '... called for closer relations with other institutions and civil society actors to increase the effectiveness of the development effort' (Peet 2003: 129). In 1998, the Bank put forward the idea for '... an integrated approach to development based on a framework articulated and 'owned' by the country itself, aimed at poverty reduction and sustainable development, known as the Comprehensive Development Framework (CDF)' (Peet 2003: 129).[96] In the words of Peet:

> The CDF is part of a larger effort by the Bank to produce what it terms a new consensus in the international development community, comprised of various donor organizations and bilateral and multilateral agencies such as the UN and the OECD, on the ingredients for successful development policies...Obviously, the Bank is trying to reposition itself within a much larger group of international organizations that emphasize a dedication to alleviating poverty and providing development assistance. Emphasizing agreement on the fundamentals of development policies with other institutions of the UN, which historically have

---

vice-president, Willi Wapenhans) titled 'Effective Implementation: Key to Development Impact' pointed out that 'atleast twenty per cent of the 1800-odd projects in 113 countries contained in the Bank's $140 billion loan portfolio presented major problems.' Likewise, critically reviewing SAL and SECAL programmes, the Bank's Operations Evaluation Department published a report titled *World Bank Structural and Sectoral Adjustment Operations*, which found that 'In the 18 Sub-Saharan African countries reviewed, no less than 14 had experienced a fall in investment rates during adjustment.' It was also pointed out that 'Less than 20 per cent of adjustment-related technical assistance loans were substantially effective, and 15 per cent had only negligible impact.' Even more, the report highlighted '...that decreased social expenditures as part of structural adjustment lending has led to 'unsatisfactory results' in terms of poverty; income inequality had increased in some countries and landless farm workers had borne the greatest burden of higher food prices' (Peet 2003: 128-129).

[96] Again, CDF was seen as an answer to the critics of structural adjustment lending, who argued that the loans did little to alleviate poverty in the borrower countries. As James Wolfensohn, President of the Bank at the time CDF was introduced, stated the CDF was necessary '... since too many in the developing world were not being helped sufficiently by the development process, and [the World Bank was] in danger of losing the war against poverty' (Peet 2003: 129-130).

> been much better received by the Third World and NGOs, the World Bank is signalling a shift in approach to its many critics (Peet 2003: 130-131).[97]

The CDF was nothing more than a fixed meal of the Bank's prior policy fixations, but garnished with new toppings of principles of good governance, and the usual poverty alleviation rhetoric.[98] Similarly, in 1999, in line with the Fund's PRGF, the Development Committee (a joint effort of the Board of Governors of the Bank and the Fund) proposed the adoption of poverty reduction strategy papers (PRSPs) by the Bank in all low-income countries availing credit from IDA and the Fund's Extended Structural Adjustment Facility (ESAF). The idea behind these strategy papers was the same ambivalent concept of ownership:

> The country and its people take the lead in preparing PRSPs. They are prepared by the government, based on a process involving the active participation of civil society, NGOs, donors, and international institutions. Locally-produced PRSPs are expected to generate fresh ideas about strategies and measures needed to reach shared growth and poverty reduction goals, and to help develop a sense of ownership and national commitment to reaching those objectives. The PRSPs can then be endorsed by the Boards of the IMF and World Bank as the basis for the institutions' concessional loans and for relief under the enhanced HIPC Initiative... (Peet 2003: 96-97).

Another buzzword associated with PRSPs was 'participation': 'The World Bank now says that participation, including poor or marginalized groups and the private sector, is crucial to building country ownership of national development strategies' (Peet 2003:

[97] Thus, the thrust of CDF is to balance the Bank's concern for macroeconomic policies emphasising economic growth with the social (and human) dimensions of development, especially poverty alleviation (Peet 2003: 130). The World Development Report of 1999-2000 outlined the two chief characteristics of the CDF: 'a stable macro-economy 'shaped by 'prudent fiscal and monetary policies'; and the CDF itself, stressing honest governments, strong property and personal rights, support by an efficient legal and judicial system, human development, as with education and health, physical infrastructure, and sectoral elements such as integrated rural development strategies and urban management' (Peet 2003: 130).

[98] It is interesting to note that the basic principles on which the CDF is designed, represent features of previous policies in one form or other: the need for a long-term holistic vision of development comprising both structural and social issues together, as well as considering the inter-linkages between all economic sectors; the need for country ownership of the development process (however, the necessary prerequisite of country ownership is that it must incorporate both internal actors namely government, civil society and private actors, and external actors such as the Bank, donor countries and bilateral aid agencies); and the need for regular assessments of actual development outcomes in order to ensure accountability towards meeting the targets (Peet 2003: 130).

131).[99] Nearly 80 low-income countries were availing this facility till 2003 (Peet 2003: 98).

Summary Observations

The theoretical foundations of the Bretton Woods Institutions are rooted in liberalism – ranging from the classical model of Adam Smith to the interventionist Keynesianism to the Hayekian/Friedmanisque neoliberalism. During their early history, the two were profusely influenced by classic liberalism. In the 1970s, Keynesianism dominated the scene. The end of the Cold War in the late 1980s and the collapse of Soviet Union spelt the triumph of liberal ideas. Many believe that 'embedded liberalism', as termed by John Ruggie, has become the guiding light and continues to be the cornerstone of the international economic order. The multilateral management of the international marketplace, through a wide variety of international institutions (the International Monetary Fund, the World Bank, the WTO) and agreements (especially free trade agreements - both bilateral and multilateral), which have been created primarily due to increasing trends of interdependence, is still the dominant norm of the world economic system. Though there may be disagreements about the degree of state intervention vis-à-vis market, but it is held that the centrality of the liberal ideas in one form or the other has determined the working of the IFIs, especially of the BWIs (Economides and Wilson 2001: 26).

[99] As with the CDF, the *World Development Report* of 2000 titled 'Attacking Poverty', states that the PRSPs too indicate a shift in the Bank's thinking of placing the social and cultural dimensions of poverty alleviation along side that of structural adjustment. In the Report, Wolfensohn emphasises the need for 'inclusive growth', yet in the same breath asserting that macroeconomic stability and market-friendly reforms are equally essential for eradicating poverty. Peet comments on the Report in the following words, 'The theme of material opportunities for poverty reduction still refers to the necessity for economic growth, but also includes the quality and pattern of growth and the importance of the equality of distribution, themes that are novel to Bank thinking' (Peet 2003: 131). Likewise, several in the media and civil society back lashed at the Report. For example, the Institute of Development Studies in UK called the idea of empowerment of poor people as mere 'decorations' and the findings of the Report as 'cosmetic and semantic changes'. More so, Ravi Kanbur, the original team head of the Report, resigned in May 2000 amidst 'undue *outside* pressure over changing the emphasis on policies of redistribution and social spending' (the outside here refers to the US Treasury Department and its then Secretary Lawrence Summers) (Peet 2003: 132; emphasis added). While the Bank has denied such allegations, but Kanbur's resignation has nonetheless added ammunition against the Bank. Peet cites *The Economist* calling this chaos as 'Washington Dissensus' (Peet 2003: 132-133).

It would not be wrong to assert that, in the present times, the BWIs have been the handmaidens of the neoliberal principles reflected in the Washington Consensus. The excessive focus on liberalisation, privatisation and globalisation in their lending approaches, have made the BWIs standard representatives of neoliberalism. Whether it be the Extended Fund Facility of the Fund or the Poverty Reduction Strategy Papers of the Bank, all have one common factor – underlying neoliberal ideology. The nature of conditionalities applied to the loans of the Fund and the Bank further substantiate the point.

After having examined the identical ideological roots of the BWIs, the next chapter will look at the interlinkages between the Fund and the Bank in terms of their lending operations.

Chapter III

CHAPTER III

AREAS OF CONVERGENCE AND DIVERGENCE BETWEEN THE FUND AND THE BANK

Flowing from the previous chapter's attention to ideological influences on the lending policies of the Bretton Woods Institutions, the present chapter will explore their commonalities without ignoring the areas of competition. The chapter will first highlight the areas of overlapping jurisdictions of the two institutions, with special emphasis on conditionality and cross conditionality, and then discuss their areas of conflict.

Aspects of Collaboration

As noted in the previous chapter, in the initial years of their coming into being, the Bretton Woods Institutions (BWIs) worked in their given realms without bothering much about each other's areas of work. Yet, the two shared and administered many services in common – to begin with, the same building at 1818 H Street in Washington, D.C., telephone services, language laboratory assistance, parking, computer services, joint law library, publication of *Finance and Development* and *Direction of Trade*, and so on (Mason and Asher 1973: 544).

As early as 1946, the executive directors of the BWIs adopted the details of a 'Report of a Joint Standing Committee on Provisional Procedure for Liaison between Fund and Bank on Financial Assistance to Members'. The joint committee agreed in the report that 'the Fund and Bank activities are complementary in many respects and that it was essential that a procedure should be quickly prepared in order to ensure that there should be close collaboration on financial assistance to members, with due regard to the respective responsibilities of the two institutions' (Mason and Asher 1973: 545). By mid-1947, an elaborate system of close contact between the IMF and the IBRD was established. In the same report, it was observed that several channels of liaison were available with the 'twins'. These included: the President of the Bank and the Managing Director of the Fund; the Joint Standing Committee of the Fund and the Executive Directors of the Bank on financial assistance to member-countries; the Secretaries of the two institutions; and

liaison Bank's Treasurer and Fund's Director of Operations and Comptroller. For example, the Fiscal Policy Division, established by the Fund in 1964, linking stabilisation policy with economic development, closely collaborated with similar unit in the Bank. Additionally, at several times, many executive directors and their alternates of one institution (say, Bank) had held same post simultaneously in the other institution (Fund) (Mason and Asher 1973: 545, 548, 550).[100]

Again there were convergences in their field of operations, which demanded the two institutions to increase their collaboration with each other. Within a decade of their formation, the Managing Director of the IMF, Per Jacobsson strongly asserted that the borrower country would need both short-term and long-term assistance, and hence, would require resources from both the Fund and the Bank at the same time; he thus, recommended that the two institutions should work as closely as possible. The joint annual meetings of the board of governors of the Fund and the Bank were one such occasion where the two could consult each other on common policy concerns and share information. These joint annual meetings helped pave the way for the much-needed provision for technical assistance in the areas of monetary, fiscal and exchange policies (Mason and Asher 1973: 543).

In 1965, senior officials of the Fund and Bank discussed the areas of interests and responsibilities of the two institutions. Two joint statements emerged from these discussions: one was a memorandum of 19 January 1966, dealing mainly with the procedure; and second was an operational memorandum of 9 December 1966 dealing with the primary interests of the two bodies. While the purpose of the first memorandum was to ensure that the institutions fed consistent advice to the member-countries; in the case of the second, it was observed that, 'It was not the purpose of the operational memorandum to draw sharp lines of jurisdictions but rather "emphasize how large is the

[100] The Fund made available the services of its two experts for the preparation of Bank's first loan to France. A Fund representative also accompanied the Bank mission to Denmark to negotiate a programme loan. Additionally, a Fund expert also joined the Bank's first survey mission to Columbia in 1949 (Mason and Asher 1973: 545-546).

area of common interest"' (Mason and Asher 1973: 551). The memorandum assigned primary roles assigned to the BWIs.

The chief roles of the Fund included, inter alia, exchange rates and restrictive systems, adjustment of *temporary* balance of payments disequilibria and evaluating and assisting member countries with stabilisation programmes (Feinberg 1988: 548; emphasis added). The Bank was to look after the composition and appropriateness of the development programmes and project evaluation. More importantly, the memorandum stated that each institution should follow the views of the other in which it has an expertise. The 'primary responsibilities' rule worked reasonably well for the BWIs in the relatively healthy global economic environment of the 1960s, '...and Bank and Fund staff were able to go about their own business while only occasionally crossing each other's paths' (Mason and Asher 1973: 551; Feinberg 1988: 548).

Emphasising on the need for collaboration between the 'twins', the Pearson Commission report of 1970 strongly recommended conducting uniform country assessments by the Fund and the Bank and offering consistent policy advice to the member-countries. The report noted:

> The two institutions have *somewhat* different functions which require some differences in priorities, but we believe that measures should be taken to ensure that differences are resolved at headquarters so that it is not left to the recipient to calculate whose advice he can ignore at lesser cost (in Mason and Asher 1973: 552; emphasis added).

Soon after the Pearson Commission report was out, the Bank formulated a memorandum on 18 February 1970 titled 'Further Steps for Collaboration between the IMF and the IBRD', calling for joint consultations before the departure of Bank and Fund missions to member-countries, debriefing the officials of the institutions after returning from the mission, sharing of draft documents, coordination of technical assistance, and collaboration in the field. However, it did not endorse the proposal for uniform country assessments as recommended by the Pearson Commission report (Mason and Asher 1973: 552-553).

As explained in chapter two, during the 1970s, the Fund introduced the extended fund facility (EFF) in 1974 and the Bank adopted structural adjustment lending in 1979. With this, the division of labour between the two institutions was blurred. As Feinberg emphasises:

> With the establishment of the Extended Fund Facility and structural adjustment lending, the Fund and the Bank were now both providing balance of payments loans, tranched over one to three years, with medium-term amortization periods. Both programs supported macroeconomic and microeconomic adjustments, and focused on improving both external and internal accounts. The degree of overlap between the two institutions had greatly increased...In earlier years, the Fund would have concentrated on financial variables and the management of aggregate demand, leaving "real" variables and the productive sector to the World Bank. Today, authoritative Fund staff firmly state that "demand-side and supply-side policies are closely interrelated..."(Feinberg 1988: 549-550).[101]

Citing John Williamson, Dasgupta adds:

> Thus, the former distinctions between the roles of the Fund and the Bank - macro versus micro, demand versus supply, adjustment versus development, financial versus real, programme versus project loans, short term versus long term -- have been severely eroded (Dasgupta 1997: 1092).

Through EFF, the Fund, for the first time since its commencement, paid direct attention to issues of structural maladjustments, which was a central theme in the Bank's operations. By extending its lending period, '...the Fund...bridged the gap between its own short-term balance of payments credit and the Bank's long-term development lending: it entered the field of medium-term lending' (Polak 1997: 480; Peet 2003: 74).

On this subject, Feinberg notes:

> In establishing the Extended Fund Facility (EFF) in 1974 to provide members with more time and money to adjust, the Fund recognized that the more adverse international environment made it harder to correct payments imbalances, and that the "inherent" weaknesses of some economies required special treatment...This mandate for a medium-term stabilization program explicitly recognized the links between balance of payments adjustment and resource mobilization, and between stabilization and production, and edged the Fund more directly into the realm of traditional World Bank expertise (Feinberg 1988: 549).

[101] It is also noted that the Fund took recourse to its Articles of Agreement to justify its new stance. Its Article I states that the Fund should assist its member countries in 'the promotion and maintenance of high levels of employment and real income and [in] the development of the productive resources of all members as primary objectives of economic policy' and '...to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity' (Feinberg 1988: 550; IMF 1990: Article I, Section 2 and 5).

Additionally, corresponding to the Fund's Interim Committee, the Bank set up a Development Committee in 1974, formally known as the Joint Ministerial Committee of the Board of Governors of the World Bank and the International Monetary Fund (IMF) on the Transfer of Real Resources to Developing Countries. The rationale for its establishment was '...to satisfy the demands of the developing countries for having a political forum at the level of Ministers in which policy directions can be agreed upon without weighted voting' (Reddy 1985: 26). The purpose of the Committee is to give advice to the Boards of Governors of the Bank and the Fund '...on all aspects of the broad questions of transfer of real resources to developing countries and to make suggestions for consideration by those concerned regarding the implementation of its decisions' (Reddy 1985: 26).

During the late 1980s, when the Bank introduced programme lending in its areas of operation, it was acknowledged that 'The World Bank would follow the lead of its more senior partner, the IMF, under a division of labor that allocated 'stabilization programs' (short-term adjustment lending) to the Fund and longer-term 'structural adjustment lending' (SAL), aimed at correcting deeper 'structural' problems, to the Bank' (Peet 2003: 121). With a historical transformation in its economic thinking during this period, the Bank gave preeminence to trade liberalisation policies as well (Nogués 1998: 83), and the Fund was already applying conditions of trade liberalisation for member-countries to avail its standby arrangements.

Thus, with their active involvement in structural adjustment, the traditional lines of functions – short-term macro for the Fund and long-term micro for the Bank – dissolved.[102] As Polak notes, 'The exchange rate, the local currency prices paid for producers of major exports, such as coffee or cocoa, the prices for major consumer goods, such as rice or petroleum, the fiscal situation – to name only a few typical

[102] For an overview of the similarities in components of the structural adjustment programmes of the Fund and the Bank, see Feinberg (1988: Table 1, p.551).

variables -- are equally crucial to the success of a Fund arrangement as to that of a Bank structural credit' (Polak 1997: 489).

Additionally, during the debt crisis of the1980s, both the institutions had profound involvement with the countries of Latin America and Africa. With the disintegration of the former Soviet Union in late 1980s, the emergent new countries, as well as those who broke away from the Eastern bloc constituted the new clientele of the BWIs, thereby significantly expanding their membership base. The new clientele also brought with it new challenges and opportunities for collaboration between the BWIs. The last quarter of the twentieth century, as Polak observes, '...posed important challenges for the international institutions: to assist their members in the almost revolutionary process of policy change and to support this process by enlarged lending, combined with a more determined application of both macroeconomic and structural conditionality' (Polak 1997: 480). He highlights that during this time, the Fund and the Bank were both ready and 'anxious' to expand their lending operations.[103] The two proceeded in different directions than their normal course, and stepped into each other's shoe: the Fund moved into structural conditionality, and the Bank into macroeconomic management. Why this happened, is explained by Polak in the following words:

> In the Fund as well as in the Bank, the widening scope of concerns was felt as a natural response to the changed circumstances of members and a deepened understanding of the problems of development. Indeed, the paramount need for the combined application of macroeconomic stabilization, structural adjustment, institutional reform (and, in the 1990s, good governance) became the accepted credo not only of the Bank and the Fund but also over time of the regional banks, the aid agencies of the industrial countries, and, most importantly, of an increasing number of developing countries (Polak 1997: 480).

Likewise, in late 1970s, there was a growing realisation in the Bank that individual projects did not contribute significantly to development of its client countries unless the macroeconomic policies (monetary policy, fiscal policy, exchange rate, and the like) were

[103] At the 1990 Houston summit, the G-7 delegated the BWIs, the Organization of Economic Cooperation and Development (OECD), and the European Bank for Reconstruction and Development (EBRD) the task of jointly studying the economy of the Soviet Union, with the Fund assigned the de facto lead role as a 'convener' of the study. 'Since then, the Fund has held onto this position of prominence – which also involves the greatest risk in the event of failure – in the work on the former Soviet Union' (Polak 1997: 520).

set in shape. This belief resonated in the Bank circuit even during the debt crisis of the 1980s. Initially during the crisis, the Fund played the leading role amongst the two BWIs. '[It]...negotiated policy packages with debtor countries, starting with Mexico, and assembled the quid pro quo financial packages' (Polak 1997: 482). The Bank continued to concentrate on stabilisation rather than structural adjustment.[104] However, with the Baker Plan (1985) recommendations for an expanded role of the Bank in structural adjustment lending, the Bank adopted this approach (Polak 1997: 482-483).[105] In a speech to the joint Bank-Fund meeting in 1985, Baker '...called for a new and more interventionist role for the Bank in coordinating increased loans from private and multilateral bank sources and ensuring policy changes in debtor countries' (Peet 2003: 125-126). The Plan observed: 'While the IMF would have a continuing, central role in enforcing these macro-economic changes, the Fund was considered to be primarily short-term lender and, believing that longer-term 'structural' solutions were necessary, the US Treasury and State Department wanted the World Bank to become more involved in 'modernizing' the economies of the debtor countries' (Peet 2003: 78). Thus, now the Bank was in a position to disburse large sums of money quickly, but in return for broad policy commitments from the borrower countries with respect to their economy, in general, as in the case of SALs, or for specific sector(s), as in the case of the SECALs. By the end of that decade, adjustment lending, which was seen as serving two-fold purposes of '...covering balance of payments gap and bringing about needed structural change', was incorporated in the Bank's scheme of operations as one of the important and permanent activities (Polak 1997: 482-483). Thus, while the IMF has the chief responsibility of supporting policy change in order to handle the immediate sources of inflation or balance of payments difficulty, the Bank is tasked with supporting those measures that uphold a new pattern of growth. Therefore, macroeconomic and structural elements are intimately enmeshed with the adjustment lending programmes of the two

---

[104] From 1983-1985, the Fund lending to six largest debtors namely, Argentina, Brazil, Chile, Mexico, the Philippines, and Yugoslavia, stood at $12.7 billion; while of the Bank, in the same years and to the same countries was$2.3 billion (Polak 1997: 485).

[105] Since the Bank increased its financial role, its policy role also became imperative. The commercial banks, in several instances like Colombia and Mexico, started to depend on the Bank, rather than the Fund for the release of successive tranches of commercial bank credit (Polak 1997: 484).

institutions (Polak 1997: 484). In short, the Bank accepted the Fund proposition that stabilisation is a necessary though not a sufficient condition for growth.[106]

In 1986, the Fund introduced the Structural Adjustment Facility (SAF), and the Enhanced Structural Adjustment Facility (ESAF) in late1987, which made it look exactly similar to the IDA Trust Fund. According to Feinberg, the creation of SAF by the Fund marked '...a significant new phase in Bank-Fund collaboration' (Feinberg 1988: 556). These facilities exhibited strongly similar features as that of the IDA lending – similar list of countries,[107] eligible for near-zero interest rates (though the time period of the repayment of loans for the SAF and ESAF remained the same as EFF i.e. ten years) (Polak 1997: 481).[108]

The SAF were to be based on, what is termed as, the policy framework paper (PFP), to be developed by the borrower country in close collaboration with the staff of the Fund and the Bank.[109] The purpose of the PFP was to '...describe the country's major problems; the objectives of a three-year program; the priorities and the broad thrust of macroeconomic and structural policies; and the need for and sources of broad external financing' (Polak 1997: 501). It was decided that the Bank's Board of Governors would discuss the PFP first, and then take it to the Fund board (along with a report of its

[106] Mason and Asher hold that the Fund and the Bank have remained wedded to short-term considerations, and have ignored the other side of the proposition that growth is a necessary, if not a sufficient, condition for effective stabilisation. But, in the same breath, they also assert that this reciprocal relationship between stability and growth has remained relatively an understudied area in economic analysis, and has thus, not caught the attention of the two institutions (Mason and Asher 1973: 557).

[107] Most countries which entered into "intensive adjustment lending" with the Bank also had arrangements with the Fund, particularly in the period from 1980-1988. This marked a convergence in their clientele in a big way (Polak 1997: 486). Throughout the 1980s, the Fund and the Bank, 'exercised considerable powers of control over most Third World and post-communist countries' (Peet 2003: 134).

[108] There is yet another similarity between the ESAF and the IDA – their sources of funds from aid budgets. However, this is relatively a small portion of ESAF funds, and does not obstruct in the replenishment negotiations for the IDA (Polak 1997: 481).

[109] The idea of PFP was based on the "U.S. Proposal for an IMF/World Bank Program to Promote Economic Adjustment and Growth", as put forward by former US Executive Director to the Fund, Charles Dallara in September 1985. 'Under this program, eligible low-income countries would have access to Trust Fund reflows and various sources from the World Bank under a series of two-year macroeconomic and structural economic programs.' The approach envisioned a joint Fund-Bank document for consideration and approval of the program. The plan aimed at providing '"a comprehensive and coordinated approach to macroeconomic and structural reform program" and as an "excellent means of strengthening Fund/Bank collaboration."' Though the Dallara proposal was not adopted in full, but the PFP incorporated substantive features of the same (Polak 1997: 501).

discussions) for its approval. The approval to a PFP was a precondition for approval of SAF loans in the Fund (Feinberg 1988: 557; Polak 1997: 501-502).

In 1989, an agreement was reached between the BWIs to highlight their respective roles. An important feature of the agreement was that it reinforced the prevailing exercise of Bank's adjustment lending being contingent upon the existence of Fund's similar arrangement in the country concerned. In the absence of Fund's arrangement, the Bank shall seek the Fund's views giving it sufficient time to hold consultations with the country (Polak 1997: 514).[110] In other words, the Fund would hold supplementary consultations promptly to be able to provide its viewpoint to the Bank that can serve as a basis for the latter's structural adjustment operations (Polak 1997: 498). It was also asserted that the 1989 agreement helped in striking a harmonious balance between competence and cooperation between the two institutions (Vines 1998: 77).

Furthermore, with the Brady Plan (1989), the Fund and the Bank adopted significantly similar guidelines for governing the heavily indebted countries that were ready to accept their policy packages (Polak 1997: 483-485). Few years later, in 1996, the Fund launched the HIPC initiative to counter the debt problems of the heavily indebted countries and also promote long-term growth and reduce poverty. Soon, the Bank followed suit and adopted the same initiative in 1999.

From the early 1990s, the Fund has moved to the terrain of increasing economic growth and has made it its chief concern, 'its quintessential objective', an area which was the traditional forte of the Bank. In a July 1990 meeting with the ECOSOC, the Managing Director of the Fund declared, 'Our prime objective is growth...It is with a view toward growth that we carry out our special responsibility to correct balance of payments disequilibria.' The HIPC initiative of the Fund was later extended and known as the poverty reduction growth facility (PRGF). This was aimed at providing loans to the poorest countries at the lowest rates of interest, an exercise which was, traditionally,

[110] It should be noted that the agreement is not binding, and the Executive Directors of both the institutions retained the right to interpret the Articles of Agreement of their respective institution as guaranteed in the Articles itself (Article XXIX of the Fund's Agreement, and Article IX of the Bank's) (Polak 1997: 515).

carried out by the IDA. However, the Bank again followed the footsteps of the Fund, and adopted the same policy with a different name – poverty reduction strategy papers (PRSPs).

Conditionality and Cross-Conditionality

Perhaps, the greatest degree of collaboration between the BWIs is evident from the conditionalities applied by the BWIs on their loans. Not only has the list of borrower countries, on which conditionality is applied, has remained similar for both the institutions, but even the nature of conditionality has been more or less identical, if not indistinguishable.

Conditionality is 'the link between the Bank's [and the Fund's] version of neoclassical economic beliefs, turned in the right direction through an injection of neoliberalism during the Reagan and Bush administrations in the USA, and the commitments made by borrowing countries to follow specific conditions stipulated by the lending institution as the basis for making a loan or allowing subsequent drawings of previously committed loan money' (Peet 2003: 127).

Polak notes that, commonly, the Bank adjustment lending is undertaken together with that of the Fund programmes.[111] This is mostly the case with SALs and also with SECALs. The Bank has made its lending to member-countries dependent upon the advice of the Fund, as happened in United Arab Republic in 1964, Ceylon (Sri Lanka) in 1965, and on many occasions in Latin American countries too (Mason and Asher 1973: 554). Additionally, the conditionalities on loans of both the institutions reflect their common approach of pro-market reforms in the borrower countries. '...[W]hile IMF emphasises

[111] However, it is interesting to note that, in this background, the first two reports of the Bank on SAL claimed all credit for the institution for the improvement in the economies of its borrower countries. In its 1990 study on the effect of Bank adjustment lending, it particularly emphasised that between 1981-1984 and 1985-1988, '...adjustment programs were estimated to have added close to 2 percentage points to the rate of GDP growth.' Polak notes that it was an ironic juncture, as around the same time, a Fund study found that the economic growth of its member countries which had some sort of arrangements with Fund programmes was significantly reduced as compared to those countries which had no such arrangement with the institution. However, in the third SAL report by the Bank, the inseparability of the effects of the Fund and Bank's adjustment lending programmes is duly noted (Polak 1997: 483-484).

on demand constraint, the World Bank operates on the supply side, and there is a broad consensus that the former would precede the latter in the sequencing of programmes' (Dasgupta 1997: 1094).[112] Dasgupta adds that if the borrower country is already market-oriented and ideologically on the same footing as the BWIs or is willing to become one, then the conditionalities imposed are less, '...and the twins tend to take a more lenient attitude in cases of violation of norms or non-fulfilment of some criteria.' However, if the borrower country is reluctant or unwilling to incorporate the philosophy of the BWIs, then the conditionalities and their implementation tend to become harsher (Dasgupta 1997: 1095).

Thus, the philosophy of the BWIs, as reflected in the conditionalities applied with their loans, came to focus on three main principles: liberalisation, privatisation and globalisation. While liberalisation advocates lesser role of the state and more of the market in managing the economy, privatisation implies that '...whatever economic activities are in operation should be closed down, or phased out or trimmed, or passed on to the private sector. Public ownership should be allowed only in cases of natural monopolies and strategic industries, e g, in defence...' The rationale for advocating privatisation of public sector enterprises is that this would increase their efficiency and would help in raising funds needed to reduce fiscal deficits (Dasgupta 1997: 1097). The rationale for endorsing globalisation is that 'more trade is better for all the parties concerned – some may gain more than others, but all would gain' (Dasgupta 1997: 1097; Williamson 2000: 257-258). The Fund, and the Bank believe that any action (read: state action) that interferes in the free flow of capital, goods and services would bring sub-optimal results. Thus, the two institutions strictly oppose the import substitution industrialisation approach and argue in favour of export promotion citing the importance of the comparative advantage principle. It is further argued that '...the goal of self-sufficiency makes no sense in a closely integrated world economy with free buying and selling' (Dasgupta 1997: 1097). The doctrine of globalisation dictates that, 'A country should specialise in production and exports only in those items where it enjoys

[112] Sequencing of lending programmes is an area of contestation between the two BWIs. However, it is not the scope of this chapter to investigate the same.

comparative advantage, that is, given its factor endowments, it can produce best' (Dasgupta 1997: 1097). It is argued that such an approach, if implemented, would help in paying for the cost of imports. Financial liberalisation constituted a vital aspect of globalisation, and the Latin American countries, Mexico to begin with, were among the first countries to undergo this treatment (Kurian 2007: 9).

One of the most important areas in which the Fund and the Bank adopted the same approach was that of cross conditionality. Cross-conditionality[113] between the Fund and the Bank was observed usually in only one direction -- from the Fund to the Bank, as only the Fund applies its conditionality in an automatic manner. Traditionally speaking, the Bank's structural adjustment loans, and sometimes project loans have often been kept on hold pending on the borrower country's accord with the Fund. On the other hand, generally, the Fund's standby arrangements have not been dependent on the Bank's operations.[114] This implied that a debtor country failing to meet the conditions of the Fund would be rendered incapable of drawing subsequent tranches from the Bank under SAL or SECAL. However, the asymmetrical dependence of the Bank on the Fund gradually equilibrised, when the Bank enlarged the size of its own disbursements. Thus, 'a negative Bank finding could disrupt the borrower's finances and cause the Fund to have to reconsider its own evaluation of the member's progress.' The developing countries termed this practice as 'ganging up by the two institutions against them', and considered cross-conditionality as a proscription (Feinberg 1988: 552, 556; Polak 1997: 488). In a report on 'The Functioning and Improvement of the International Monetary System', the developing countries as represented by the Group of 24 (G-24) urged:

[113] Although no generally accepted or official definition of 'cross conditionality' exists, Sidney Dell lays out four examples of "formal" cross conditionality: if either of the BWIs seeks to veto over a loan under consideration by the other institution; if a formal understanding between the BWIs exist on making a loan or an arrangement to the member country only with the concurrence of the other; if a formal understanding between the BWIs exist on allowing (or not allowing) the continuation of a previously agreed loan or arrangement to a member country without the concurrence of the other; and if a formal action exists between the BWIs, notably a declaration of ineligibility by the Fund to interrupt access of a member country to a Bank loan (Feinberg 1988: 553).

[114] The logic of such an inter-linkage is that while holding back the Fund's credits may severely damage the borrower country's economy, thereby disrupting funding from the Bank (Fund's self-fulfilling "uncreditworthy" logic – see footnote 16), the smaller size of the Bank projects disbursements does not cast the same effect on the country (Feinberg 1988: 556).

> ...coordination between the IMF and the World Bank should not lead to cross conditionality but should help further their mutual objectives of providing resources to developing countries. Closer contacts between the managements and staffs of the two institutions could help foster understanding of each other's points of view. However, it would not be advisable to seek some kind of uniformity of advice. Such a step would be counterproductive, could lead to cross conditionality, would dilute the respective responsibilities of the two institutions, and could become a means of exerting a concerted pressure on borrowing developing countries. Any policy advice by these institutions would therefore have to be in keeping with their respective roles. If there were to be a coordination of policy advice on a country, it would be essential to obtain the country's consent in this process (cited in Feinberg 1988: 552-553).

On their part, the Executive Directors of the Fund and the Bank stressed that cross-conditionality must be avoided, '...each institution must continue to proceed with its financial assistance according to the standards laid down in its Articles of Agreement and the policies adopted by the Executive Board' (Polak 1997: 488). However, the practice of cross-conditionality was institutionalised with the Bank's adjustment lending programmes, which limits its adjustment lending to only those countries that have simultaneous stabilisation programmes with the Fund. This exercise of cross-conditionality has conformed to, what one former general counsel of the Fund called, "double jeopardy" or "the application by each organization of the criteria of both" (Polak 1997: 489).

However, 'consultative cross conditionality' i.e. close linkage between the Bank's policy lending (SALs and SECALs) and the Fund's standby arrangements could not be avoided (Feinberg 1988: 554).[115] On several occasions '...the Bank delayed or refused a policy-based loan pending a member's reaching agreement with the Fund on a stabilization program' (Feinberg 1988: 555). The Bank has argued that '...without consistent macroeconomic policies designed to correct external equilibrium by restoring a more sustainable balance between aggregate supply and demand, a structural adjustment program will fail (Feinberg 1988: 555).

[115] For an overview of the correlation of World Bank sector loans and IMF standby arrangements, see Feinberg (1988: Table 2, p. 554).

Feinberg highlights another form of linkage between the BWIs in the form of 'interdependent cross conditionality', whereby the same policy variable(s) is considered to be vital by both the Fund and the Bank for their programmes in a particular member country. For example, both institutions regarded the adoption of "realistic" exchange rate to be a prerequisite to their lending (Feinberg 1988: 555).[116] A vital source of this type of cross conditionality can also be found in the principle of "creditworthiness". Hereby, '...a country judged uncreditworthy by the Fund is unlikely to receive a favorable rating at the Bank' (Feinberg 1988: 555-556; Babb and Buira 2004: 14).[117] Another reason for adopting a similar tone while dealing with the member-countries is that while sharing information and analyses on member countries, the BWIs seek to avoid public disagreements on controversial cases (Feinberg 1988: 555-556).

Thus, it can be said that the Bretton Woods 'twins' have shared a close relationship with each other, and have attempted to endorse the same ideology and work in close collaboration. However, this does not imply that their relationship has always been cordial and cozy. In fact, there have been significant disagreements between the two on important matters, and they have attempted to carve their own niche which is relatively autonomous from the other.

Areas of Divergence

The above section provides an account of collaboration between the two Bretton Woods Institutions, resulting from the requirements of their Articles of Agreement, their common ideology, as well as from their overlapping jurisdictions. However, the relationship between the two is not always the same. There have been occasions and phases when the 'twins' have parted ways on a variety of issues. Each has tried to maintain its autonomy from the other, especially the Bank, which has achieved an image

[116] Though exchange rate may not necessarily be present neither in a standby arrangement of the Fund nor in a sector loan document of the Bank, nevertheless, refusal by a member country to correct its exchange rate can deprive it of funding from both the Fund and the Bank (Feinberg 1988: 555).
[117] Moreover, the Fund's stamp of "uncreditworthy" on a country is, to a certain extent, self-fulfilling. Not only does it deprive the member country of its own credit facilities but also greatly reduces its chances of availing finances from other sources. This, by implication, degenerates the shape of the country's economy, thereby making it less creditworthy (Feinberg 1988: 555).

larger than that of the Fund over a few decades. This section will highlight some of the prominent areas where the BWIs have not looked eye-to-eye with each other.

Even when the Bretton Woods Institutions started out together as 'twins', sharing many facilities and services in common, yet they continued to maintain their own distinctiveness in their style of operation. It is important to note that the complementarity designed in the functions of the BWIs was not matched with the same degree of collaboration between them, except for brief irregular phases in time. For instance, the Fund and Bank carried their training programmes independently; '...and although about 90 percent of the Fund's country studies [were] relevant to the work of the Bank and vice versa, joint use of personnel on country missions [was] infrequent, and jointly sponsored missions...unknown.' And since both the institutions were strongly wedded to the roles given to them, they chose not to collaborate (Mason and Asher 1973: 545).

Mason and Asher attribute the reason for this yonder relationship between the BWIs to their disparate rates of operational development. As noted in chapter two, the Bank started its operations in 1947, and though project lending started with some initial hiccups, but subsequently, it grew steadily. On the other hand, the Fund 'was nearly moribund in the years before 1952.' The authors assert that, in real terms, the Fund came to business only after 1956, with the Suez crisis and British loan from the IMF, as discussed in chapter two. While the Fund ran an annual deficit for the first ten years of its formation, the profits of the Bank were scaling high and totaled $184 million by the end of fiscal year 1954-1955 (Mason and Asher 1973: 548). What saved the Fund's image in the beginning of 1950s was the compulsory execution of discussions or joint annual meetings as provided under Article XIV of its Agreement, which helped in bringing the staff of the IMF in contact with their counterparts in the Bank at least once a year. The Bank was expanding its operational base very rapidly. Thus, as the authors put it, 'Henceforth, ...the relationship became in a sense a rivalry between more equal participants' (Mason and Asher 1973: 545, 547-548).

In fact, on the question of the utility of the annual joint meetings of the two institutions, Mason and Asher maintain that, '...although these meetings serve a useful purpose as a sounding board for the views of central bankers, finance ministers, the president of the Bank, and the managing director of the Fund and also provide an opportunity for personal contacts and much conviviality, the subject of Bank-Fund collaboration is rarely addressed' (Mason and Asher 1973: 554).

In the initial days, the Bank was solicitous about the question of 'creditworthiness' of its borrower countries. The term does not find mention in the Fund's lending procedures, which points to the difference in their approach to lending. The Bank used to consider the external conditions of a prospective borrower to determine its creditworthiness; and if it found the country's creditworthiness lacking, it would turn down the loans even for the best projects. However, the Fund had more explicit authority to do so; it reviewed the policies of the borrower country, and if it found them inadequate to meet the Fund's requirement, it would negotiate changes in those policies before giving the loan (Polak 1997: 476).

Moreover, the Fund and the Bank developed distinct managerial relationships with their executive directors; the Bank had more personalised relations with its presidents and executive directors than the Fund. Thus, personality conflicts between the personnel of the two institutions were not uncommon from the start. Although there was close collaboration between some staff members of the Fund and the Bank, but this was more on a personal basis rather than institutional (Mason and Asher 1973: 545).

Additionally, there exist vital differences between the conditionalities imposed by the two institutions. While the Fund conditionalities are limited to not more than ten, the Bank's are far more in count, leading up to 56 in 1989. This is because, the conditionalities are imposed according to the amount of the loans requested, the purpose for which loan is required, the economic position of the country, and the character of the government (political and otherwise). Thus, the larger the loan, the greater and more rigorous the conditionalities. Moreover, many of the Bank conditionalities are general and hence not

measurable, unlike those of the Fund (Polak 1997: 487; Peet 2003: 127). Dasgupta asserts that the Bank conditionalities are less specific and aims at attuning the economy of its member countries with market-centered principles (Dasgupta 1997: 1097).

However, as the territories of operations started overlapping, because of the convergence of activities – clientele, conditionality, policy areas, their points of divergence could no longer remain hidden under the carpet. In 1950, the Fund's deputy managing director formulated a memorandum making a case for closer working relations between the Fund and the Bank. However, the Bank did not pay much heed to this. In 1952, at the seventh annual joint meeting of the board of governors of the two bodies, the President of the Bank and the Managing Director of the Fund decided to set up a joint committee to examine the issue of inter-organizational collaboration. The committee examined three important areas of possible collaboration: (i). collection and compilation of basic economic data; (ii). using of technical manpower on Fund and Bank missions; and (iii). administrative services. However, the committee itself observed that only the third area offered more opportunities for cooperation, than the first two. Joint research and joint missions were still not thought to be appropriate (Mason and Asher 1973: 546).

The 1950s was a period of stalemate in the Fund-Bank relationship. Neither the Fund experts served on any Bank mission nor vice-versa. Instead, the two complained of encroachment of their jurisdictions by the other. Failure to be informed and conflicting advice to the member-countries were regular mutual accusations. Mason and Asher call this relationship as one of 'reserved neutrality'. In the words of Polak:

> It was a situation that cried for closest possible collaboration, perhaps with an agreed assignment of tasks if serious conflicts were to be avoided. Cooperation, which had appeared as merely desirable over the preceding decades, became imperative at short notice (Polak 1997: 493).

With a change in leadership in both the institutions in the early 1960s, Pierre-Paul Schweitzer leading the Fund and George Woods the Bank, prospects for setting new relationships were in the offing. Furthermore, by this time, the Fund's stature '...was fully equal to that of the Bank.' However, it continued to remain a challenge to reverse the attitudes and practices of two decades of 'competitive independence' (Mason and

Asher 1973: 550). Despite the memorandum of 1966 outlining the primary responsibilities of the Fund and the Bank, the two continued to formulate their own independent and divergent views about subjects falling under the jurisdiction of the other. Also, the language of the memorandum was very general, leaving immense scope for maneuvering. Since mid-1960s, whatever collaboration took place between the BWIs was a result of the impact of individual personalities holding parallel positions at the respective institutions (Mason and Asher 1973: 552).

The increasing overlap in the responsibilities of the two institutions, especially in the 1970s, again called for an augmented collaborative role between them. However, the convergence in jurisdictions of the BWIs also proved to be a potential risk as it also meant blurring of the responsibilities, as was evident from the case of cross-conditionality, apart from others (Feinberg 1988: 552; Polak 1997: 488).

Although the institutions shared a common interest in short-term stabilisation measures in the borrower countries, their approaches remained independent of each other. Though the Bank generally consented to the view that stabilisation was important, it did not always agree that the Fund's stabilisation proposals were apt for the member-countries (Mason and Asher 1973: 554).[118] Thus, while venturing into macroeconomic stabilisation, the Bank also took up variables central to the Fund stabilisation programmes, like exchange rates, which was deemed to be the "primary responsibility" of the Fund according to the 1966 memorandum. However, the Fund on its part, although incorporated Bank inputs, yet continued to undertake its own analyses of the structural components in its lending arrangements (Feinberg 1988: 550, 552). Moreover, while making medium-term loans for balance of payment difficulties, the Fund applies "availability" approach i.e. how large a deficit would the country be able to finance; whereas the Bank applies "requirement" approach i.e. how much foreign financing the country would need to meet a specific target (Polak 1997: 490-491).

[118] For instance, in 1967-1968, in the case of Brazil, the Bank pursued a flexible exchange rate policy against the Fund's recommendation of an incisive devaluation. The same divergence of practice was found in the case of Argentina in the late 1960s (Mason and Asher 1973: 555).

In the area of exchange rates, specifically, the application of conditionality of the two institutions was not only different but also complicated. In line with the agreed areas of primary responsibility, the Bank, until 1980s, left the matter of exchange rate to the Fund. 'If the Fund mission were willing to assume the role of the "bad guy", the Bank's representative could afford to stand aside as the "good guy" who delivered the politically attractive goodies' (Polak 1997: 491). However, the Economics Department of the Bank decided in early 1980s that there was an imperative need to include exchange rate matters in the Bank's lending operations, as the objectives of the Fund on this issue were seen to be different from those of the Bank (Polak 1997: 491). For example, in 1992, post-1989 agreement, the Bank refused to approve sector loans for Brazil despite the fact that the country had concluded a standby arrangement with the Fund. The Bank argued that ' ... the fiscal policy component of that program was not sufficiently credible to expect the program to succeed.' The Fund, too, on its part, has acted in similar fashion to fill the gaps in Bank's traditional areas of work. If the Fund cannot find an updated review of say, public expenditure, then, in such cases, it frames its own analysis (Polak 1997: 517).

While dealing with their developing member-countries, the two institutions found themselves engaged in the same business: 'structural adjustment lending subject to policy conditionality to countries struggling with persistent balance of payments difficulties.' Collaboration seemed a Herculean task, especially since the two had acquired their own personalities and 'cultures'. The Fund, for example, had remained a relatively small body for a long time despite regular expansion of staff; the Bank was much more bulky, especially with the inclusion of its affiliates – the IFC and the IDA, and later MIGA and ICSID.[119] While most of the professionals at the Fund are economists, those at the Bank are an amalgamation of agriculturalists, education specialists, engineers, financial planners, and many others as its functions demand. Thus, the Bank has come to be a colossal and diverse institution than the Fund (Polak 1997: 493).[120]

[119] In 1992, the Fund staff numbered 2,500, while that of the Bank (including IFC) was about 9,000 (excluding Executive Directors' offices and their staff) (Polak 1997: 493).
[120] Till recent times, the term 'management' was applied to two persons in the Fund: the Managing Director and the Deputy Managing Director, while in the Bank it referred to some 500 persons (from division chief upwards) (Polak 1997: 494).

It is crucial to note, in the words of Polak, that, 'The many years of living almost entirely separate lives had ill prepared the Bretton Woods twins for the involuntary cohabitation that the experience of the 1980s forced upon them' (Polak 1997: 499). Forced by the crises of the 1980s, the roles of the two institutions became increasingly intertwined. While the higher rungs of the Fund and the Bank kept exerting that whatever differences existed between the two had been resolved, and that the two are aiming for more and more cooperation, the staff reports of the Bank displayed fundamentally opposite views about coordination between the BWIs. The reports emphasised that the crises of 1980s have increasingly intertwined the roles of the two bodies making demarcation of their respective functions more and more insignificant. Staff reports also urged that cooperation is imperative: '...the Bank and the Fund should "cooperate in developing a more integrated perspective of the adjustment process so that the medium-term implications of the policy measures undertaken for stabilization...are more explicitly recognized and a shared view on these implications emerges"' (Polak 1997: 499). These reports picked apart the Fund and indicated that it was ignorant about the trade-off between adjustment and growth. As a matter of its usual taciturn behaviour, the Fund took the position that such a trade-off does not exist, 'And it insist[ed] that the overlapping areas of concern make a clear demarcation of responsibilities more rather than less important' (Polak 1997: 499). 'The emergent neoliberal consensus rejected the view that there was a tradeoff between growth and price stability...but rather endorsed the view that price stability was actually a *precondition* to growth (Babb and Buira 2004: 21).

With regard to the policy framework paper (PFP) also, it must be noted that a similarly close collaboration between the Bank lending programs, especially those of the IDA (which are parallel to the Fund's structural adjustment facility) and PFPs was not established. Though the Baker Plan argued for the integration of the IDA loans with the PFPs as in the case of SAF, and also proposed for a joint Fund-Bank review of the PFPs, but the Bank successfully jilted these recommendations. The Bank justified its stance by arguing that such an integration would 'invoke the specter of cross-conditionality as well as that of "asymmetry of treatment" between borrowers subjected to PFPs and others that

would have access without them, which, it was argued, would be "very hard, if not impossible, to justify" – although it has caused hardly a ripple in the Fund.' However, the greatest factor for the disapproval of such an integration by the Bank was the anticipated difficulty in collaborating with the Fund: 'The cycle of Bank lending simply takes too long for it to be closely linked to a document that had to be negotiated immediately before a SAF operation of the Fund' (Polak 1997: 502). With respect to the Fund's ESAF, Boughton explains that '...the Fund came under quite a bit of criticism: for departing from its monetary character, for imposing strict adjustment conditionality on countries in need of increased economic growth, and especially for intruding into the traditional realm of the World Bank, which had a much clearer mandate to make longer-term loans on concessional terms' (Boughton 2001: 45).

Turning back to the question of PFPs, since the PFPs were linked more with the Fund lending than of the Bank, the latter viewed them '...as too much addressed to the Fund's preoccupations (short term and stabilization) and too little to those of the Bank (growth).' From the Fund's side, complaints flowed due to the lack of collaboration between the two institutions, which led to delays in reaching agreement on SAF with the prospective borrower countries (Polak 1997: 502). Moreover, the Executive Board of the Bank could only discuss the PFP but not vote on it. When the Bank takes the Paper to the Fund, its comments are only 'taken into account' by the Fund board. This was a compromise between some member-countries which wanted the Bank to review the PFPs and the developing countries which dissented to the Bank's role in reviewing their macroeconomic strategies. While on the one hand, this compromise has helped to avoid formal cross-conditionality, on the other hand, it has also established the traditional asymmetry of interaction between the BWIs with the Fund taking the lead in preparing the PFPs, and the Bank has not objected to any in strong terms (Feinberg 1988: 588). Dasgupta cites, 'As the saying goes, IMF prepares the draft of PFP, World Bank concurs and the country concerned signs' (Dasgupta 1997: 1092).

In addition to these organizational differences, the decision-making structure in the Bank is alleged to be ponderous, and it is said that more time is spent on budgeting, internal

coordination and meetings than in the Fund. On the other hand, it is held that the Fund staff is more disciplined and that the policies with the member-countries are firmly controlled from the top. Arnold Harberger compares the image of the Fund and the Bank in the following terms, 'while...the Fund is like a commercial bank in that there is a single corporate line in dealing with the outside world...the Bank is something like a traveling seminar' (in Vines 1998: 69).

Polak makes an interesting observation:

> The difference in culture is evident also in the way one organization tends to respond to a draft policy paper of the other that it receives for comment. If the Fund receives such a request from the Bank, views from various departments or divisions will be consolidated into a single memorandum signed by a senior official. But if the Fund asks the Bank for its views, it is more likely to receive in response a bundle of memorandums written by a variety of staff members throughout the Bank, expressing their personal views (Polak 1997: 494).

On their part, the Bank officials have often accused the Fund of arrogance in their attitude vis-à-vis the former. As one Bank official puts it:

> It has proved difficult to get collaboration in substance because of the difference in responsibilities, but it has been made far more difficult by the nature of the Fund as a human institution which is secretive, which is arrogant, which is very patronizing in terms of what the Bank does as opposed to what they do, this whole superior attitude of the und in always treating the Bank as a second-class citizen (Polak 1997: 494-495).

Also, the 1989 agreement can be seen as emerging out of a growing frustration between the two institutions of overlapping jurisdictions. It was after serious discourse between the concerned authorities, and with careful precision, that the agreement was reached between the BWIs about their respective roles and areas of collaboration. In order to furnish some role to the Bank in the 'macro' area, the drafters could not agree on a functional or horizontal division of macroeconomic responsibilities to the two institutions; instead they provided a vertical allocation: the Fund's responsibilities remained broadly defined namely, surveillance, exchange rate, balance of payments, growth-oriented stabilisation policies and related matters, and the Bank continued with its development focus. Thus, to a large extent, the Bank realised that pursuing macroeconomic stabilisation was not its forte; the Fund, too, withdrew its attention, at

least temporarily, from "adjustment with growth" i.e. longer-term growth issues; and the focus on their traditional roles was restored to a large extent (Vines 1998: 77).

However, subsequently when the two again started appropriating each other's roles, differences again cropped up. The newer issues with the Fund is addressing like the structural aspects, poverty alleviation and even the environment, remain crucially linked with its macroeconomic framework. On the other hand, the areas with which the Bank has to deal with are not so meticulously classified. 'It has to pay attention to a much wider array of issues, stretching over many sectors and institutions; it also has a longer planning horizon and its contacts in the government need to be much more widely dispersed than the Fund's' (Polak 1997: 495). More so, the complexity of the Bank's operations is also evident from the size of its country (appraisal) missions, which are much larger than the Fund's. While the Bank's missions to countries include eight to ten officials, those of the Fund are four to six. Also, the duration of the Bank's missions is longer (three to four weeks) than those of the Fund's (two weeks) (Polak 1997: 496). Such differences in their operating style have made collaboration between the BWIs arduous. It is noted, 'If the Fund, which is set to perform on cycles of much shorter amplitude, cannot always wait for the Bank, the Bank has also sometimes been handicapped by the set timing of the Fund's consultation cycles normally only once a year. This question arises especially for countries where there is no Fund program, and where the economic situation or the country's policies have changed significantly since the last consultations' (Polak 1997: 498).

Furthermore, both have been accused of 'mission creep' or '...the systematic shifting of organizational activities away from original mandates' (Babb and Buira 2004: 1).[121] The case of the IMF is seen as more dramatic than the two. With regard to the recent 'collaboration' between the BWIs on the issues of poverty reduction, debt sustainability,

[121] For sociologists studying international organizations, the phenomena of mission creep is not new. They hold that '...public service organizations are not just means to pursue predetermined ends, but rather tend to become ends in themselves, more occupied with their own survival than with fidelity to the intentions of their founders.' Sociological studies on international organizations have observed that missions have a tendency to creep – 'a tendency that is fueled both by internal organizational dynamics, and by the co-optation of organizations by powerful forces in their environment (Babb and Buira 2004: 3). It is beyond the scope of this chapter to discuss this perspective. For details, see Babb and Buira (2004).

HIPC, governance and structural reforms, critics have accused the Fund of relentlessly increasing its mandate since it was set up. 'Some question whether the IMF — whose areas of core competence are related to macroeconomic stability, should expand its mandate to deal with poverty issues – a subject *rightfully* in the domain of the World Bank' (Reddy 2003: 3305; emphasis added). The Bank, too, has not been far behind and has stretched beyond its original mandate, roping in a variety of activities related to development – education, health, population, good governance, and so on. Thus, the two reflect, what can be called 'mission drift syndrome' - a term borrowed from Chandavarkar (Chandavarkar 2002: 3699).

Thus, while the BWIs have attempted to project their relationship as a cordial one, there exists an array of differences between the two, which have also been admitted by the officials of the two institutions, sometimes candidly, at other times, cautiously.

Summary Observations

The Bretton Woods Institutions have shared close proximity in their relationship throughout their history. While at some times, this has been a cordial association, at others it has been an intricate one. They have often been found in a dilemma to define their respective fields of specialties, with increasing intersection of their domains of operation and with expanding mandates. The founding fathers had intended to create two separate and 'independent' agencies, but at the same time, they had wished for a close collaboration between the two.

With the two establishing their own culture overtime, collaboration was easier said than done. Though the differences between the two could no longer be kept under the carpet and have kept cropping in the public eye off and on, yet the two have continued to project themselves as Bretton Woods 'twins'. One important reason, or perhaps, even compulsion, for maintaining a close contact with each other could be the need for sustaining the ideology on which they were formed and continue to function. The overstepping of the institutions in each other's shoe cannot be mere co-incidence or force of events alone. It is, thus, interesting to note that despite heavy stress on an increased

role of the Bank in first structural adjustment lending, and then debt relief as proposed by the Baker and Brady plans respectively, the Fund readily accepted them.

Bound by a common ideology, requirements of Articles of Agreement and compulsions of overlapping areas of operation, the BWIs could not avoid being in touch with each other. Initially the two institutions acted upon their respective areas of work, without much concern about the other. However, subsequently, with new international developments taking place, such as the oil crises of the 1970s, the debt crises of the 1980s, and the East Asian crisis of the 1990s, the two were confronted with similar predicaments in lending to their member-countries, which made cooperation between the two institutions an imperative necessity. This cooperation was not easily obtained. Divergence has continued to remain a part and parcel of their relationship. In 1991, for example, the Bank started a new annual publication called *Global Economic Prospects and the Developing Countries*, which agitated the Fund as it discussed a few similar concerns covered in the already running Fund's publication *World Economic Outlook* (Polak 1997: 517).

Therefore, as one scholar puts it, while the purpose of the international organizations is to achieve coordination among countries, it is equally imperative to achieve coordination *between* the organizations themselves. In the absence of adequate cooperation, two diametrically opposed cases have emerged from the Fund-Bank relationship: one is of "overlapping games", and the other of "goal overload". While on the one hand, negative effects of one organization's objectives spillover to, and impact negatively on, the objectives of the other organization; on the other hand, the concern of one organization about the objectives of the other results in confusion and inefficiency of both (Vines 1998: 76).

The next chapter will examine the ideological and institutional gaps of the BWIs and their response for change.

Chapter IV

CHAPTER IV

FUNCTIONAL AND INSTITUTIONAL PROBLEMS AND THE PROSPECTS FOR REFORM

As a follow-up to the analysis of the areas of cooperation and competition in the preceding chapter, the present chapter would identify some gaps in the policy and institutional domains of the Bretton Woods Institutions (BWIs). An attempt is made to discuss the case for the responses by the BWIs to demands of internal reform.

Criticism against Conditionality and Lending Policies

As noted in the last chapter, conditionality is perhaps the most important point of convergence between the BWIs. Though there are differences in the number of conditionalities imposed by the Fund and the Bank on their member countries, with the Fund limiting it to ten, while the Bank stretching it to sometimes more than 50; the two institutions have profusely adopted conditions to lending based on the neoliberal thinking. The two have also not been spared from criticisms for such lending approaches. Several studies and scholarly writings have shown the adverse impact of the BWIs' policies on the economy as well as the society of their member countries (Blough 1968: 165; Oliver 1975: 253; Bird 1996: 490, 493-494; Peet 2003: 102-103).[122] Argentina, Brazil and Mexico were the worst hit countries which adopted the principles of "Washington Consensus" (Bird 1996: 483-489, 495; Peet 2003: 75, 83-86). During the 1980s, the Fund was deeply, yet nonchalantly, involved in the Latin American countries facing balance of payments difficulties. The Bank's intervention was minimum. Hence, it was the Fund that was bitterly criticised for not being able to bring any relief for these countries, not even in the short-run.

Regarding the Latin American crises, the *New York Times* remarked:

[122] Popular discontent broke out in many parts of the indebted world. Of specific instance were 'food riots', where the people vociferously challenged increase in the price of food. Argentina, Egypt, Indonesia, Morocco, Nigeria, Venezuela are few examples of countries which faced similar protests against IMF austere policies. It is reported that there were 146 'austerity protests' in 39 countries from 1976-1992. For more details on this, see Peet (2003: 88-90).

> The standard advice of the Fund to clients facing crisis has been to insist on increased austerity, arguing that fiscal discipline is a necessary precondition to prosperity. But that translates into enormous suffering for millions of people, strengthens the appeal of left wing critics of free market economies and weakens governments that have made the changes Washington is arguing (in Peet 2003: 85).

It is also noted that the austerity measures advocated by the Fund cannot be sustained in the long-term nor can they be applied uniformly across geographic regions.

Similarly, in the East Asian crises of the late 1990s, the Fund was virtually cursed for not only being unable to curb the crisis, but rather making it worse, leading to a contagion affecting the economy of Russia as well (Stiglitz 2003: 195-213). One of the staunchest critics of the Fund's involvement in the East Asian crisis was the Bank's Chief Economist, Joseph Stiglitz. He observes:

> While misguidingly working to preserve what it saw as the sanctity of the credit contract, the IMF was willing to tear apart the even more important social contract. In the end, it was the IMF policies which undermined the market as well as the long-run stability of the economy and society (Stiglitz 2003: 209).

Here again, the role of the Bank was negligible due to the nature of the crisis. This is not to suggest that the Bank was not criticised or that it escaped criticisms; there have been several instances where the Bank's policies have come under sharp scrutiny. For example, the Bank's project lending operations in late 1970s and 1980s, particularly in Brazil (Polonoroeste project) and India (Sardar Sarovar dam or Narmada Valley project) drew the wrath of non-governmental organizations from not only the affected regions but also form across the world.

An important feature of the Bank's lending operations is its non-economic role with reference to its involvement in the political affairs of its member countries. As early as 1948, the Bank itself had explicitly acknowledged in its Second Annual Report that the liberal interpretation of divorcing economics from politics is problematic. It stated:

> Though the Bank is precluded from making or denying loans to achieve political objectives, there is an obvious and necessary interrelation and inter-action between political events and conditions in any country. The soundness of any loan depends fundamentally on the financial and economic prospects of the borrower. In so far as those prospects may be affected by the conditions of

> political instability or uncertainty in the borrowing country, those political considerations *must* be taken into consideration (Knorr 1948: 34; emphasis added).

Knorr notes that since there is no mechanical formula to extrapolate a country's political stability, the Bank's decision to lend (or not lend) is heavily guided by the decisions of its largest shareholders. Experiences of the Cold War era, particularly with regard to Poland and Yugoslavia, substantiate the point. Moreover, in its fund-raising activities, the Bank cannot ignore '...the political principles, moods, and prejudices of capitalist investors who are rarely indifferent to the political and economic regime of a prospective borrower' (Knorr 1948: 34-35).

Therefore, it is asserted that, '...the IBRD [and the Fund] is a creature of the governments and to the extent that all governments are political, the creature cannot but be political, though effort is made to make it an essentially economic institution' (Reddy 1985: 21).

The BWIs have often been accused of implementing similar set of policies in their member countries, irrespective of the existence of peculiarities in their socio-economic set-up. Condemning the 'one-size-fits-all' approach of the Bank, Reddy points out, 'Though the World Bank is designed basically as a market based institution drawing its resources from richer nations and their money markets, the extent of their domination is considered totally out of tune with the current realities – both political and economic, and even financial' (Reddy 1985: 37). He adds, '...some borrowers feel that the World Bank staff displays inadequate appreciation of the realities – social, political and institutional – in borrowing countries' (Reddy 1985: 36).

Even their new jointly formulated policies, such as the PRGF/PRSP, have failed to silence their critics. It is argued that the new policies are nothing more than a continuation of the traditional ideology of the BWIs, and are mere old wine in new bottle. A study conducted by the World Development Movement in 2001 noted:

> ...the policy content of the new strategies does not constitute a major change from the past. Although the rhetoric may be poverty-focused, the actual policies do not have clear poverty-reducing consequences. The strategies still focus on

> economic growth without, for the most part, addressing how this growth is redistributed to the poor. In deed, the core macro-economic elements have changed little from the old structural adjustment programmes, with continued adherence to privatization, liberalization and a reduced role for the state (in Peet 2003: 100).

It is interesting to note that among the two BWIs, the Bank has been more receptive to criticisms. The Fund, too, has tried to defend its policies and positions, but has not engaged with its critics pro-actively, as has the Bank. For example, in order to clarify its stand on a certain policy, the Fund will issue an official statement, sometimes posted on its website, which is not subject to public scrutiny, without interacting with its opponents. Or it will issue guidelines to conduct its future course of action, such as the *Guidelines on Conditionality* issued in 2002, after more than two decades of incessant demands from the critics, the last one being in 1979, without necessarily considering the alternative viewpoints. On the other hand, relatively speaking, the Bank has shown greater concern for its opponents' viewpoints and has shown greater flexibility in dealing with them. For example, in the Narmada Valley case, under intense pressure and for the first time, the Bank set-up an independent commission '...to investigate whether the institution's own rules on social and environmental impacts had been violated in approving the project' (Peet 2003: 138). The report of the review panel was highly critical of the Bank's project in the Valley, which eventually led to the Bank's withdrawal from the project. Equally important was the Bank's decision to establish a permanent independent Inspection Panel in 1993 to look into similar matters. It is argued that it was the pressure from the NGO community that pushed the Bank to set-up the Panel, which shows that actors other than the G-7 also have a leeway to influence changes in the institution's behaviour (Peet 2003: 139). However, the Bank's response to different social movements is not uniform. For example, the women's movement has not received the same attention from the Bank that the environment movement has (Williams and Goetz in O'Brien et al 2000).[123]

[123] The Bank has shown greater adaptability to the sustainable development strategy and proved that sustainable development and environmental protection are compatible, and do not challenge the Bank's dominant goal of economic growth. The Bank has also shown that sustainable development is both a desirable goal and a feasible outcome of its development policies (Williams in O'Brien et al 2000: 198).

Comparing the Fund's approach to social movements in general, with that of the Bank's, one finds that the Fund is still more of a closed agency. The Fund has sought contact with the representatives of the social movements mainly to build a broad-based consensus of the policies that it sponsors. In addition, its approach has been to counter the threat that the social movements can pose to its financial position. Though various civil society groups have been trying to influence the Fund's structural adjustment policies in order to make adjustment more humane and to balance the impact of its heavily disproportionate policies, but on the whole, social, environmental, and governance issues have remained secondary to the Fund. The primary focus of the Fund-sponsored policies has remained the promotion of neoliberal ideology, with very little empathy towards the people whom it funds for (Scholte in O'Brien et al 2000: 159-205).

Mission Creep

The varied responses of the BWIs to external pressures have resulted in different reactions by the member countries towards them. The Fund's image of an "austere" and "closed" institution has led several of its member countries to distance themselves from it. Industrialised countries distanced themselves from the Fund surveillance long ago. In recent times, the emerging market economies have also been drifting away from the Fund, 'prepaying debts to the institution, rejecting its role as a debt arbiter, building up international reserves, and above all, reforming domestic policies to lessen the risk of financial crisis and dependence on the IMF' (Kapur and Webb 2007: 582). Some of the countries that cleared their IMF debts ahead of the schedule are Thailand (2003, two years ahead of its schedule), Russian Federation (2004), $3.3 billion), Brazil (2005, $15.5 billion), Argentina (2006, $9.8 billion), and the most recent one to join is Venezuela (which has also declared to withdraw its membership from the Fund) (Kapur and Webb 2007: 582; MercoPress 2007). Many more countries are joining the race, for example, Pakistan, the third largest debt-owner to the Fund ($1.5 billion), declared to cut its dependence on the institution; Ukraine, the fourth largest debtor, has declined any further assistance; Serbia too has announced that would not increase its borrowings from the Fund (Kapur and Webb 2007: 582). It is believed that the influence of the Fund is on a decline. Not only are emerging economies pre-paying their dues to the Fund in advance,

but also the demand for its resources from other borrower countries has steeped to a historic low. In 2005, for example, only six countries had stand-by arrangements with the Fund – the lowest since 1975 (Kapur and Webb 2007: 582).

Contrasting this with the Bank, it appears that the Bank's business, if we can say so, is flourishing. Member countries are more inclined to borrow from the Bank than from the Fund. A probable reason for the countries' preference for the Bank's loans vis-à-vis the Fund's can be that no matter Bank's conditionalities outnumber those of the Fund, they are less stringent as compared to the Fund's austere policies. As seen in Chapter Two, Bank's loans are provided for a longer duration, and IDA lending is virtually seen as grants. It is also observed that Fund's financial capacity is eroding. It is '...losing its financial capacity to provide emergency funding, and its comparative advantage in human capital, acting in an advisory role. The principal reaction to this erosion of the Fund's role has been to call for IMF reform' (Kapur and Webb 2007: 581).[124]

Kapur and Webb summarise the deteriorating influence of the Fund as follows:

> In the late 1990s, the Fund appeared to be at the zenith of its influence. Its attempt in 1997 to change the articles of agreement to make capital account liberalisation a formal goal, and its subsequent role in the financial crisis that began in Asia in 1997-1998 and spread to the Russian Federation and Brazil in 1998-1999, gave the Fund an unprecedented global role. New forays such as the poverty reduction and growth facility (PRGF) drew the institution into core development issues hitherto the preserve of multilateral development banks. These initiatives, however, did not reverse the underlying trend to irrelevance of the institution, and the PRGF may have turned out to be a pyrrhic victory (Kapur and Webb 2007: 582).

They add:

> Over the last two years, respected international finance experts have stated that the IMF is rudderless and ineffective; that is suffering from an identity crisis, has waning influence and a reduced role, that it is on the brink of irrelevance; that, as a result, the world economy basically is not managed at all; that the IMF has long since lost its role as the world's central banker and lost sight of where it wants to go; suffers from a mismatch between aspirations and authority and instruments; and that no single step will restore the Fund to its prior respected position...The Fund no longer has the mystique, and its imprimatur no longer carries the weight previously associated with the institution, despite the continuing appearance of it

[124] Likewise, the Fund's surveillance function has waned. For more details on this, see Reddy (2003).

> being an all-powerful ad non-accountable institution...today the Fund faces perhaps its gravest crisis, the result not of opprobrium but of irrelevance (Kapur and Webb 2007: 581-582).

Thus, it would not be wrong to believe that in present times, the tables are turning – the Bank is emerging ahead of its hitherto superior 'twin', the IMF.

Of the two institutions, the Bank has been more comprehensively involved, in the newer areas of their concern, than the Fund. The Bank has also increased its work force, both staff and its team of experts, to match with the growing areas of operations. To this extent, critics argue that the Fund is not capable of efficiently handling the new fields of activities that it has got involved into. For example, the Fund has now begun to get deeply engaged in the democracy promotion. Critics opine that the Fund neither has the mandate nor the requisite skills to promote democracy among its member countries, an enormously challenging task (Kapur and Naím 2005: 101).

The 'over-extended' mandate of the Bank vis-à-vis the Fund has also been critically challenged. Its grazing into wider pastures is seen as bringing a lack of focus in its activities, making its core action areas more complex, diffused and difficult to manage than those of the Fund. And this is especially due to the disparate nature of the term development with which the Bank is obsessively involved: '..."development" contains a much more complex agenda than something like macroeconomic stabilization: "development" is interconnected with concerns about, for example, gender and the environment, which are exceedingly difficult to integrate into an overall framework' (Vines 1998: 69). Some critics have accused the Bank of 'slow perfectionism'. It is argued that '...although the bank is more efficient than most multilateral agencies, it can still take two years to design and get a project through the board before implementation even begins...The safeguards exist because the Bank's critics have lobbied the U.S. Congress and other legislatures to demand them. Since the bank depends on these political masters for contributions to its soft-loan kitty, it is hard-pressed to resist them' (Mallaby 2005).

Leadership Selection and Staff Recruitment Criteria

The concern for accountability of the BWIs also arises from their opaque leadership selection process. All staff of the BWIs are ultimately accountable to the respective heads of their institutions. Yet, in none of the two is there an open and transparent procedure of appointment of the heads – 'whether aimed at achieving political representation or technical excellence' (Woods 2001: 88). By an informal agreement between the founder members of the BWIs, the Managing Director of the Fund is a European citizen, its First Deputy Managing Director a US citizen, as well as the President of the Bank is from the USA (Reddy 2003: 3307). As a result, British, French and Germans believe that it is their prerogative to appoint the Managing Director of the Fund, '...with the consent of the United States but little consultation with the rest of the membership' (Buira 2007: 231). Other higher positions like those of the Bank's vice-president, principal officers, directors, division chiefs and so on, have been held by American and/or European citizens (Selassie 1984: 44). It is widely believed that, 'The Bank's President is virtually a nominee of the U.S. Government through a process of informal consultations with important member-governments' (Reddy 1985: 28). With the top posts reserved for appointees by the US and the European countries, the BWIs are rendered as undemocratic institutions. It is argued that, 'Since IMF [and Bank] operations are entirely with developing countries and transition economies, it is neocolonial to assume that only a European [or American] is capable of becoming managing director [or President]. It is also entirely implausible to suppose that there is no highly qualified developing country national who could take the position' (Buira 2007: 231).

The process of leadership selection has been questioned on several occasions in the past and in the recent times as well. One incident was during the appointment of the Managing Director of the Fund, Horst Kohler, when Germany's preferred candidate failed to gather support from other major shareholders (Kapur 2000: 44; Woods 2001: 88). Buira notes, 'The widely publicized discussions and disagreements between the U.S. and German governments leading up to the appointment of the managing director in 2000 – with a touch of black comedy, as the United States rejected the first German candidate – should

have ended all illusions about the participation of most countries in the process' (Buira 2007: 231).

Though a mere afterthought, the World Bank was largely a US creation. A strong and lasting US imprint can be found in almost all aspects of the Bank – its structure, general policy directions and forms of lending (Peet 2003: 113). The US was, and continues to be, the single largest contributor to the Bank's capital subscriptions. Following naturally then, the Bank has mainly concentrated its energies in gaining the confidence of the private investors on the Wall Street, apart from others. It has been able to garner the trust and confidence of the Wall Street by emphasising on fiscal and monetary discipline for the borrower countries (Peet 2003: 114).[125]

Likewise, the recent melodramatic exposé and resignation of Bank President Paul Wolfowitz for indulging in favouritism and misusing his powers has revealed same story.[126] Writing in the *New York Times*, Weisman emphasises a larger question at hand:

> The recent bank crisis erupted over a narrow dispute over charges of favoritism against Mr. Wolfowitz. But it exposed a larger fissure over whether the United States can retain its role of picking the bank president at a time when American contributions to the pool of grants and loans to the poorest have fallen in relation to what other countries do (Weisman 2007a).

The moot question, therefore, is: 'How can the IMF [and World Bank] praise transparency and meritocracy or decry the evils of cronyism while filling its own top slots through closed-door methods that no passably well-run private corporation (much less a democratic polity) would tolerate for an instant?' (Kapur and Naím 2005: 96).

With respect to the recruitment of the staff, the Articles of Agreement of the BWIs provide that due respect should be given to representation on as wide a geographical basis

[125] However, there have been occasions in the past when the President of the Bank has asserted the independence of the Bank and has found himself in conflict with the interests of the USA. For example, the loans were approved to member countries despite US opposition of the same (even to the extent of formally voting against it). Also some member countries have found favour with the Bank, such as, Egypt, the Philippines, Thailand and Turkey, 'to get quicker dispersal of funds and even marginally higher amounts with lesser conditionality' (Reddy 1985: 28-29). However, these examples are rare, and by and large, it is abundantly evident that the US and the Bank have formed some kind of a mutual admiration club.

[126] For details see Hull (2007); Gaoiette (2007); Weisman (2007a,b).

as possible and also technical competence and efficiency (IBRD 1989: Article V; IMF 1990: Article XII). However, in practice, a different criteria follows.

Most of the professionals recruited by the World Bank are those who have built up a reputation in their respective fields. Additionally, employment of people with political background is not uncommon. For example, a former Prime Minister of Turkey had served in the Bank, and some of the Bank staff members had, earlier, served in ministerial capacities in countries like Turkey, Panama and Uganda (Reddy 1985: 30-31).

Furthermore, in the initial years, a large part of the Bank staff was drawn from the USA and Western Europe or, more generally, from Part I countries. There was growing resentment among Part II countries that they were not adequately represented in terms of staffing – particularly at higher levels of responsibility. Gradually, greater representation was given to developing countries, including Africa. Although, India is an exception to this trend, as the proportion of representation of Indians has been going down. It is held that, '...barring cases like Japan or China, there is some correlation between the voting power and the number of staff' (Reddy 1985: 31). Corroborating this point, Buira illustrates that the IMF staff includes nationals from most of its member countries (127 out of 183), but the predilection is for nationals from industrial countries, especially for the posts of management and senior officers, and the trend is long-standing. In 1996, for example, 26 out of 31 such officials were from industrially developed countries, and in March 2001, it slightly improved to 22 out of 29 (Buira 2007: 233). Additionally, during the recruitment process, preference is given to those educated in West European and North American universities (Reddy 1985: 36). A significant assertion made by the critics is that although numerous nationals of developing countries obtaining education in northern universities, especially US universities, join the BWIs directly, yet '...they cannot be said to have brought the experience and sensibility that come from work in their own countries' (Buira 2007: 233). Additionally, recruitment of staff from northern universities such as Canada, UK and USA, brings the expected measure of homogeneity in their thought, sabotaging pragmatism and innovation, which is abundantly required in meeting crises situations facing member countries (Buira 2007: 233).

For over six decades of their existence, the BWIs have shown little sign for change. Their organizational structure has remained in tact despite incessant demands for bringing internal reforms. Their method of allocating voting power to member countries has also been under scanner.

Accountability and Decision-Making

With their growing mandates, the accountability of the BWIs has been seriously questioned. As observed before, both the institutions have expanded their mandates '...reach[ing] deep into policy-making within member governments, going well beyond the delicately respectful boundaries set out in the original Articles of Agreement' (Woods 2001: 88).[127] 'Neither the Bank nor the Fund was given an explicit mandate to enter into policy conditionality and to attempt to alter in a far-reaching way the economic structure of a member's economy' (Woods 2001: 86). But now, with the heavy stress on 'good governance', the BWIs have moved considerably beyond economic policy-making to include issues like rule of law, judicial reform, corporate governance and so on. As Woods points out:

> Yet the IMF and the World Bank were neither created nor structured to undertake or to be accountable for such far-reaching activities. They were created to deal with narrow, clearly stipulated range of technical issues. For this reason, at their birth it was decided that they should deal with member countries only through the treasury, finance ministry, central bank or like institution of a country, and that only representatives of such agencies could sit on the Boards of the institutions. This is still true today (Woods 2001: 89).

Yet, today, the work of the BWIs has expanded to an extent that they cannot confine their interactions to the finance ministers or central banks alone. Through conditionalities and other necessary prerequisites, the BWIs are making domestic actors and institutions

[127] Woods asserts that the expansion of the activities of the BWIs can be measured by comparing the number of performance criteria applied by the Fund in the past and in recent times: 'in a sample of 25 countries, there were between 6 and 10 measures in the 1980s, as contrasted with around 26 measures in the 1990s. Equally revealing, if not more so, is the way in which the numbers of programme 'objectives' being included in loans and programmes have increased, with countries now being required to undertake actions such as to mobilize, redefine, strengthen or upgrade government processes in an ever wider range of areas' (Woods 2001: 88-89). Similar increase in the number of conditionalities is also noted in Chapter Two.

accountable to their citizens for policies which are imported and in whose design they have very little say (Woods 2001: 89).

As mentioned in Chapter Two, the BWIs have a weighted voting system and the voting power of the member countries in the BWIs is conferred in proportion to their contributions or quotas in the institutions. Quotas are calculated from a set of five formulas: GDP at current market prices; reserves; current payments; current receipts; and variability of current receipts (Reddy 2003: 3312). These formulae are challenged in terms of their accuracy in calculations. It is a worrisome fact that even after more than sixty years, the BWIs are continuing the use of the original formula for determining the quotas of their members, except with minor modifications. It is held that, 'The real problem with quotas and voting power, however, is that they were created to govern institutions with very different world roles from those played by the IMF and the World Bank today' (Woods 2001: 85). When six decades ago, the voting formula was designed, member countries were both contributors and borrowers, except for the USA. 'Hence 'shareholding members' were also 'stakeholders' in the work of the institution' (Woods 2001: 86). However, the world financial system has undergone several changes, both intellectual and actual, in these six decades – collapse of the Bretton Woods system in the 1970s, oil crises of 1970s, debt crises of 1980s, focus on poverty and development – all of which have affected the working of BWIs in significant ways. More significantly, the membership of the BWIs almost trebled in the post-decolonisation phase with African and Asian countries relying on these institutions for resources. Despite these crucial changes within and outside the BWIs, its decision-making structure has been left almost untouched.

It is extremely important to note that the Articles of Agreement of the BWIs provide them the means to update the process of allocation of quotas (in Fund) and shares (in Bank). The Fund's Articles provide that the quotas have to be periodically reviewed by the Board of Governors after a gap of five years, and if deemed necessary, should also be adjusted (IMF 1990: Article III, Section 2). Likewise, in the Bank, the decision to increase or decrease the capital stock lies with its Board of Governors (IBRD 1989:

Article V, Section 2(b)(ii)). Yet, despite the provision of a constitutional mechanism to reform the institutions in accordance with the needs of the time, the two have not made appropriate use of it. As we shall see, the developed countries have used their larger voting power vis-à-vis the developing countries to either block such major decisions or to favour those countries with whom they have, or are likely to have, strategic partnership.

As observed in Chapter One, the estimation of quotas was done on political basis than as much on the economic. During the first oil shock in the early 1970s, the oil producing countries, particularly in the Middle East, were able to generate substantial surplus. As their economic strength grew in terms of their increased share in international trade, these countries started pressing for greater voice in the working of the BWIs. Their demand arose also because they were in a position to lend to the Fund and the Bank the surpluses that they accumulated. The importance of these countries had increased by the late seventies in the midst of the second oil shock, and with their continued pressure, their voice in the Board was increased through a process of allocation of additional shares (Reddy 1985: 22). Similarly, in early 1980s, the BWIs continued to lend to the Democratic Republic of Congo despite indications that the funds were not being used for the intended purposes (Reddy 2003: 3307). Occasionally, technically questionable programmes of the BWIs have been approved for countries whose interests are aligned with those of the bigger shareholders, as "special cases". Countries like Mexico, the Republic of Korea and Thailand have received exceptional support from the IMF decided '...on an ad hoc, discretionary basis by major industrial countries outside the framework of IMF policies. Of course, such arrangements are unlikely to comply with the principles of equality of treatment for all members' (Buira 2007: 234).

Today, in the IMF, it is noted that smaller countries have greater voting power than some of the larger countries. For example, Belgium, with a Gross National Income (GNI) of $252 billion, and the Netherlands, with GNI of $400 billion, enjoy a voting share of 2.15 per cent and 2.41 per cent respectively. While, India, with GNI of $471 billion has voting strength of mere 1.95 per cent. Thus, their economic strength is not compatible with their

voting strength. But this is so by virtue of the large trade size and enormous foreign reserves the smaller countries possess (Reddy 2003: 3307; Buira 2007: 228).

Likewise, the Ninth General Review of Quotas of November 1992 notes that Germany and Japan were assigned the same quota, second after the US, despite Japan's economy being twice the size of Germany's. Similarly, France and the UK were assigned third largest quotas, even though the size of Italy's economy was greater than that of the UK. Likewise, the Fund approved China's request to increase its quota (after the resumption of Chinese sovereignty over Hong Kong) and made it equal to Canada's quota, although China's economy is larger than Canada's whether measured in terms of purchasing power parity or market exchange rates (Buira 2007: 230).

Presently, more than four-fifths of the Fund's membership comprises of developing countries, yet despite the growing numbers and changing nature of its members, the quotas and overall vote share of the developing countries in the Fund stands at 37.5 and 40 per cent respectively. In a striking contrast, the USA, the world's largest economy (worth approximately $11 trillion per year), and the Fund's largest stakeholder, has a vote share of a little over 17 per cent. Japan's share of total votes is 6.16 per cent, Germany's 6.02 per cent, France and the UK 4.97 per cent each. When combined with the US vote share, the total is 39 per cent. If the vote shares of countries like Belgium, Canada, Netherlands, Denmark, Italy and Switzerland are added to this combined percentage, it amounts to more than 60 per cent. This practically implies that 18 subjects which require 85 per cent of the total votes can be vetoed by one member country alone; and voting on other 21 matters that require 70 per cent majority can be collectively vetoed by the five countries with the largest voting strength (Reddy 2003: 3307; Kapur and Naím 2005: 92).[128]

[128] Additionally, it is noted that the proportion of the basic votes to the total votes has diminished from its highest of 14 per cent in 1955 to three per cent in both the Fund and the Bank (Woods 2001: 87). Although inflation and economic growth have led to an increase in the number of quotas in subsequent times, but this has not been followed with corresponding increase in the basic votes. For example, in the Fund, the ratio of the basic votes to the total votes has declined from 12.4 per cent of the voting power in 1944 to 2.1 per cent in the present scenario, despite 135 new member countries joining the Fund in this period. (Buira 2007: 226-227).

Special majorities have been used calculatively by the largest shareholders in the BWIs to block decisions on matters such as, increases in the size of the IMF or quota increases and SDR allocations and the like.[129] It is held that special majority tends to inhibit even the discussion of vital and contentious issues. Since the voting system in the BWIs is already according to their relative weight in the world economy, the developing countries, for long, have argued for the abolition of special majority system of voting (Buira 2007: 230-231).[130]

Other important political nuances in the institutions' structure are that for nearly three decades, the developed countries have ceased to borrow from the Fund, and even less from the Bank, which has led to a tendency for the creditors' viewpoint dominating the BWIs' decision-making process. Member countries like India, Mexico, Poland and South Korea, which are borrowers as well as creditors, are very few. This has led to sharp divergences of viewpoints between these two groups in the functioning of the BWIs and has clearly brought out the distinction between lenders and borrowers in the Boards of Directors (Reddy 1985: 24; Khatkhate 2002: 4628; Reddy 2003: 3311-3312) or what Buira terms as 'industrial country creditors' and 'developing countries debtors' (Buira 2007: 229). It is also observed that since in the last two decades the Fund has lent mainly to the developing countries, the creditor countries have deliberately cut on their lending and have made conditionalities more stringent (Buira 2007: 229, 234).

[129] There are 13 categories of decisions made by the Board of Governors, not delegated to the Executive Board, which requires 85 per cent of the total voting power to be approved. These categories include adjustment of quotas, allocation or cancellation of SDRs, creation of the Council, and size of the Executive Board. Other than these, there are 40 categories of decisions which can be taken by the Executive Board, requiring special majority voting. Out of these, 16 categories of decisions require 85 per cent majority, such as in matters of obligatory periods of repurchase, valuation of SDRs, sale of gold, etc.; while the rest require 70 per cent majority, which includes determination of rates of charge, increase in percentage of quota for remuneration, determination of SDR interest rate, suspension or reinstatement of voting rights, etc. Therefore, major decisions can blocked with 15.1 per cent of voting strength, while other decisions can be blocked with 30.1 per cent voting strength (Reddy 2003: 3314).

[130] Moreover, in the IMF, the administrative expenditure is incurred on four broad categories of activities: multilateral and bilateral surveillance; use of IMF resources; technical assistance; and research. While the expenditure relating to the use of IMF resources by way of providing financial support to the borrower countries constitutes only 35 per cent of the institution's total budget; the other 65 per cent is for activities that benefit all the member countries. However, the borrower countries not only pay for the costs of borrowing but also for all other charges associated with the Fund's activities, despite that the other members are also benefited (Reddy 1985: 36; Reddy 2003: 3309).

Currently, the European countries (including the Russian Federation), amount to ten out of 24 seats on the Fund's Board of Directors. China, India, Japan and other East Asian countries account for only 16 per cent of the total vote share and five seats in the Board (Kapur and Webb 2007: 586). It is clear to see the link between flawed representation systems in the Boards of Executive Directors of the BWIs and their lack of accountability to member countries. As noted in Chapter One, the Board of Executive Directors, which is the vital link between the countries (and its citizens) and the IMF and the Bank, comprises of directly represented members from only a few largest economies namely, the USA, China, France, Germany, Japan, Russia, Saudi Arabia and the United Kingdom. All other member countries are grouped into constituencies which then elect the remaining Executive Directors for a two-year term. This clearly holds that the BWIs lack an effective system of representing majority of their member countries, which are deprived of having any role in the formal deliberations and decision-making processes of the BWIs. It is pointed out that, '...the 21 anglophone African members of the IMF, at least 11 of which have an 'intensive care' relationship with the institution and all of which are deeply affected by its work, are represented by just one Executive Director and have a voting share of 4.07 per cent' (Woods 2001: 85). Adding insult to injury, the developing countries are not able to influence the BWIs even at the informal processes of consultations and decision-making.[131] As noted above, 24 industrially developed countries are represented by 10-11 Executive Directors in each of the BWIs even though they do not have any BWI-supported programme in their country, whereas 42 African countries are represented by only two Executive Directors, that too, for a short span of two years. Thus, the Executive Boards of the BWIs are also represented by those Executive Directors who are representing 20 countries or more, in the process, making it impossible to adequately address the issues at stake (Buira 2007: 233).[132]

[131] At the same time, it is also realised that the Executive Directors from developing countries are handicapped by lack of common interests. '...[T]he type of economies and the interests of Latin America (middle income, thickly populated), Africa (low income and highly vulnerable) and South Asia (poorest and populous) are so divergent that, when we move from generalities to specifics, agreement among them becomes difficult. While there are differences among Part I countries, they are not of the same magnitude, since their economies and social structures have much more in common' (Reddy 1985: 35).

[132] Given their limited voting power, developing countries are compelled to form sub-groups with other countries to gather required number of votes to elect their Executive Director to the Board, often sharing

Although Part II countries would prefer to abolish the weighted voting system of the BWIs, '...but financial considerations are adduced to thwart this idea' (Reddy 1985: 35). Time and again, developing countries have vehemently argued for broader representation on the Board of Directors. The developing countries have vociferously pressed for their demand not only within the institutional framework of the BWIs, but even through other alternative channels: '...developing countries were not content to press their demand for decision-making participation on this matter only within the institutional confines of the IMF. In fact, one can say that the extra-institutional campaign was even more intensive, because it was pursued under the auspices of the newly-formed Group of 77 and with the strong technical and political support of the also newly-created UNCTAD' (Ferguson 1988: 86).

Additionally, a variety of other actors – governmental and private -- have now nearly replaced the monopoly of the BWIs in interpreting and enforcing rules of global financial governance. The importance of ad hoc non-treaty intergovernmental groupings like G-7, G-10 and G-20 is steadily growing, which are easily setting the agenda of the BWIs and have become 'rule-ratification institutions'. This trend is prevalent since the first meeting of the G-7 in Rambouillet in 1975, where proposals relating to international monetary reforms were agreed upon, till recent issues of debt reduction to HIPC countries (Reddy 2003: 3307). 'Intergovernmental organizations like the IMF, World Bank, International Finance Corporation and Bank for International Settlements make some rules but more importantly, serve as transmission and enforcement mechanisms for rules developed elsewhere' (Kapur and Webb 2007: 583). Private actors, too, have developed greater authority in formulating rules on global financial stability by easily surpassing the BWIs. Some of these are: International Federation of Accountants, Inter-Agency Standing Committee (IASC), International Organizations of Securities Commissions (IOSCO) and

the position on a rotational basis. This leads to two serious disadvantages: one, the newly appointed Directors take time to familiarise themselves with the nitty-gritty of the working style of their respective institution, and two, their temporary tenure of two years gives them a weak leverage *vis-à-vis* their permanent staff, often leading to managerial problems (Buira 2007: 232-233).

International Association of Insurance Supervisors, the last two being groupings of national regulatory institutions (Kapur and Webb 2007: 583).

Kapur and Naim observe that, 'Crises always tend to direct more decision-making power to the center.' This implies that just as in most of the borrowing countries, power centralises with the finance ministry and central bank; in the Fund and the Bank too, it rests with a small group of G-7 countries, especially the US and also the European countries and Japan, and the creditors, mainly the banks and large bondholding financial institutions. Furthermore, in weak resource-deficit post-conflict countries such as Afghanistan, East Timor and Mozambique, the BWIs face negligible checks on their activities (Kapur and Naím 2005: 92). With respect to the concentration of decision-making authority in the Fund, they hold:

> The Fund's strength vis-à-vis borrowing members (especially low-income countries) mask its own weakness in the global system and is symptomatic of a more general problem: the weakness of multilateral decision-making mechanisms to deal with even the most pressing global issues. At times of financial crisis, for instance, it is not the IMF but the U.S. Treasury Department whose decisions matter most. And if such crises not only continue but even get worse, as former U.S. treasury secretary Robert Rubin predicts they will, the IMF's lack of capacity (a result of shortsightedness among its major shareholders) may force the Fund to meet the next crisis by saddling borrower countries with massive adjustment burdens that are almost certain to harm democratic governance (Kapur and Naím 2005: 98-99).

Furthermore, it is held that the structure of the BWIs allows for decision-making by the Boards of Executive Directors through private informal meetings. Several scholars have commented on this institutional lacuna: 'Regarding the decisions to be taken by the Board of Governors, the matter is invariably processed in advance by the Board of Directors and as such voting in the Board of Governors is a mere formality' (Reddy 1985: 34). In the same vein, Woods states, '...many decisions [in the Executive Boards] are taken – or agreement reached on them – prior to Board meetings. As reports on both the Fund and the Bank aver, real debates over policy and issues are conducted outside the Board' (Woods 2001: 87). Montek Singh Ahluwalia, head of IMF's Office of Independent Evaluation, remarked in November 2003, that the Fund's decisions seem to come from a "black box" (in Kapur and Naím 2005: 95). As seen in Chapter One, the

negotiations at the Bretton Woods Conference, too, were held in private meetings. The trend persists even now. It is also alleged that the BWIs fail to, or rather neglect to, elaborate on the specific reasons for adopting or not adopting certain policies and programmes. 'The upshot is greater leeway for intervention by major shareholders, leading the Fund to a forced optimism in programme design, in turn adversely affecting the quality (and effectiveness) of its programs' (Kapur and Naím 2005: 95). It is observed that the BWIs have taken recourse to "consultative cross conditionality" which implies that 'Consultations between the Bank and Fund generally occur at the staff level, between regional directors, between the Bank's senior vice president for operations and the Fund's deputy managing director, or between the Bank's president and the Fund's managing director' (Feinberg 1988: 553-554). These "consultations" have tied the two institutions' decisionmaking tightly together without resorting to formal vetoes, votes, or written memoranda. This informal mechanism of taking joint decisions has proved detrimental to the interests of the majority of the developing countries, which are deprived of participating in the formal and informal discussions on vital matters.

There are several such issues of accountability which have been meted out with half-hearted responses by the BWIs, and have led to a barrage of criticisms of all sorts. For example, in 1994, marking the fiftieth anniversary of the BWIs, NGOs from all across Washington hollered slogans of 'Fifty Years Is Enough' condemning the scale of damage committed by the BWIs through their policies in the borrowing countries. They now are a coalition of over 200 US NGOs dedicated to 'a profound transformation' of the World Bank and the Fund.

However, it would be unfair to conclude that the BWIs have turned a blind eye to these criticisms. In measured language, it can be said that reasonable attempts have been made by the BWIs to ensure greater transparency and generate more accountability within the institutions.

Toward Reform

Modest Responses for Change

To the endless criticisms that the BWIs have faced, they have responded, apparently, independent of the other. In other instances, initiative for reforms can come only from the largest shareholders, and the institutions, as such, will have little to do.

With regard to the structural imbalances pertaining to the decision-making procedure and allocation of quotas to the member countries, it can be said that the issue is purely political, and any measure towards its change will come not from the BWIs themselves, but from the largest shareholders. Even though a provision exists to increase the quotas periodically, it is the largest shareholders that have the clout to determine an increase in the share of quotas of the member countries, thereby leading to an increase in their voting strength (Kapur and Webb 2007: 586).

Yet, it can be said of the Bank, in contrast with the Fund, that its response to its growing mandate has been forthright in terms of the increase in its staff with respect to the volume of work, and its pro-active engagement with the representatives of the civil society groups, which is an acknowledgment by the Bank of their important role as shareholders in the development process (Selassie 1984: 45).

Regarding the responses of the BWIs to demands for greater transparency and accountability, which is another important ingredient of internal reform, the two have offered varied solutions. Woods terms these as 'vertical' and 'horizontal' accountability.

First and foremost, the BWIs have made tremendous use of the information revolution, particularly the internet, as a tool to make themselves more transparent. A large amount of publications on the policies adopted by the BWIs and the rationale behind them, as well as findings from their country missions is printed as well made available on their respective websites. Woods terms this as 'vertical accountability' (Woods 2001: 91). To this effect, the BWIs' response also includes insisting the member countries to allow more disclosure and publication of the policies and agreements entered upon with them,

although the countries can keep the information confidential if they so desire. Yet the measure adopted is only partial. There are still many gaps in what is publicly made available. For example, the Operations Evaluation Department (now Independent Evaluation Group), an independent unit of evaluation of the World Bank, has not made available all of its publications. Likewise, the IMF's internal review documents are also not accessible. Access to these documents is important as it '...not only adds to the external accountability of the organization, but also ensures that such reviews are taken seriously within the institutions themselves' (Woods 2001: 91). It is also believed that availability of select information can distort opinion-building process and perceptions of the experts (Woods 2001: 91).[133] It is also observed that the BWIs have held back vital information in crucial stages:

> Programmes failed times without number and yet the Fund resisted sharing information about the back-room decision-making process and the parameters of its policy-frame. Of course, there has been a continuous review of policies within the Fund, but this never went beyond settled modes of thought and remained anchored to the so-called experience of the Fund which, to borrow a phrase from the late Harry Johnson, is "one year's experience multiplied by the number of years". Nor has there been any effort by the Fund to face problems upfront in a manner that did not fall in the groove of the ossified internal thinking processes (Khatkhate 2002: 4628).

Secondly, the attitude and approach of the BWIs to the NGOs has dramatically changed in the last few decades. The Fund, which was earlier more of a conservative institution vis-à-vis the NGOs, now acknowledges their importance in terms of their inputs for policy formulation. In 1999, the US Secretary of Treasury, Lawrence Summers, emphasised the need for a changed outlook by the BWIs, especially the Fund, towards other actors operating in the same playfield:

> ...it [the Fund] should become more attuned, not just to markets, but the broad range of interests and institutions with a stake in the IMF's work. Just as the institution needs to be more permeable for information to flow out, so too must it be permeable enough to let in new thoughts - by maintaining a vigorous ongoing dialogue with civil society groups and others (in Woods 2001: 95).

[133] On the other hand, some scholars opine that while greater transparency within the BWIs is a welcome step, care must be taken as to 'what' type of information should be made public and 'when', since 'Markets in the integrated and globalised world generally overreact to new information and any panic created by adverse information can prove to be damaging due to self-fulfilling expectations...There should be a careful tradeoff between internal transparency and external transparency' (Reddy 2003: 3310).

The regional directors of the World Bank and the resident representatives of the Fund have strict instructions to develop close contacts with the non-state actors. Similarly, at the annual and spring meetings, the BWIs have been showing enthusiasm in their dealings with civil society actors. A case in point is the World Bank's NGO-World Bank Committee, established in 1982, which has come to life in the recent past (Woods 2001: 95-96).

Moving a step ahead in this direction, the BWIs have also started emphasising the significance of accountability to their member countries as well. To be sure, it is the national governments which are accountable to their citizens as well as to the global markets. Thus, the Fund and the Bank are now focusing on concepts like 'ownership', 'partnership' and 'good governance' in their lending policies so that the borrower countries should adopt means to be more transparent, thereby enhancing their own accountability as well as of the BWIs. Certain measures by which member countries can ensure transparency is by publishing agreements and similar official documents signed with the BWIs (these can include Public Information Notices or PINs and Letter of Intent or LOIs); consultation with civil society organizations (as already a prerequisite in the PRGFs and PRSPs facilities of the Fund and the Bank respectively) (Woods 2001: 91-92).[134] At the same time, it should be acknowledged that developing close relations with the NGOs will not sufficiently address the question of accountability faced by the BWIs. Moreover, the structure of the BWIs is such that they cannot act as '...an agency of forceful, far-reaching domestic reforms' (Woods 2001: 96). It is asserted that, 'They [The BWIs] are being forced for practical and political reasons to look beyond their traditional

[134] Be that as it may, it is noteworthy that the NGOs have still not been accredited as decision-making authorities (Woods 2001: 96). Even more problematic is the fact that there exist sharp inequalities of power and influence between the NGOs of the 'North' and the 'South'. While the NGOs of the developed world have more access to the BWIs and more political leverage to get across their agenda, those of the South lack such resources and skills. It is observed, 'Indeed, in such cases the position of some NGOs starts looking much stronger than that of many smaller developing countries – whose formal right to participate in decision-making is diluted by the problems of representation...' (Woods 2001: 96). There is yet another angle to this dilemma – accountability of these NGOs themselves. It is beyond the scope of this chapter to elaborate on this point, however, suffice it to say that it has become imperative, both, for the BWIs and the national governments, to enter into dialogue with civil society groups and engage them in the developmental process as important stakeholders.

and narrow points of contact with 'national authorities' (finance ministries, central banks) to the wider 'civil society'; but such relations should not divert attention from the core lack of accountability to developing country governments' (Woods 2001: 97). Another dimension to this aspect is that '...it is not always the case that the interests of those being represented are the same as the interests of those to whom the TNGO [transnational non-governmental organization] is primarily accountable (members and funders)' (Woods 2001: 99).[135]

The Bank, has been much quicker in responding to the question of 'horizontal accountability' than the Fund. In 1973, the Bank established an Operations Evaluation Department (OED) which reports to the Executive Board. The purpose for creating OED was '...[to rate] the development impact and performance of all the Bank's completed lending operations, as well as the Bank's policies and processes, and reports its findings to the Board' (Woods 2001: 92). It is now known as the Independent Evaluation Group (IEG). Since 1993, the IEG's 'Annual Review of Evaluation Results', and summaries of its evaluation reports are publicly available, as part of the Bank's disclosure policy (Woods 2001: 92). In addition, in 1993, the Executive Board of the Bank set-up an Inspection Panel. The Panel is expected to act upon complaints from any group which brings to its notice that they have suffered or are likely to get adversely affected from the Bank's project activities, and that they are not satisfied with the outcome emerging from the discussions with Bank management on the same. However, 'The Executive Board

[135] A more important consideration while attempting any close contacts with the NGOs is to ensure that the credibility of the local governments is not undermined while engaging with the local NGOs. The engagement with one should not be at the cost of the other. In 1980s and early 1990s, the NGOs were given preference over local governments, and the World Bank faced fierce criticism for this predilection, especially in its work in Africa, for it easily undermined the capacity of governments in the region (Woods 2001: 97). Thus, it is now realised that using NGOs to bypass governments will thwart the desired outcome of 'institution building' and 'state modernization' (Woods 2001: 97). Another serious danger of embracing NGOs is that it runs the risk of acknowledging them as de facto governments, '*not* on the grounds that they enhance existing mechanisms of local accountability, but rather on the grounds that they please the political sensitivities and preferences of major shareholders in the IFIs. In other words, there is a risk that a new 'Washington consensus' on the politics of participation and consultation will be forged, and that this will pay insufficient attention to the complex social and political arrangements which give life to accountability at the local level' (Woods 2001: 98).

retains the power to permit investigations to proceed, and to make final decisions based on the panel's findings and Bank management's recommendations' (Woods 2001: 93).[136]

In June 1999, the World Bank Group set-up a new Office of Compliance Adviser/Ombudsman (CAO) of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). Its establishment was preceded by consultations with shareholders, NGOs and business community 'aimed at finding a workable and constructive approach to dealing with environmental and social concerns and complaints of people directly affected by IFC and MIGA financed projects' (Woods 2001: 94). The Office of CAO is directly placed under the President of the World Bank. However, it is noted that, 'The emphasis of the office's work, however, is very much on dialogue, mediation and conciliation. Other than power to make recommendations, the CAO has no formal powers...The ombudsman is not a judge, court or policeman' (Woods 2001: 94). Therefore, in the absence of enforcement powers, the CAO is a toothless institution and ineffective means for achieving accountability. As Woods opines, 'More generally, such mechanisms cannot be seen as sufficient in and of themselves to patch up the accountability of international institutions' (Woods 2001: 95).

In the past decade, the Fund has commissioned three independent external evaluations and also published their reports. The setting up of the Independent Evaluation Office (IEO) in 2001 was perhaps the most radical and effective step taken by the Fund in the direction of greater transparency '...for a thorough investigation of the Fund's policies without being contaminated by its internal parochial and often sanctimonious culture' (Khatkhate 2002: 4628). Others also share the same view (Kapur and Naím 2005: 98).[137]

[136] Robert Wade brings out the ironical situation in which the Bank finds itself by creating the panel: '[the panel's] image of success is to find projects out of compliance...since almost any project can be found to be out of compliance if one pushes hard enough, and since there is no limit to the cases that affected groups can bring – assisted by Washington-based NGOs – the Bank is likely to be deluged with Inspection Panel investigations' (in Woods 2001: 93). A crucial therefore is: 'how widely or narrowly 'accountability' should be defined, and what kind of breach should trigger an enforcement action' (Woods 2001: 93-94).

[137] Detailed analysis of the first report brought out by the IEO in 2002 on the causes of prolonged use of the Fund's resources by borrowing countries can be found in Khatkhate (2002: 4628-4631).

In 1997, the Executive Board of the Fund approved the Guidance Note on governance. Transparency and accountability enhancement have come to occupy center stage in Fund's approach towards its member countries.

With respect to coordination between the BWIs, the joint Annual Meetings provide an important platform for sharing their important concerns and information on common matters. The Board of Governors of both the institutions meet once a year, usually in September-October, to discuss matters of vitality. The Annual Meetings are chaired by one Governor each from the Fund and the Bank. 'In recent years, the Annual Meetings have been preceded by meetings of the International Monetary and Financial Committee [IMFC], the Development Committee, the Group of Ten, the Group of Twenty-Four, and various other groups of members' (IMF 2005). These are referred to as Spring Meetings. At the conclusion of their meetings, the IMFC, the Development Committee, and several other groups, issue communiqués. These Annual Meetings provide a significant mechanism for the Boards to make joint decisions on how to address current international monetary issues and approve corresponding resolutions. The main thrust of these meetings is that it provides an essential opportunity for representatives of all member countries for consultations on a variety of relevant themes. Alongside the meetings, numerous seminars are held by the staff of the BWIs '...to foster creative dialogue among the private sector, government delegates and senior Bank and Fund officials' (IMF 2005). Thus, the Annual Meetings jointly held by the BWIs is one of their few institutional assets of enhancing inter-organizational cooperation.

Wide Ranging Suggestions

It is acknowledged that the Bretton Woods Institutions were not born as perfect international institutions. Flaws were inherent in their birth, whether it was with respect to their roles or organizational structure. Suggestions for reforming the BWIs are many, ranging from closing down the institutions to merging the BWIs in a single agency to making them more representative by giving more voice to the developing countries and reforming the quota system; here, we shall take up a few pertinent ones.

While it is seen that the BWIs have taken steps towards greater transparency, Former French premier, Lionel Jospin, suggests a further simple measure in this direction, which is, publishing the minutes of the meetings of the Board of Executive Directors promptly after each meeting (in Kapur and Naím 2005: 96).

Reddy suggests that in order to make the budget contribution system more equitable, there should be two rates of charges -- 'a general rate of charge to be paid by all member countries which would be earmarked for expenses related to the 'public good' character of the IMF and an additional lending rate of charge which would be paid only by borrowing countries and would be appropriated towards the expenses relating to the use of Fund resources. Such an approach will additionally resolve the issue of neutral position members not bearing any burden of the IMF's expenses' (Reddy 2003: 3309).

On the question of opaque selection process of the leadership in the BWIs, Buira suggests that candidates for the top notch positions, especially those for the Fund Managing Director and Bank President, should state what their policies would be and how they would guide the institutions to attain their purposes (Buira 2007: 231). At the same time, it is widely established that although committees to look into the matters of appointment procedures have been established by both the Fund and the Bank, yet unless the United States and European countries are willing to renounce their respective privileges with regard to the selection of leadership in the institutions, change in their recruitment procedure is unlikely to happen (Woods 2001: 88).

Writing in the late 1980s, Feinberg proposed suggestions for better Fund-Bank relations. Some of these are valid even today. For instance, he proposes that the two institutions should adopt consistent models of research to avoid divergent results. Contradictory and confusing advice to member countries should be reconciled through consensus between the staff of the two institutions. Policy advice should include the consent of the country as well. However, he avers, when consensus is not reachable, each institution should make their points of argument and underlying assumptions clear to the member country. 'Bank and Fund management ought not to enforce an artificial uniformity of views on country

economists' (Feinberg 1988: 553). In addition, the BWIs, especially the Bank, should cut down on the conditionalities focusing on select variables. Another relevant suggestion is to separate the criteria of ineligibility of the member countries to access loans from the BWIs. The proposal holds more truth for the Bank. 'Rather than reflexively lining behind the Fund to pressure a member declared Fund-ineligible, the Bank should attempt to maintain a policy dialogue that helps reintegrate a country in the Bretton Woods system' (Feinberg 1988: 559). Likewise, the Bank decisions on whether to finance a project or not should not be tied automatically to Fund programmes or to the general creditworthiness criteria (Feinberg 1988: 560).

It has been argued by critics of all sorts – government officials, academia, and civil society organizations – that the only way to get out of the plight of the poor countries is to abandon the institutions altogether which have caused enormous harm, or to merge them into a single agency due to an excessive overlap in their roles thereby, preventing the waste of international resources. However, the difficulty in merging the two institutions is that it would imply re-writing of new Articles of Agreement (Krueger 1998: 2015). In such a scenario, the stakes involved will be too high, especially for the powerful countries as well as the emerging economies. A bargain of power in such a situation seems a daunting task.

Thus, a merger of these two institutions also seems to be an unsuitable option as both continue to provide, and have scope for providing, different functions. This point was seriously noted by the Bretton Woods Commission, set up in 1994, headed by Paul Volcker. It rejected the idea of a single unified IFI on the grounds that '...the short-term macroeconomic issues with which the Fund deals are distinctly different from the project lending and macroeconomic character of the Bank's focus' (Krueger 1998: 2015).

A more practical analysis of the significance of the BWIs will lead us to believe that although the leverage of managing the international system is with the G-7, and there is asymmetry in the relationship between the lenders and borrowers within the BWIs, yet their demand for discarding the BWIs will not bring them any good. The borrowing

countries will be at a more disadvantageous position, as they will not be able to replace the BWIs with any better alternative. Khatkhate writes:

> If the Fund were not the lender, they [borrowing countries] would have gone for resources to the same rich industrial countries whom they chastise for their dominant voice in the Fund's policies. Bilateral borrowing is hardly a blessing and is perhaps a worse option than borrowing from the Fund with all its supposedly pernicious conditionalities. Besides, countries in distress would have to approach a multiplicity of creditor countries which would involve cross-conditionality. This clearly shows that the clamour for abolition of the Fund by the developing countries is empty rhetoric which will not stand a reality check. From the developing countries' point of view therefore the Fund has a legitimacy and if it has failed – and there is some truth in that charge – it must be made to succeed (Khatkhate 2002: 4628).

Other scholars also share the view and assert that bilateral assistance comes with strings attached which may not have any bearing on the resolution of the crises (Buira 2007: 235). 'With resources of over $280 billion and an expanded mandate, the IMF is probably today the most powerful of all international institutions' (Buira 2007: 226). Answering to the critics who demand that the Fund should withdraw its involvement from the developing countries, it is argued that this would not yield the desired results as the problems of financing and adjustment would still remain. Instead, ways should be found to make the Fund an effective institution (Bird 1996: 503).

Then, what should the Fund focus on? In other words, what should be the future roles of the IMF and the Bank? As one eminent scholar and practitioner notes, the Fund still fills two roles: 'The first role pertains to individual "crises" of countries outside the G-7, where private capital flows are not a major factor in these countries' difficulties. The second, and more controversial role, has to do with "crisis" management when large private capital flows are taking place' (Krueger 1998: 2010). Apparently, then, the Fund's chief functions should center around its first mandate, i.e. addressing short-term temporary concerns of its members facing balance of payments crises. Also the Fund has a role in a long-term involvement in the developing countries because the nature of problems faced by these countries demand a longer term solution. In this context, it is advisable to interpret the word "temporary" as nonpermanent rather than short-term (Bird 1996: 483).

Some have argued that if the Bank were to continue with project lending, it will mainly suit the low-income countries and will have to be in the infrastructural and social sectors. If it were to refocus on development, then its clients will be mainly the very poor countries and emerging market economies (Feinberg 1988: 560; Krueger 1998: 2007-2008). It is held that, '...its experience with development project lending and with support for sectoral and structural policy reforms would enable it to play a major role in the international economy' (Krueger 1998: 2009). For middle-income countries, the Bank's future role can be perceived as continuation of the form of its present engagement in issues such as labour standards, women's rights, health, environmental protection and the like, where the private market and the local governments are not able to spend adequate resources. Furthermore, it is averred that the Bank can play a leading role as a 'conveyor belt of ideas about development policy to the borrowing countries' (Gavin and Rodrik 1995: 332). Having said that, there is a growing concern about the Bank's capability to carry out this extended mandate. It can be said that, 'On balance, the case for the Bank refocusing on development, and shifting its efforts toward its more traditional competencies in that area for poorer countries, seems very strong' (Krueger 1998: 2010).

While making a point for rolling back the mandate of the Fund from newer fields like anti-poverty measures (PRGF facility, for instance), it has been argued that this area should be left for the Bank, 'which would also gain a focus in the process' (in Khatkhate 2002: 4632). It is also noted that the Fund's surveillance function has waned of late. Its surveillance reports have lacked the candor in documenting situations in borrower countries. This gives the Fund enough reason to be involved with the World Bank's Parliamentary Network, 'a group whose goal is to bring legislators into more contact with officials of the Bretton Woods institutions' (Kapur and Naím 2005: 97).

It can be said almost surely that the chances of shutting down the two institutions or their merger appear bleak, at least in the near future. The focus of attention of the policy-makers, within and outside the BWIs, should then be to find ways of making them more transparent, accountable, and efficient, and to speed up the internal reform process. The

two most talked about and interlinked reforms in the decision-making structure of the BWIs are to increase the share of quotas of the developing countries and thereby, to increase the voting share. Former Chilean Finance Minister, Manuel Marfan, noted that guaranteeing special safeguards to minority shareholders is a common feature of private sector governance. Taking cue from this, he suggested that in IMF too, more systematic attention should be given to the weaker borrower countries, irrespective of the increase in the number or sharing of Board seats (Kapur and Naím 2005: 96).

In order to make the decision-making bodies in the BWIs more representational, some have suggested that the Executive Board should be restructured in such a way that an increase in the number of Directors from the developing countries should be accompanied with an equal reduction in the number of Directors from Europe. However, some argue that despite the US's move of exerting pressure on European countries to reduce their vote share, it is less likely that this will substantially address the structural imbalance within the Fund (Kapur and Webb 2007: 586).

Presently, Europe holds the maximum number of chairs in the Boards of the BWIs (eight in the Fund), and more importantly, 12 European countries are members of the European Monetary Union implying some kind of unity amongst them, and hence, can be represented by one Director, and the other European countries can be represented by two or three Directors (Buira 2007: 236). A significant point of consideration is that an Executive Director should not be allowed to represent more than say, 12-15 countries in order to enable them to give adequate attention to the needs and interests of the countries they represent and justify their roles as their true representatives. At the same time, it should be noted that providing increased voice at the Board for developing countries is not an adequate measure by itself. It should be supplemented by other reforms, most important being revising the formulae for calculating quotas and restoring the basic votes to their original function (Buira 2007: 237-238).

Other scholars hold a different opinion on the integration of the developing countries in the decision-making structure of the BWIs. They assert that rather than being obsessed

with the demand for increased participation in the decision-making process in IMF, the developing countries should instead focus more attention to alternate multilateral forum such as the Inter-Agency Standing Committee (IASC) and the International Organizations of Securities Commissions (IOSCO) (2007: 584). It is held that, 'Developing countries have been so singularly focused on the IMF's governance and distribution of quotas that hey have neglected alternatives that are both more achievable as well as potentially more important...they need to redirect their energies to engage the large number of financial institutional arrangements that are emerging both regionally and globally...Developing countries need to think of more options rather than be obsessed with the failings (real or imagined) of the Bretton Woods Institutions' (Kapur and Webb 2007: 587).[138]

However, it is to be argued that if there are better options available outside the BWIs, then do we need the BWIs in the first place? As seen above, the need for BWIs is still pertinent, though not in a distorted form, and hence, the question of their internal reforms becomes a compulsory one. While acknowledging that a way out of the ever-increasing tasks which the BWIs, especially the Fund, have attributed to themselves is through delegating their tasks to other international and/or regional financial organizations, which nevertheless have assumed greater authority in global financial system, it must also be borne in mind that such a measure would encourage a fierce race among international organizations for the scare international resources (Kapur and Naím 2005: 100).

It can be said that ultimately, it is the largest shareholders of the BWIs which will have a determining influence on any attempt to bring serious reforms in their organizational structure. Unless major shareholders are ready to part with their privileges and acknowledge the growing importance of other countries, especially from the developing world, the reform process will be a distant cry. On their part, any changes made by the

[138] Kapur and Webb cite an example: '...India was so fixated on the negotiations on IMF quotas in 2006 that it was caught napping during the negotiations on the ACU, even though these were announced on sidelines of the annual meetings of the ADB held in India.' Additionally, the authors argue that resort to non-Fund alternatives is also motivated by the high costs attached to accessing Fund resources, largely due to the Fund's very high administrative budget. Thus, the developing countries can do much more by demanding drastic cuts in the Fund's administrative budget, which can then result in lowering the cost of borrowing (Kapur and Webb 2007: 587, 589).

BWIs towards increasing their accountability, will remain superficial, unless they are made truly representational and democratic. In the absence of such a system, the borrower countries will continue to face the brunt of the ill-formulated policies of the BWIs; '...whether the failure of programme is due to faulty implementation by authorities or due to faulty programme design, the burden of cost is entirely borne by the member country' (Reddy 2003: 3310). Despite several areas of disagreements, the BWIs hold immense potential of jointly coordinating their tasks and increasing their accountability.

Summary Observations

The policy-related and institutional gaps in the BWIs system are many. While there has been no measure taken to change the theoretical foundations of the BWIs, efforts have been made to reply to some of the demands for organizational challenges. The hitherto Bretton Woods 'twins' have carved their niche in the international monetary and financial system, and have their own set of disagreements with each other. Both have responded to external criticisms and demands for change in their own style. While the Bank has been has been more receptive to such pressures, the Fund has been more lukewarm in its approach.

Even in the measures that they have adopted to increase their accountability to their member countries, it is realised that there are limits to the accountability of the BWIs, especially in the context of the growing mandate of the institutions by which several categories of people are directly being affected by their policies and are rightfully claiming a stake in the institutions' decision-making processes, which raises a more critical issue of 'how far-reaching the activities of relatively unaccountable agencies should be' (Woods 2001: 100). To this, Robert Dahl provides an answer, 'Their activities should be limited to those for which they can claim to be effectively accountable' (in Woods 2001: 100).

Conclusion

CHAPTER V

CONCLUSION

From the discussion and analysis in the preceding chapters, one may discern important aspects of roles of the International Monetary Fund (IMF) and the World Bank (Bank). In certain vital ways these roles are underpinned by complementarity in their mutual relationships in terms of ideological inspirations, aims and activities, membership criteria, quotas, structures and their powers, decision-making procedures, staffing, policies, and so forth. At the same time, what emerges equally significantly is dissimilarity or even divergence in their approaches, capacities to evolve or adopt, leadership styles, and the like, often defying the expectations of the founders of these organizations.

Contrary to the general perception that the two Bretton Woods sisters -- the International Monetary Fund and the World Bank -- wield equal power in controlling world economic relationships, yet, it remains a historically documented fact that at the founding conference in Bretton Woods, the Bank was an after-thought, conceived to merely supplement the role of the Fund. The founder's conception of the Bank as a mere non-decrepit entity dependent on the IMF is clearly evident in the text of the Bank's Articles of Agreement, which is, in its core, a xerox version of the Fund's Articles of Agreement. Whatever may be the reasoning, the fact that the membership of the Fund was made a precondition for entry into the Bank tends to underline the primacy (if not superiority) of the former over the latter. The prime concern of the founders, presumably, was to ensure that no scope exists in the institutional framework to pave willingly for a climate of rivalry or even competition between the two organizations. That is why bondings between the two siblings are more striking than is the case otherwise. Notable among them are economic liberalism as the common ideology and the economic preponderance of the United States which has put that country in a position of unchallenged leadership. Both these factors worked together to definitively shape, steer and even stifle, in the eyes of the critics, the functioning of the Bretton Woods twins.

The belief in the 'invisible hand' of the market and the capitalist ideas embodied in the liberal thoughts of Adam Smith formed the bedrock principles of the BWIs. Neoliberalism as a reformulation of the principles of classical liberal thinking stresses on the importance of privatisation of the public sector, deregulation of the private enterprises, and liberalisation of trade in order to achieve structural reforms in the economy of the debtor countries. After the end of the Cold War, and subsequent victory of liberalism as the unchallenged ideology, John Williamson, in 1990, coined the term "Washington Consensus" to imply a set of market-oriented policies and reforms, mainly to help Latin America move out of its debt crises. The Washington Consensus helped in providing an economic policy framework that was desperately needed to fill the vacuum in the economic discourse after the central planning and import-substitution industrialisation strategies were discredited. It would not be wrong to assert that in contemporary times, more than the historical underpinnings, it is their ideology that has bound the BWIs together.

There have been a few other crucial areas like lending where the Fund and the Bank have shown considerable mutual understanding and have cooperated with each other in pursuing common objectives. In the 1990s, the Fund started emphasising on the importance of increasing economic growth and made it its chief concern, which was until previously the exclusive concern of the Bank. Likewise, in late 1990s, the Fund's adoption of Poverty Reduction Growth Facility (PRGF) aimed at providing loans to its poorest member countries at lowest rates of interests. However, to be sure, in this case too, it was the Bank that followed suit and introduced its own version of PRGF, though with similar contents, known as Poverty Reduction Strategy Papers (PRSPs). Although the Fund and the Bank were entrusted with specific but separate areas for lending to the needy member countries, the distinction of reserving policy-oriented lending to the IMF and project lending to the Bank diminished over time. Their lending approaches and policies showed strikingly similar features. For example, the Extended Fund Facility (EFF) adopted by the Fund in 1976, had the characteristics similar to the IDA lending, and the Bank began its forays into structural adjustment loans (SALs) and sectoral

adjustment loans (SECALs) in 1980s. Moreover, the developments in the international financial system led the BWIs to cater to the same category of clients.

Additionally, a cardinal area of cooperation between the 'twins' has been that of cross-conditionality. Here too, it was traditionally practiced mainly in one direction - from the Fund to the Bank. Many-a-times, clearance of the Bank's structural and sectoral adjustment loans was made conditional upon the borrower country's accord with the Fund. On the other hand, generally speaking, the Fund's standby arrangements have not been dependent on the Bank's policies.

By and large, the Bank has shown greater acceptance of guidance offered by the Fund and has adopted policies and measures similar to that of the Fund than is the case otherwise. For example, corresponding to the Fund's Interim Committee, the Bank, too, set-up a Development Committee in 1974.

This is not to imply that the Fund-Bank relationship is always characteristic of a 'superior-subordinate' status. At several instances, the Bank has categorically expressed its disliking for the Fund and its policies, and in recent times, the Bank has assumed an image and obtained a status at par with, if not more than, the Fund. As seen above, initially, the Bank's lending operations were made contingent on the policies adopted by the Fund; but gradually, the Bank started providing loans independent of the guidance of the Fund.

The distinctiveness is also because of significant differences in their organizational cultures which they have evolved over the last six decades and more. For example, the Bank staff has more personalised relations with its presidents and directors than the Fund. Additionally, despite regular expansion of recruits, the size of the Fund staff is relatively much less than that of the bulky Bank. Moreover, significant dissimilarities can also be found in the decision-making structure of the two organizations. The decision-making procedure in the Bank is apparently cumbersome than the more disciplined process followed by the Fund. Not only this, there have erupted serious divergences in the views

of the two institutions as proved by the findings of their individual staff reports showing fundamentally opposite views on vital common policy areas as well as on the question of coordination between the BWIs. The Bank has often accused the Fund of arrogance in its attitude. This changing inter-organizational dynamics can also be attributed to the unequal rates of their operational development. Today the Bank has been involved in a wider variety of issues than the Fund, which has led to an increase in its interactions with the state and non-state actors. The sheer variation in the number of conditionalities applied by the two, holds evidence of differences in the lending policy of the Fund and the Bank. While the Fund makes use of a maximum of ten conditionalities per borrower country per programme, the Bank has been known to impose as many as 56. Also, the nature of the Bank conditionalities is general with little scope for their quantification, whereas those of the Fund are more specific.

The critics have also alleged that the BWIs, particularly the Bank, have repeatedly resorted to non-economic criteria for lending to their members. Since there is no scientific formula to calculate a country's political stability, the BWIs have often been played in the hands of their largest shareholders who play an instrumental role in deciding to whom to lend (or lend) depending on their strategic interests with the prospective borrowing countries.

The BWIs have been condemned of imposing 'one-size-fits-all' policies on their members, irrespective of the differences in their socio-economic set-up, reiterating, in the process, the same ideology in various guises. For example, the recently adopted PRGF/PRSP facility is nothing but old wine in new bottle as it repeats the same set of policies as found in previous policies of the BWIs. The extended mandate of the Bank, and of the Fund, which has come to include issues as wide and ambiguous as rule of law, judicial reform, corporate governance, fight against terrorism, anti-corruption, and so on, has also been critically challenged for leading a dilution (or deviation from) their core areas of competency.

Of the two bodies, the Fund has faced sharper criticisms against its ill-suited policy reforms forced upon debtor countries. It was noted that the austerity measures advocated by the Fund are not sustainable in the long run. The Bank too has faced the brunt of the civil society activists and NGOs for its policies being out of reality. In another development, the Fund as well as the Bank conducted separate country missions, provided policies to same member countries without any consistency in their advice.

When analysing the receptiveness of the BWIs to criticisms, on balance, it can be said that the Bank has shown greater signs of responsiveness to outside needs and critics than the Fund. The Bank, for example, incepted in the early 1970s the Operations Evaluation Department (now Independent Evaluation Group) to assess the performance of its operations and policies. Similarly, in response to the concerns of its critics, the Bank set up the Office of Compliance Adviser/Ombudsman (CAO) of the International Finance Corporation in 1999. On the other hand, the Fund's realisation of the importance of such mechanisms for greater transparency and accountability was late. It set-up an Independent Evaluation Office only in 2001. With respect to their dealings with the non-state actors, the Bank was more forthcoming towards the NGOs and private actors than the Fund.

With regard to improving inter-organizational collaboration, the BWIs have religiously held joint Annual Meetings. These Meetings provide a crucial platform for sharing important concerns with a bearing on both the institutions, and also sharing information on common matters. These joint Annual Meetings are one of the few institutional mechanism by which the BWIs can seek to resolve their conflicts of opinion and practice paving the way for greater mutual understanding, particularly on causes of common concern.

Nevertheless, critics would have liked to see more radical changes in the allocation of quotas, the composition of important organizational structures, corresponding to the newly emerged ground realities. A major concern of the critics is that the estimation of quotas was done on political rather than economic considerations. An illustration of the

point in case is the observation made by the Ninth General Review of Quotas of 1992 that Germany and Japan were assigned equal quota despite the fact that Japan's economy was double the size of Germany's.

One of the greatest concerns of the critics has been the style of recruitment of the leaders as well as staff of the BWIs. By an unwritten convention, the Managing Director of the Fund is a European citizen and the President of the Bank an American. This has corroborated the democratic deficit prevalent in the BWIs. Moreover, the staff of the BWIs has also been largely drawn from the USA and western European countries, and preference for those educated in these countries is not uncommon.

Scholars and practitioners have debated and discussed varied suggestions for bringing reforms in the BWIs. While some have argued to merge the two institutions into one, considering their overlapping functions, and hence, avoid the waste of international resources, others have urged the continuation of pursuing separate roles for the Fund and the Bank. The latter seems to be a more practical suggestion since the Bank's clientele has come to include countries with varying levels of economic development. One may well ask in this connection if better options exist outside the BWIs. It is sure that neither the BWIs have become defunct nor are they going to be shut in the near future.

In sum, it can be said that the relationship between the Bretton Woods 'twins' was designed to be unequal and asymmetrical if not down right discriminatory. The areas of departure between the two are as significant as their close proximity. Thus, the original hypothesis of the study, viz. divergence is as notable as convergence in the relationship between the International Monetary Fund and the World Bank, stands proved.

References

REFERENCES

(* indicates a primary source)

Babb, Sarah and Ariel Buira (2004). "Mission Creep, Mission Push and Discretion in Sociological Perspective: The Case of IMF Conditionality", paper presented at the XVIII G24 Technical Group Meeting, 8-9 March 2004, Geneva, Switzerland.

Beckhart, B.H. (1944). "The Bretton Woods Proposal for an International Monetary Fund", *Political Science Quarterly*, 59(4), December: 489-528.

Bird, Graham (1996). "The International Monetary Fund and Developing Countries: A Review of the Evidence and Policy Options", *International Organization*, 50 (3), Summer: 477-511.

Blough, Roy (1968). "The World Bank Group", *International Organization*, 22 (1), Winter: 152-181.

Boughton, James (2001). *Silent Revolution: The International Monetary Fund 1979-1989*, Washington, D.C.: International Monetary Fund.

Buira, Ariel (2007). "The Governance of the International Monetary Fund", Accessed on 24 March, URL: http://www.igloo.org/library/edocuments?id={B0F6CEC3-1445-46E6-BEB5-420B4EE0C373}&view=full

-------------- (2003). "An Analysis of IMF Conditionality", Research Paper no.22, G-24 Discussion Paper Series, August, Washington, D.C.: G-24.

Chandavarkar, Anand (2002), "Is the IMF a Lender of First or Last Resort?", *Economic and Political Weekly*, 37(36), 7 September: 3699.

Clift, Jeremy (2003). "Beyond the Washington Consensus", *Finance and Development*, September, 9.

Crane, George T. and Abla Amawi (eds.) 1991. *The Theoretical Evolution of International Political Economy-A Reader*, New York: Oxford University Press.

Dasgupta, Biplab (1997). "SAP: Issues and Conditionalities: A Global Review", *Economic and Political Weekly*, 32(20-21), 17-24 May: 1091-1104.

Economides, Spynos and Wilson Peter (2001). *The Economic Factor in International Relations*, London: I.B. Tauris Publishers.

Feinberg, Richard E. (1988). "The Changing Relationship between the World Bank and the International Monetary Fund", *International Organization*, 42(3): 545-560.

Ferguson, Tyrone (1988). *The Third World and Decision Making in the International Monetary Fund: The Quest for Full and Effective Participation*, London: Pinter Publishers.

Galambos, Louis and David Milobsky (1995). "Organizing and Reorganizing the World Bank, 1946-1972: A Comparative Perspective", *The Business History Review*, 69(2): 156-190.

Gaoiette, Nicole (2007). "Wolfowitz put 'self-interest' above all: WB panel", *The Indian Express*, New Delhi, 16 May 2007.

Gavin, Michael and Dani Rodrik (1995). "The World Bank in Historical Perspective", *The American Economic Review*, 85(2): 329-334.

Hull, C. Bryson (2007). "'Continent of corruption' chides Wolfowitz", *The Indian Express*, New Delhi, 15 May 2007.

* IBRD (1989). Articles of Agreement of the International Bank for Reconstruction and Development, Washington, D.C.: World Bank.

* IMF (2005), "About the Annual Meetings", Accessed on 3 July 2007, URL: http://www.imf.org/external/am/2005/about.htm

* IMF (2002). *Guidelines on Conditionality*, Washington, D.C.: International Monetary Fund, September 25.

* IMF (1990). *Articles of Agreement of the International Monetary Fund*, Washington, D.C.: International Monetary Fund.

Kapur, Devesh and Richard Webb (2007). "Beyond the IMF", *Economic and Political Weekly*, 17 February: 581-589.

------------------ and Moisés Naím (2005). "The IMF and Democratic Governance", *Journal of Democracy*, 16(1), January: 89-102.

------------------ (2000). "Who Gets To Run The World?", *Foreign Policy*, No. 121, November-December: 44-50.

Khatkhate, Deena (2002). "Turning the Light Forward: Evaluation of IMF", *Economic and Political Weekly*, 16 November: 4627-4632.

Knorr, Klaus (1948). "The Bretton Woods Institutions in Transition", *International Organization*, 2(1), February: 19-38.

Krueger, Anne (1998). "Whither the World Bank and the IMF?", *Journal of Economic Literature*, 36(4), December: 1983-2020.

Kurian, V. Mathew (2007). "Financial Liberalisation and the Third World: A Study with Special Reference to India", *Mainstream*, 45(11), 2-8 March: 7-10.

Mallaby, Sebastian (2005). "Saving the World Bank", *Foreign Affairs*, 84(3), May-June, 75-85.

Mason, Edward S. and Robert E. Asher (1973). *The World Bank Since the Bretton Woods*, Washington D.C.: Brooking Institution Press.

Meier, Gerald (1971). "The Bretton Woods Agreement – Twenty Five Years After", *Stanford Law Review*, 23(2), January: 235-275.

MercoPress (2007). "Venezuela will abandon the IMF and WB "at the right moment"", accessed on 24 June 2007, URL: http://www.mercopress.com/vernoticia.do?id=10661&formato=html

Murphy, Craig (2005). *Global Institutions, Marginalization and Development*, New York: Routledge.

Nogués, Julio J. (1998). "Comment: The Linkages of the World Bank with the GATT/WTO", in Anne O. Krueger (ed.) *The WTO As An International Organization*, Chicago: The University of Chicago Press.

O'Brien, Robert, Anne Marie Goetz, Jan Aart Scholte, and Marc Williams (2000). *Contesting Global Governance: Multilateral Economic Institutions and Global Social Movements*, Cambridge: Cambridge University Press.

Oliver, Robert W. (1975). *International economic cooperation and the World Bank*, London: Macmillan Press.

Pearson Commission (2007). "Pages from World Bank History: The Pearson Commission", Accessed 3 March, URL: http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTARCHIVES/0,,contentMDK:20121526~pagePK:36726~piPK:36092~theSitePK:29506,00.html

Peet, Richard (2003). *The Unholy Trinity: The IMF, World Bank, and WTO*, London: Zed Books.

Pehle, John W. (1946). "The Bretton Woods Institutions", *The Yale Law Journal*, 55 (5), August: 1127-1139.

Polak, Jacques (1997). " The World Bank and the IMF: A Changing Relationship" in Devesh Kapur, John P. Lewis and Richard Webb, *The World Bank: Its First Half Century*, Vol. 2, Washington, D.C.: Brooking Institution Press.

Reddy, Y.V. (2003). "IMF: Concerns, Dilemmas and Issues", *Economic and Political Weekly*, 38(31), 2 August: 3304- 3314.

---------------- (1985). *World Bank: Borrowers' Perspectives*, New Delhi: Sterling Publishers Pvt. Ltd.

Selassie, Bereket Habte (1984). "The World Bank: Power and Responsibility in Historical Perspective", *African Studies Review*, 27(4), December: 35-46.

Stiglitz, Joseph E. (2003). *Globalization and Its Discontents*, Reprint, New York: W.W. Norton & Company.

United Nations (2003). "United Nations", Accessed 24 June 2007, URL: http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20040610~menuPK:41691~pagePK:43912~piPK:44037,00.htm

Vasudevan, A. (2002). "IMF's New Guidelines on Conditionality", *Economic and Political Weekly*, 37(42), 19 October: 4279-4281.

Vines, David (1998). "The WTO in relation to the Fund and the Bank" in Anne O. Krueger (ed.) *The WTO As An International Organization*, Chicago: The University of Chicago Press.

Weisman, Steven R. (2007a). "Global Financial Institutions: Roles Questioned", *New York Times*, New York, 23 May 2007.

----------------------- (2007b). "Wolfowitz violated ethics, says Bank panel, *The Asian Age*, New Delhi, 16 May 2007.

Williamson, John (2000). "What should the World Bank know about Washington Consensus", *The World Bank Research Observer*, 15(2), August: 251–264.

Woods, Ngaire (2006). "Bretton Woods Institutions" in Thomas G. Weiss and Sam Daws (eds.) *Oxford Handbook on The United Nations*, London: Oxford University Press. Also available at URL: http://www.globaleconomicgovernance.org.

----------------- (2001). "Making the IMF and the World Bank more accountable", *International Affairs*, 77(1), January: 83-100.