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## Proposing IMF Reforms for Low-Income Countries

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### I. Introduction

In recent years, the International Monetary Fund has faced a legitimacy crisis that has spawned a debate on how to reform the institution. Currently, the concerned policy community—comprised of academics, think-tanks, member states, and the IMF itself—have put forth a plethora of reform proposals that are meant to address the loss of members' faith in the institution. Throughout the history of the IMF we have seen debates on what should be the Fund's appropriate mandate, role, scope, and activities. Today, however, there is a sense that members have lost faith in the institution, particularly after a series of financial crises of the late 1990s hit Emerging Market Economies (EMEs). The EMEs lost confidence in the IMF to predict, warn, and solve the repeated financial crises. Critics charged that the roots of IMF failure were its lack of accountability and undemocratic governance structure (Stiglitz, 2003). We have since seen IMF reform debates dominated by governance reform proposals to return the faith of would-be EME borrowers. Division in members' interests has been further segmented, as the current IMF governance reform proposals are meant to return the faith of EMEs, but in the meantime LICs have received less attention.

Recently, the IMF has been engaging in a debate with the concerned policy community about the Fund's future role and structure. The resulting reform proposals have weighed heavily on issues related to governance, however, these reform proposals reflect the interests of EME and G7 countries while providing less output value to LICs. Changes to Fund governance structures may be made in the name of democratizing the institution and augmenting the relative power position of EMEs, but the net gain accrued to LICs might be

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minimal and lean heavily toward being more symbolic. This raises the question, how are low income countries' needs for Fund reform different from those of the EMEs and the G7? If the Fund could be reformed to reflect LIC's needs, what type of reforms should be high on their agenda? This chapter argues that low-income countries would gain more from IMF reform proposals that addressed substantive policy issues; issues that debtors have long pursued about the efficacy, application, and fundamentals of Fund advice. In other words, improving Fund function would better serve LICs. Why have functional reform issues been sidelined in current Fund reform proposals? Explaining why the IMF reform debate has taken the turn to governance reforms rather than functional reforms is further explored.

## II. Why do governance reform proposals have less output value to low-income countries?

While debates on reforming international organizations are often shaped by a variety of changing international political, economic, and normative circumstances, it is important to reflect on the output value of reform proposals to various stakeholders. Dominating the current IMF reform proposals today are three governance issues: reallocating IMF quotas and votes, reconfiguring the Executive Board, and examining the selection process of the Managing Director.<sup>1</sup> A number of these issues have been implemented by the IMF in recent years and others continue to be debated within and outside of the Fund. This author suggests that many of these governance reforms may be less effective in meeting the needs of the IMF's low-income countries than suggested by their proponents. Governance reforms may not result in the substantive changes to Fund policies that greatly affect low-income countries.

### A. Quotas and votes

Perhaps the strongest item on the agenda of Fund reformers has been the redistribution of quotas and votes. Quotas determine the amount of money members can borrow, members' voting power on the Executive Board, and the amount members contribute to IMF liquidity (IMF, 2005). The Fund has responded to numerous studies showing how many of the EME's quotas are underrepresented and in 2006 raised the quota levels of China, Turkey, South Korea, and Mexico. In 2008, the Fund also agreed to a second round of quota increases that will benefit 54 countries that are mainly emerging market economies. Clearly, quotas and votes have not matched the pace of economic

<sup>1</sup> The Managing Director's attempts to devise a new IMF income model has also been an important part of his restructuring efforts.

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growth and importance of many emerging market economies (Truman, 2006). Moreover, many have suggested that enhancing the quotas and votes to economically justified levels would improve Fund accountability to its members. In 2008, the Fund also committed to tripling members' basic votes (from 250 to 750) and to a simpler and clearer quota formula that will incorporate purchasing power parity in its GDP variable (IMF, 2008).

In theory, these quota reform measures are meant also to help LICs improve their nominal and relative quota shares and improve LIC participation in Fund governance and programs. This author argues, however, that several factors cast doubt on the idea that enhancing quotas and votes will serve LIC's long-term interests. Here, several points are worth noting. Increasing members' basic votes from approximately 2 percent today toward 11 percent of its relative historical position would apply to all members, making modest relative gains for LICs. Even increasing LICs' basic votes to 750 would do little in relative terms and result in modest changes to their overall quota standings (See Woods and Lombardi, 2006:495). One benefit of increasing basic votes, however, would be to increase members' allowable ceiling on loan access. However, as the next point argues, even this benefit is less than useful.

The relationship between a member's quota and the amount a member could borrow has already been severed. Historically under traditional Stand-by Agreements, a member could borrow up to 100 percent of its quota each year to a maximum of 300 percent of its quota. These technical rules have been frequently trumped since the onset of the debt crisis and the 1990s financial crises because of "exceptional circumstance". The 1997 Supplemental Reserve Facility (SRF), for example, allowed EMEs "with exceptional balance of payments problems" due to sudden loss of market confidence to borrow without a formal link to their quota. In part taking advantage of the SRF, Turkey in 2002 borrowed 2,900 percent of its actual quota (Rapkin and Strand, 2006:315). Low-income countries have also been benefactors of trumping lending limits. For example, lending programs like the former Enhanced Structural Adjustment Facility (ESAF) allowed developing countries to bypass the technical rules with enhanced access to financing that exceeded the limits of their quota contribution. Under the ESAF's successor, the Poverty Reduction and Growth Facility (PRGF), LICs can borrow up to a maximum of 185 percent of their quota in exceptional circumstances. But, the pool of resources used to finance the PRGF facilities do not come from the quota-based subscription, which gives LICs less stake in enhancing quotas (Bird and Rowlands, 2006:157). Simply put, quotas are no longer a *sine qua non* of loan amounts, making this reform proposal of less value to LICs than might be thought. It is therefore of little surprise that some suggest removing the quota-borrowing limitation rule all together (Kelkar et al. 2004: 738; Rapkin and Strand, 2006:315) and reconfiguring access limits to be based on need to finance balance of payments (Bird and Rowlands, 2006:170).

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Enhancing quotas and votes, it is argued, may not result in long-term and substantive changes for most LICs; perhaps more importantly, the economic rationale for enhancing LIC quotas and shares was also arguably weak. Low-income countries' actual quotas and votes were not disproportionate to their calculated quotas. If one were to examine the low-income countries' actual quotas prior to the 2008 increases and compare these to the calculated quotas (based on the then five economic variables taken into consideration), an overwhelming number of the 78 LICs were overrepresented in their quotas (See IMF, 2004a). The technical discrepancies in developing countries' actual and calculated quotas have been a part of the institution's historical compromise, where enhancing developing countries' quotas was intended to aid their perception of having a "consequential role" in the institution (Rapkin and Strand, 2006:311). When the Fund Executive Board commissioned the Cooper team to redesign the Fund quota formula, it should have been to no one's surprise that the report's recommendation was to *decrease* the relative share of developing countries' quotas (See IMF, 2000). The LICs could not have made the claim that they were underrepresented using the quantitative variables and indicators debated within the Fund.

Another issue worth noting is that the IMF's tradition of consensual voting may actually compensate shortcomings in quota inequalities, to the benefit of smaller and less powerful countries. Evans and Finnemore (2001:14) argue that the IMF's Executive Board tradition of not taking votes, but reaching decisions through consensus, actually gives members with smaller quotas an opportunity to shape the Board's final decisions. It could be argued that an African Executive Director, for example, has more influence in a 24-seat Executive Board where his or her position is used in shaping a consensus position, than if he or she had only 1.4 percent of voting power. So, despite the "inegalitarian distribution of votes" based on quotas, Evans and Finnemore (2001:27) suggest that smaller countries' voice at the consensual Executive Board is a "democratizing feature" of the IMF that counterbalances quota inequalities.

Altering the quota formulas has also been an important part of IMF reform debates. Here are a couple of points to consider though. Some have suggested using population as a variable in quota formulas. This might help developing countries more generally, but not those countries designated as LICs. Most of the 78 LIC members are not very populous—India would be a notable exception—and so the benefits of using population as a variable in quota formulas would be limited. The notion of using population as a variable, or using a "one country one vote" (Westphalian) policy for that matter, is not currently being considered. Many have also suggested double-majority voting rules, where both majority of votes and majority number of members would be required to pass many of the decisions currently using a weighted voting rule at the Executive Board (See Rapkin and Strand, 2006; Woods, 2006). This could augment the voice of the 78 LIC members as they currently constitute

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42 percent of Fund membership (IMF, 2007). The problem, however, is that these proposals will be politically difficult to achieve. Changing to a double-majority rule requires an amendment to the Articles of Agreement which must pass the US veto, and more importantly it requires the US Congress to approve a US Executive Director vote to amend the Articles. Again, the idea sounds morally persuasive, but may be politically challenging.

One point often suggested in international relations literature is that state effectiveness is also measured by how much others in the forum are affected by member states' positions. It is worth noting that many studies have found a correlation between countries' United Nations voting patterns and IMF loan approval, suggesting that issue-linkages are indeed made at the Executive Board (See Thacker, 1999; Barro and Lee, 2005; Oatley and Yackee, 2004; Dreher and Jensen, 2007). Issue-linkages in the broader context of international economic and political relations is seen as important to members' Executive Directors' voting power or persuasive abilities. The question then is whether changes to quotas and votes within the Fund will make a difference if unreflective of the external power balance. As the Governor of the Bank of England aptly noted, "The fact that China has a small quota now relative to its calculated quota does not mean to say that people take China less seriously now than they would 12 months from now if the quota were increased" (King, 2006:11). Quotas and votes may be altered within the Fund, but external power balance may be just as important to understanding board members' influence. This takes us to the issue of Executive Board reform proposals.

### *B. The Executive Board*

Numerous reform proposals had suggested consolidating many European, specifically Euro-led, seats to make room for more directors from developing countries and LICs on the Executive Board. Truman (2006) suggests that non-European states leave from EU-led constituencies and then EU-led constituencies absorb remaining EU states (Ireland, Spain, and Poland). In this way, EU members could be consolidated into fewer EU-led seats. Others suggest one seat to represent the entire eurozone (Camdessus 2005; Bini Smaghi, 2006; Lombardi and O'Neill, 2008). These proposals are ambitious, but at first blush we are talking about the addition of perhaps one additional Executive Board seat for the LICs. Particularly if consolidating European seats is a proposal that is to be combined with US calls to reduce the Executive Board from 24 to 20 by 2012 (See Guha, 2008). The likelihood of LICs' getting more than one other seat on a reduced IMF Board may be low if US preferences for the size of the Board are realized.

Increasing the number of Executive Directors from LICs on the Board, moreover, may not address the substantive policy concerns of LICs. Take the

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former Managing Director's proposal, before the 2006 Singapore meeting, of adding another African seat on the Executive Board. What effect will an additional seat have on LICs overall say in IMF decision-making and policy-making? One former African director argued that adding LIC votes and voice at the Board will result in improved loan conditionality (Rustomjee 2004). Civil society actors have also suggested that added voice at the Board would allow less-powerful members to refuse to give in to the Board's "pressure to liberalize" and to recruit more staff from the South (See Birdsall, 2003:12). Several things cast doubt on these assumptions.

First, the Executive Board does not negotiate loan agreements, but can *collectively* play a role in vetoing or denying the whole of the loan agreement. In most cases, and there have been some exceptions, it is the IMF staff who negotiate the details of loan agreements and not the Executive Directors. That said, Executive Directors often play an informal mediating-like role between the staff and the government officials. Also, directors from powerful countries have been known to interfere politically in negotiations particularly when geopolitical interests are involved (See Momani, 2004). Directors from debtor states do not, however, have the same influence and often depend on politicking with powerful members to get concessions on conditionality. Moreover, as a former Mexican Executive Director noted, directors from debtor states do not take it upon themselves to challenge senior staff on country loan agreements, for fear of damaging country-IMF relations (Buirra, 2003:232). In an IEO survey of directors from the LICs, 56 percent stated that they rarely criticize staff and Management for fear of repercussions (IEO, 2008a:16). Second, "pressure to liberalize" does not come from the Executive Board, nor for that matter from the IMF staff; instead, several factors are at play including structural, market, and ideational forces at the global level and economic, political, and social forces at the domestic level. On the domestic factor, indeed in many LICs, governments seek out IMF loans to help bring in a reform agenda (Vreeland, 2003). The Fund may then be used as a scapegoat for unpopular policies. Finally, how the IMF determines staff recruitment is less linked to Executive Board decisions and more to constraints of the IMF's technocratic organizational culture (See Momani, 2005a).

A broader question to ask is, will a third African Executive Director make a difference to the workings of the Board? If, as Woods and Lombardi (2006) note, elected constituencies by their nature tend to lean toward technocratic individuals as opposed to political bargainers, there may be even less impact of an elected African seat than this reform proposal would suggest. Moreover, having several seats at the Executive Board is worth less than having one effective seat—the United States par excellence. How to improve the effectiveness of LICs' representation at the Executive Board, without new seats, is then a matter worthy of discussion. Woods and Lombardi (2006) have argued that developing countries (both LICs and EMEs) could improve their effectiveness

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at the Executive Board through coalition-building and making constituency chairs more accountable to its members. In addition to reforming decision-making rules to maximize the voting power of developing countries, the authors point to subtler forms of internal organizational reforms that will help those countries enhance their voice at the Board. Similarly, the Fund has implemented a positive step to ease the workload burden on the two African Directors, who manage a large number of constituency members. This involves helping the existing African directors with added staffing and the appointment of an additional alternate Executive Director (IMF, 2008). These informal and staffing changes to the existing directors' offices are helpful initiatives.

Finally, several prominent policy-makers have suggested a non-resident or "professionalized" Board which would meet infrequently over the year (See King, 2006; DeGregorio, 1999; Kenen, 2006; also see IEO, 2008a). Proponents of this view could point to how powerful members of the Executive Board have, albeit infrequently, politically interfered in the IMF staff's technocratic analysis, prompting IMF "clientism" and powerful members' interference in staff-debtor negotiations (See Stone, 2004; Momani, 2004). But, this reform proposal might enhance the authority of the IMF staff to prescribe conditionality without a political check or oversight of conditions. In the case of Africa, Stone (2004) has documented Executive Board political involvement, particularly US, French, and British, into African debtor conditionality "to prevent rigorous enforcement". Without the Executive Board checking on the technocratic staff, we might see greater theoretical advice that is insensitive to the African domestic political situation (See Woods, 2006: ch.6). Moreover, creating an "independent" Board would not depoliticize the organization, but "further distance most countries from the institutions" (Woods, 2006:205). One could add that LICs would have the most to lose from an independent Board, because it has fewer external forums, access points, and issue-linkages to use in influencing decisions.

### *C. Managing Director*

One issue with strong symbolism is the continued appointment of a European to the position of Managing Director. As Ariel Buira noted, "it is neocolonial to assume that only a European is capable of becoming managing director," (Buira, 2003:231). For many LICs and developing countries, more broadly, the symbolism of having a European in charge of an organization that is mainly used by the LICs and developing world is reminiscent of Europe's "white man's burden". Opening the selection process to include other qualified non-European candidates has been proposed from within and outside the

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IMF (Ostry and Zettelmeyer, 2005:17; Kahler, 2002:92–8) and has become an official policy endorsed by the Executive Board.

But, how useful is this reform idea for low-income countries? Would a Managing Director from the United States or Africa, as opposed to Europe, make a difference in day-to-day IMF policies?

The theoretical literature is mixed on the importance of international organization (IO) leadership to affect outcomes. While many have argued that leaders can make a difference in international organizations (See Cox and Jacobson, 1973:20–25), recent systematic studies suggest that perhaps individuals' influence on outcomes is more limited by structural power considerations (Moravcsik, 1999). Moreover, leaders of international organizations can have limited mandates and resources, further weakening the personal influence of an IO leader (See Kille and Scully, 2003). Indeed, the IMF's Managing Director's mandate can be limited, constrained both by power considerations at the IMF Executive Board and the intellectual dominance of the IMF staff (See Momani, 2005b). The Managing Director is but one figurehead in charge of the brains of the IMF—the IMF staff. This organ of the IMF is forgotten in reform proposals, but could be reformed to benefit the LICs.

### III. What kinds of reforms would LICs benefit from at the IMF?

While the previous section raised questions about the long-term efficacy of governance reforms for the LICs. This section argues that LICs could benefit from many internal reforms in the IMF, but these reforms should better target improving IMF function, mandate, and performance—all related to the policy output of the IMF. The LICs are vulnerable, in need of good policy advice, and are often lacking both the expertise and resources to accomplish economic growth. The LICs are viewed here as receptive, if not captive, learners—after all, the LICs account for 52 percent of all of the Fund's technical assistance (IMF, 2007). The issues are how to help LICs improve on the implementation of Fund advice and how to ensure that IMF staff will propose reforms that are implementable.

After many years of internal Fund discussion on ways of achieving this balance, it has been argued that LIC governments need better to own their policies to improve on implementation and that IMF staff need to streamline conditionality and focus on key areas of Fund expertise (IMF, 2001). This two-pronged strategy is intended to improve the implementation record of debtor countries and to keep Fund staff from prescribing policies that were more traditionally in the jurisdiction of the World Bank and thereby avoid mission creep. Specifically, attention has been focused on the LICs' use of the PRGF and the accompanying Poverty Reduction Strategy Papers (PRSPs) that attempt to broaden the participation of stakeholders and civil society actors in loan and

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program design. The PRSPs are intended to improve implementation by enhancing country ownership of policies. For their part, the IMF staff would limit conditionality to their core areas of expertise and let the World Bank play the lead role in areas such as reform of the public sector. Both the 2002 Conditionality Guidelines and the accompanying staff guidance notes were meant to improve IMF procedures. This new arrangement between LICs and the IMF embodied important policy shifts that were needed to renew LICs faith in Fund-supported programs. Evaluations of these new policies, however, suggest that more needs to be and could be done.

The internal and independent IMF watchdog, the Independent Evaluation Office (IEO), conducted a number of appraisals that point out the need for Fund improvement in relation to staff relations with the LICs. In the IEO report on structural conditionality, it found that the number of structural conditions remained stable and that streamlining was not occurring as rapidly as had been anticipated. In the 219 programs (agreed in 1995 to 2004) of the 94 countries that were examined, the IEO evaluation found that structural conditions were “extensive”, had “little structural depth”, and consequently compliance was weak (particularly in reforming the wider public sector and privatization) (IEO, 2008b). Similar, if not more critical, findings were provided by a Eurodad study as well (Eurodad, 2008).

An IEO report assessed the Fund’s role in and effectiveness with LICs’ experiences with the PRGF and PRSPs. While pointing to some positive developments, the report suggested that there remained internal Fund ambiguity over country ownership (IEO, 2004). Moreover, participation of stakeholders in PRSPs had improved, but there was less institutionalization of the process in domestic polities. Country ownership was hampered in some cases and LICs would pass through the procedural requirements with weak country ownership. Finally, many Fund staff continued to operate “as business as usual” with PRSPs conducted in similar terms to traditional program negotiations. Surveys of Fund staff suggested that this occurred because of “staff resource constraints, the demands of the review process, or doubts about the value added of the new approach” (IEO, 2004:65). In a follow-up report, the IEO studied IMF relations with its sub-Saharan African members. The findings of this report echoed many of the previous findings but also pointed to the issue of the staff’s organizational culture. The staff remained focused on achieving macroeconomic stability while, at times, overlooking key elements of the PRGF agenda (IEO, 2007).

What can be learned from these evaluations and what kinds of reforms would LICs benefit from at the IMF? The evaluations point out that despite operational guidance to streamline conditionality and promote country ownership, there remain institutional drivers that explain Fund policy outcomes and, at times, weak country ownership. While there are many ways of improving the outcomes of Fund programs and improving country ownership that

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require changes within the LICs themselves, this chapter seeks to suggest possible ways of improvement through reform of the Fund. Again, a neglected component of IMF reform debates is the question of functional reforms at the staffing level that can improve implementation of Fund programs.

As previous studies have argued, borrowing members have at times raised concerns over the inadequate consideration of country circumstances in the design of programs and the orthodoxy of the policy advice they receive (IMF, 1999; IMF, 2004b; Momani, 2007). This chapter argues that one possible avenue of Fund reform would be to consider incorporating stronger political-economy analysis of its policies. This, however, requires some modification to Fund staffing and recruitment and to the training of staff to become more attuned to the political circumstances of LICs. In an IEO (2006) survey, it was found that the IMF's organizational culture was highly bureaucratized, hierarchical, conforming, and economistic. There are many positive outcomes to be attributed to these cultural characteristics—such as speedy internal communication, organizational cohesiveness, policy consistency, and quick deployment of needed resources in times of crisis. However, coupled with the feeling among some borrowers that Fund staff can at times be inattentive to local circumstances and that agreements are overly focused on macroeconomic stability at the expense of social and political factors, there is a potential downside to these noted cultural traits: institutional weaknesses on proposing ways of implementing policy advice. So while many Fund staff are skilled in explaining “what to do” to borrowers and hence their staff expertise is sought out by many borrowers including LICs, Fund staff can at times find it challenging to offer ideas on “how to do it”. Simply put, the political feasibility of the Fund policy advice may not always be taken into consideration, because some staff may not have policy experience themselves or are not trained in political-economy.

Some have pointed out that these bureaucratic and organizational features of the IMF can at times filter into policy challenges. With respect to Africa, for example, Woods finds that Fund missions have at times been poorly staffed, insular, and risk-averse. Consequently, Fund staff went to some African countries with “standard templates” to save time and resources and so as not to have to explain the nuances of terms and conditionality to senior Fund officials in Washington (Woods: 2006: ch.6). But, as Woods notes: “The most difficult, irrefutable, and profoundly challenging critique for both the IMF and World Bank is that their work in fostering economic reform has ignored or wished away political realities—in Africa just as much if not more than in other countries,” (2006:161). Here, improving on the political-economy understanding of borrowers' situation would have been helpful in providing policy advice that had a better chance of being implemented.

The Fund's challenge in providing policy advice that has a political-economy component may stem from the Fund's reliance on hiring macroeconomists.

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As I have argued elsewhere, perhaps the Fund should consider complementing its staff with the recruitment of political-economy specialists and increasing the number of staff on secondment (and fewer from the Economist Program) who may have more policy experience (Momani, 2007). To improve also on implementation of policy advice, others suggest enhancing local knowledge and recruiting more Fund staff from developing countries (Woods, 2006; Evans and Finnemore, 2001). Reorganizing the Fund's organizational structure could also be useful. One proposal has suggested increasing the number of IMF staff assigned to area departments where there are borrowers (Evans and Finnemore, 2001:30). Much like the idea that African directors are overwhelmed with constituency members and can improve their performance through added staffing, the area departments with more borrowing members could benefit from more staff. Coupled by the observation that IMF staff already feel overworked in area departments with excessive travel and paperwork, it is unsurprising that many staff want to avoid working for the LIC-dominated departments like the African department.<sup>2</sup> Easing the workload burden on LIC-dominated area departments would be a useful reform proposal.

Fund reform proposals have emphasized governance reforms and not discussed the intellectual designers of everyday Fund work—the IMF staff. By focusing on governance reforms, the debate about how to improve the efficacy of Fund policy advice has been top heavy. For LICs, their primary concern should be on reforming the IMF to improve policy outcomes and to make it a responsive organization that serves LICs and client interests. Organizational reforms could be one avenue of improving IMF policy advice for LICs.

### IV. Why the IMF reform debate is more concerned with governance than functional reforms

There are a multitude of reasons why the current IMF reform debate turned to focus on governance reforms rather than functional reforms. First, the current push for IMF reform is coming generally from EME, but most importantly from these members' state capitals. The EMEs' new sense of bargaining power in the international financial system—both for being perceived by some to be “too big to fail” and for having access to private capital markets—led to these Fund debtors' interests diverging from those of LICs. The pressure for reform is state led, and less market driven, or civil society driven (as it had been in the past). We see EME states increasingly emboldened with the power of exiting the IMF altogether, either through creating regional arrangements, accumulating foreign reserves, or borrowing on private capital markets (See Helleiner and Momani, 2008). While few countries will voluntarily suspend their IMF

<sup>2</sup> Based on personal interviews with former IMF staff members on the issue of recruitment.

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membership, their creating and using alternative means of financing could seriously undermine or damage the institution's reputation and authority. There is a deep recognition that the IMF's pride in being one of the few universal international organizations is at risk unless the EMEs have a renewed stake in the organization.

Moreover, officials in powerful members' capitals are unusually contributing to the reform discourse. We have seen many, such as Mervyn King, David Dodge, and Timothy Adams, speaking about IMF reforms. This type of G7 response was muted throughout the debt crisis when non-governmental organizations were the Fund's loudest critics. Today, it is the capitals of G7 and EME states that are piping in on the need for Fund reforms. Indeed, IMF staff have observed that the G7 capitals have more recently become interested in micromanaging IMF policies and outcome, rather than delegating autonomy to their Executive Directors (Cotarelli, 2005:8). There are four reasons suggested for why G7 capitals are more involved in IMF affairs: 1) added public attention to G7 financial contributions to IMF liquidity have raised public concern over taxpayers' money; 2) enhanced public and NGO scrutiny of IMF policy advice have pushed G7 capitals to question the IMF staff authority and legitimacy to intervene in the sovereignty of others; 3) the number of financial crises in the late 1990s prompted G7 capitals to question IMF effectiveness; and, 4) the expansion and added speed of G7 capital communication with their EDs has led to less authority being delegated to them (Kenen et al., 2004:99–100). This state-center-led reform debate, in contrast to the previous civil-society one, is speaking in traditional state-centric terms: augmenting and maintaining relative power. State capitals are focused on quota and vote redistribution because in state-centric terms these are viewed as their source of accumulating power in the organization.

Second, there has been a great fatigue factor in the debate over the utility of the IMF economic paradigm. Numerous studies have been conducted on the efficacy of conditionality and the results have almost always been contradictory. Whether the IMF economic paradigm is neoliberal, conservative, fiscal, or orthodox has become an exhausting discourse. Moreover, Fund critics who call for its demise have criticized the foundation of its ideology, but have not provided alternative economic paradigms to bring in its place. While the IMF's economic principles may have their shortcomings, viable economic alternatives are not being provided by the mainstream economic discipline. This seems to suggest that the study of economics is not near any paradigm shift, despite showing a number of recent cracks particularly at the World Bank and as reflected in the 2004 "Barcelona Consensus" (See World Bank, 2005). Perhaps this is owing to the belief that the benefits of free markets, underpinning Fund ideology, have yet to be exhausted. Those criticizing the IMF for its underlying economic philosophy have added to the burgeoning litany of complaints against the Fund for something far from IMF control.

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Third, some argue that the IMF is busy debating governance reforms for the lack of a real crisis to deal with. The IMF, often depicted as a firetruck to put out the fires, now has “no cat to rescue” (as noted by *The Economist*) and so the Executive Board has time on its hands to debate ambitious governance reform. The relative respite is perhaps creating the “luxury of squabbling” for power within the upper ranks of the Fund (Weisman, 2006). Despite the long-standing tradition of not taking votes and establishing a board consensus, Executive Directors have noted the eroding “collegial” environment of the Board and the question of members’ voting power has therefore grown in importance in recent years (Woods, 2005:1). This is coupled with the internal observation that the Executive Board has become more powerful, vis-à-vis the IMF staff and Management, since the mid-1990s. Cottarelli (2005: 8) argues that the Executive Board has increased its political oversight over the technical work of the Fund staff. This is exemplified by the increase of staff reporting to the Board, diminishing scope of allowable loan conditionality at the discretion of the staff, enhanced Board approval of lending programs that exceed members’ proportion of their quotas, and new Board approval of commencing negotiations with members who have outstanding loans to the Fund (ibid.).

Fourth, for many EMEs, and developing countries more generally, IMF governance reforms have a strong symbolic component. Sidelined for much of the IMF’s history, there is a greater awareness that as the ‘users’ of the organization, they should have a greater stake in the decision-making process. No doubt, the IMF’s own “good governance” discourse, emphasizing accountability, fairness, and participation, has rubbed off on Fund borrowers’ perception of their role in the Fund (See Woods, 2000). Similarly, while it may be that for many developing countries increasing quotas would not enhance their relative power position at the board, there is an inherent institutional feeling that quotas serve more than translate into votes, but also into “national prestige” (See Mikesell, 1994:35).

Similarly, the normative and ideational push that international organizations ought to be democratized as a measure of a good and advanced global society (David Held’s cosmopolitan democracy) is appealing (See Held, 1995). But, democratizing international organizations today is unrealistic and premature, notwithstanding the noble and moral arguments that can be made. As Robert Dahl aptly noted:

if it is difficult enough for ordinary citizens to exercise much influence over decisions about foreign affairs in their own countries, should we not conclude that the obstacles will be far greater in international organizations? Just as many important policy decisions in democratic countries are in effect delegated by citizens to the political elites, will not the citizens of countries engaged in an international association delegate effective control to the international policy elites? And will not the extent of delegation in international organizations go well beyond any acceptable threshold of democracy?

(Dahl, 1999:32)

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If democracy cannot be achieved, how will international organizations achieve legitimacy in an age of growing democratic consciousness? Dahl, and many functionalist theorists before him, suggests that international organizations should entrust authority to “an elite of guardians possessed of greatly superior knowledge and virtue”. In other words, governments should delegate to professional international civil servants with expertise and authority to solve functional problems (See Mittrany, 1946). Barnett and Finnemore (2004) suggest that the IMF once had this noted authority to have states listen to their advice; perhaps something has gone awry. This turns the focus back again to the IMF staff. The Fund needs to consider ways of making changes at the staff level—the missing link in current Fund reform proposals (Momani, 2007).

The IMF was designed keeping creditor confidence in mind. Democratization, where debtors as users have an equal or proportionate say in Fund governance, is a dilemma. This is not to pass moral judgment on what is right or just, but to state the international political reality of Fund governance design and purpose. As some have rightly noted, diluting creditor control of the IMF will simply prompt creditor states to take key decision-making outside the Fund and into other forums (See Bird and Rowlands, 2006:164). Rather than having debate at the Executive Board where an element of transparency among member capitals exists, the major creditors will take their discussions wholly outside the IMF to back-room settings, leaving the Board with a ceremonial role.

In conclusion, reforming an international organization like the IMF would never be an easy task. Organizations tend to be stuck in a time warp where governance structures reflect past political bargains. While many have highlighted the outdated governance structure of the IMF, we are still talking about modest tweaking of the IMF. For the LICs, the governance reform proposals suggested by the concerned policy community may have minimal effect on what matters most to them: the Fund’s policy advice and conditionality. To get at these functional reforms, the IMF does not need a top-down shake-up, but a bottom-up reorganization of the Fund operators: the Fund staff. Reforming the IMF staff by reexamining Fund recruitment and organizational design are positive ways of producing policy changes. Moreover, unlike the fate of many of the governance reform proposals, bottom-up organizational reforms would not require the type of grand political bargains and engagement of the US Congress that would be required to amend the Articles of Agreement. Synergy to reform the IMF has been created, but this also needs to be channeled into achievable and beneficial ends for Fund borrowers.

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