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Governing International Financial Institutions: The Power Structures of the IMF and the World Bank

Laerte Apolinário Júnior

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Introduction

The International Monetary Fund and the World Bank were created as part of a strategy by the victors of World War II to rebuild the international financial system. The IMF was initially conceived to guarantee exchange rate stability among its members and to encourage the elimination of exchange restrictions that could obstruct international trade. The World Bank was established to finance the reconstruction of European countries. Over the years, both institutions have undergone countless transformations, so that they turned their attention from developed countries to developing countries. Throughout history, these institutions, especially the IMF, have been criticized for representing only the interests of the great powers and for being less transparent in accountability. Therefore, so that the legitimacy of these organizations has often been placed in question.

In recent years, several authors have turned their attention to the functioning of international organizations and how their representation structures affect their effectiveness and their relationship with their member states. It should be noted that the IMF's central role in leading financial crises in recent decades has renewed researchers' interest in the institution's internal governance. These efforts have shed light on political processes and key actors within the IMF. Some authors have analyzed the role of the United States' foreign and domestic policy and its influence in the conduct of the bloc (Thacker 1999; Stone 2013; Vreeland 2011). Others analyzed the role of private creditors in the institution (Gould 2003). Some focused on the issue of delegation of power by states to the organization (Hawkins et al. 2006; Woods and Lombardi 2005). Other researchers, in a more constructivist bias, examined the role of institutional habits in shaping work within the institution (Barnett and Finnemore 2004; Finnemore 1996).

The expansion of the agenda of international financial organizations in recent decades renewed the interest of researchers on the issue of representativeness within these organizations and global governance in general. Thus, this research contributes to the global economic governance debate, understood as the combination of international organizations based on treaties or agreements, rules, norms, practices and decision-making processes that have generated rules and guidelines for the management of the world economy (Vestergaard 2011; Beeson and Bell 2009; Helleiner and Pagliari 2009; Barnett and Finnemore 2004).

This research aims to analyze the governance structures within the International Monetary Fund and the World Bank. This paper seeks to identify the power structures within these organizations through a theoretical lens. To this end, this article is divided into four parts. First, we carry out a descriptive analysis of the IMF's organizational structure in order to clarify the internal functioning of this institution. The second part provides an analysis of the origins and institutional structure of the World Bank. The third part brings a review of the literature on international organizations in order to justify the choice of the theoretical framework. The fourth session presents an analysis of the governance of these institutions from the perspective of the chosen theory. Finally, the last part presents the conclusions of the work.

I. International Monetary Fund: History and Institutional Structure

The International Monetary Fund was created in the final period of World War II, on July 22, 1944, by 45 countries that signed the Bretton Woods Agreements. It was established on December 27, 1945, after 29 countries have ratified the articles of the IMF Statute. The reasons for the creation of the IMF has little to do with the economic programs applied in developing

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countries for which the IMF gained fame. In the beginning, the IMF emerged as an organization to monitor and assist the maintenance of the fixed but adjustable exchange rates adopted by Western European countries in the Bretton Woods system. Broadly speaking, the original idea was to prevent them in the post-war period from devaluating their currencies as a way of gaining competitive economic advantages. The IMF would guarantee exchange rate stability among its members and encourage the elimination of exchange restrictions that could obstruct international trade.

However, with the collapse of the Bretton Woods international monetary system, the IMF's original *raison d'être* was gone with the regime. During the 1960s, the IMF turned its attention from industrialized nations to developing countries in search of a new purpose for their existence. Roughly speaking, the IMF was charged with two functions: 1) monitoring its members' economies - especially their exchange rates and balance of payments; and 2) act as an international lender (Vreeland 2003).

In the 1980s, the institution turned its efforts towards liberalizing capital controls through the prescription of structural reforms in developing countries. During this period, the IMF began to require that the recipient countries adopt a series of conditions attached to the loans - the so-called conditionalities. Countries' access to financial assistance is conditional on the adoption of macroeconomic policy objectives negotiated between the recipient country and the institution's technical staff. These conditionalities generally take the form of performance criteria regarding economic indicators such as inflation, and public spending, and policy benchmark concerning tax reforms and privatizations among others.

In the last decades, the international economic scenario has undergone significant transformations that have left the Fund at a crossroads. The IMF has an increasingly smaller range of countries with outstanding loans over which it still has a strong influence. At the same time, there is an increasing number of relevant economies in the world economy that need to be supervised, such as the economies of several European countries (Kaya 2012).

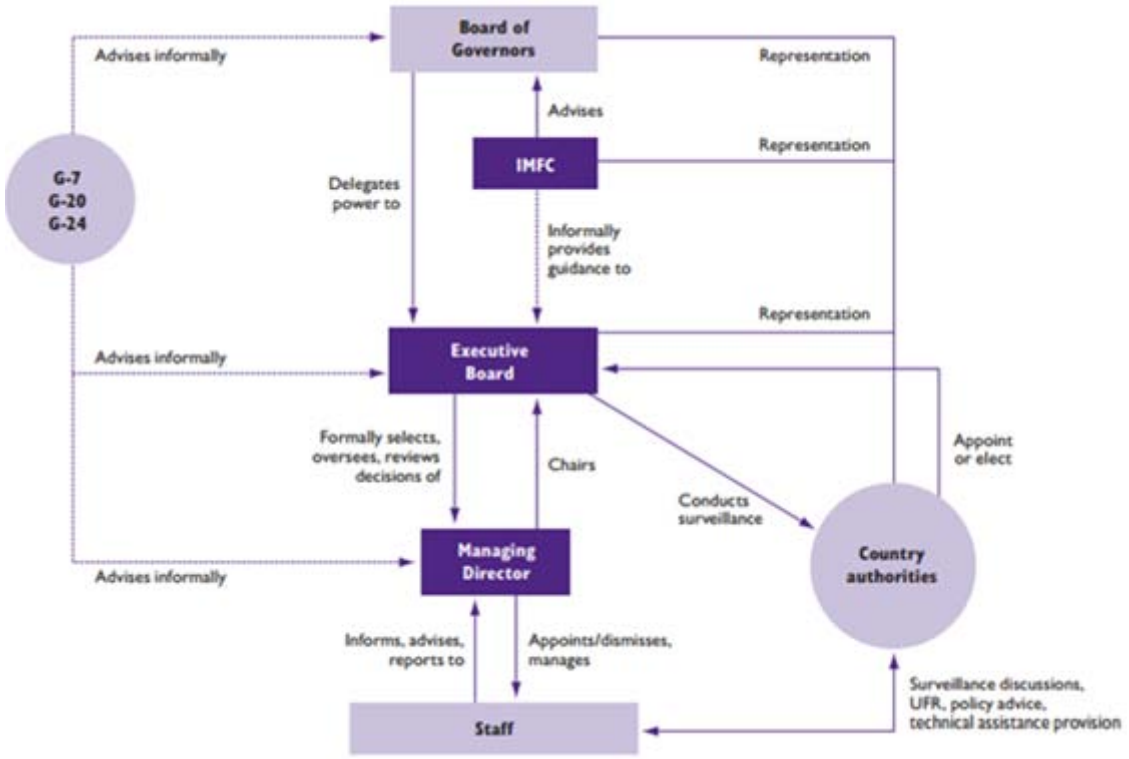
The IMF's institutional structure has been practically the same since its creation. It consists of the Board of Governors, Executive Directorate, Staff, and the figure of the Managing-General. The Assembly of Governors is composed of a governor and an alternate from each member country. It is, in theory, the highest level of power within the organization, but in practice, it delegates most of its functions to the Executive Directory, except those directly granted by the Articles of Agreement. He is also responsible for choosing Executive Directors and usually meets once a year during the IMF and World Bank Annual Meetings.

The Assembly, under article 12 of session 2 (j) of the Articles of Agreement, also has the power to create advisory committees. Currently, there are four committees: the International Monetary and Financial Committee (IMFC), the Development Committee (DC), the Joint Committee on Remuneration of Executive Directors (JCR), and the Joint Procedures Committee (JPC). The IMFC works as an intermediary structure between the Assembly of Governors and the Executive Directory. The IMFC, created in 1999 to replace the former Interim Committee, serves to assist the Board of Governors in its deliberations (Houtven 2002; Mountford 2008).

The Managing-General chairs the Executive Director's meetings with the task of managing the IMF's current operations. He is not entitled to vote and is responsible, under the general control of the Executive Directory, for the appointment and dismissal of the Fund's employees. The Staff consists of specialists, usually economists, responsible for advising the Fund on technical issues. It is often identified as one of the Fund's most influential bodies, as it is formed mostly by orthodox economists, responsible for formulating the IMF policies (Barnett and Finnemore 2004; Chwieroth 2013). The Executive Directory is, in practice, the most influential organ of the institution, composed of twenty-four members, being responsible for managing the general operations of the Fund and electing the Managing-Director, in addition to exercising all the powers delegated by the Assembly of Governors.

It is also worth highlighting the role of informal forums in the governance of the IMF such as the G-7, the G-20, and the G-24. These forums are characterized by meetings that take place regularly between heads of state or ministers of the economy of its members. It has the aim of debating issues about global economic governance, and to propose recommendations on the conduct of the international financial system. The figure below illustrates the organization's governance scheme:

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Source: IMF (2008)

Figure 1: The IMF's institutional structure

In the IMF, the voting power of each member country is determined by its share of participation, in which each member has 250 votes plus one vote for every 100,000 Special Drawing Rights (SDRs). This quota system also defines countries' contributions to the Fund, the availability of resources, and the distribution of SDRs among members. The IMF's decision-making process takes place based on the relative voting power of its members. Ordinary decisions require a simple majority to be approved, while some decisions require special majorities specified by the Articles of Agreement. Since the second amendment to the Articles of Agreement, adopted in 1977, there are two levels of qualified majorities for voting - 70% and 85% - in each case as a percentage of the total votes within the institution (Houtven 2002; Mountford 2008).

The United States is the only country with sufficient voting power to veto important decisions within the IMF. However, Houtven (2002) points out that decisions are made by consensus as a way of minimizing confrontation. Amid the discussions, the US executive director uses a strategy called the sense of the meeting, an attempt by the US to exercise its power to convince other directors that the American will prevail in the end. The Managing-Director may request symbolic votes throughout the discussions to see where the majority needed to approve a policy is located. Although roll-call voting rarely occurs, such votes can be used to identify the position of the majority and impose it on possible minorities for consensus.

Of the twenty-four seats on the Executive Directory, only five are occupied by countries that have enough votes to directly nominate their representatives: the United States, Germany, Japan, France, and the United Kingdom. Although recently, Russia, China, and Saudi Arabia have also appointed their representatives without the assistance of other countries due to the increase in their participation quotas. The remaining countries occupy the remaining sixteen seats through constituencies formed by several countries but led by one in particular. Thus, these countries form alliances to elect a representative that will act on behalf of the countries that make up their bloc. These elections take place every two years, and although there are no formal rules for forming these coalitions, there are clear rules about the process by which these elections take place.

Woods and Lombardi (2006) identified three governance patterns that reflect the power relationships within these constituencies. Some groups are strongly dominated by only one country, which holds the chair of the Executive Director and consequently commands the bloc's decisions. The second group of constituencies tends to be led by a small number of countries that alternate between executive director positions. And a third, more egalitarian group, made up of countries with similar economic capabilities.

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Some blocs are regional, such as the two blocs made up of African countries, which alternate between the position of executive director and alternate between them. Others are formed by countries that have cultural and historical ties with each other, such as the blocs led by Spain and Canada. Other blocs have less obvious compositions, such as the constituencies led by Italy, Austria, Switzerland, and Brazil.

II. World Bank: History and Institutional Structure

The World Bank has its origins in the creation of the International Bank for Reconstruction and Development (IBRD) in the context of the "Bretton Woods Agreements" in the final period of World War II. While the IMF served to provide short-term loans so that countries could remedy any problems in their balance of payments and, thus, maintain the new exchange rate pattern adopted. The IBRD was established to provide long-term loans to finance the economic development of its member countries. It began to function on June 25, 1946, and its first actions were aimed at the reconstruction of the countries devastated by war. However, with the creation of the Marshall Plan, this objective was gradually being neglected by the organization. Throughout history, the institution has undergone profound changes, both in its organizational structure and in relation to its objectives.

From the late 1940s to the mid-1960s, the organization was small, centralized in the hands of the president, and had few resources. During the 1970s, under the presidency of Robert McNamara (1967-1981), the institution underwent significant changes, with a substantial expansion of the organization's staff and budget. During this period, McNamara started capitalizing the organization in the financial market through the issuance of bonds and expanded the institution's research department, now known as the Development Economics Department (DEC). It also created the Operations Evaluation Department, now called the Independent Evaluation Group, the body responsible for supervising the Bank's activities and proposing solutions. However, one of the most relevant transformations promoted by McNamara concerns the change of focus of the institution. From an organization focused on specific physical development projects, the institution started to focus its efforts on poverty reduction (poverty alleviation) in developing countries in its most diverse manifestations (Guimarães 2012).

Currently, the World Bank is no longer a single international institution. Over time, the organization has divided into five internal institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Center for Settlement of Investment Disputes (ICSD). The IBRD, initially focused on lending on the European continent, currently finances development projects in middle-income countries, and is the World Bank's largest financial institution. IDA is the second institution in terms of the volume of resources. It was created in 1960 with the aim of financing projects in the poorest countries. The IFC, the third institution in resources, emerged in 1956 to expand and strengthen private initiative and foreign investments in developing countries. The fourth and newest institution, MIGA, was created in 1988 with an objective similar to that of IFC, that is, to facilitate the flow of foreign direct investments to developing countries, with the responsibility of guaranteeing resources. Finally, the ICSID emerged in 1966, serving as an international arbitration agency for States and foreign investors.

Throughout history, the institution has been the subject of much criticism, mainly by non-governmental organizations that pointed to the lack of effectiveness of the Bank's actions and the lack of inclusion of elements of organized civil society in the decision-making process. Such criticisms paved the way for reforms in the institution to incorporate elements of civil society in the organization's power structure as well as a diversification of professionals (environmentalists and sociologists) in its staff. These professionals brought NGOs into the project's decision-making process. Local NGOs became part of the decisions on how and when to execute projects and international NGOs began to discuss the future of the organization with bureaucracy, so that the political costs of control increased for the States (Guimarães 2012).

Regarding their governance, the five institutions of the World Bank have a power structure similar to the IMF, basically consisting of the Board of Governors, Executive Directory, the figure of the Managing Director, and other members of Senior Management, besides the organizational management units. The Assembly of Governors is composed of 188 member countries, with each member appointing a governor and an alternate for a period of five years. It is, in theory, the highest level of power within the organization, but similar to the IMF, it delegates most of its functions to the Executive Directory, except those directly granted by the Articles of Agreement. Senior Management is composed of high-ranking bureaucrats appointed by the countries, and career bureaucrats, with the responsibility for the technical conduct of organizations. The Managing-Director is responsible for managing the Bank in general and chairing meetings of the Executive Directory. He is elected by the executive officers for a five-year term with the possibility of re-election (World Bank 2020).

The Executive Board is the most important organ of the organization in practice. It is currently composed of 25 executive directors, plus the figure of

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the Managing-Director. It is responsible for managing the general operations of the Bank in addition to exercising all powers delegated by the Assembly of Governors under the World Bank's Articles of Agreements. Like the IMF, executive directors have a dual function within the institution. They are employees paid by the World Bank but representing their member countries, defending their interests within the institution. However, unlike what happens at the IMF, the alliance between Senior Management, bureaucracy, and civil society weakens the Executive Board in the organization's control process. The World Bank is commonly seen in the literature as less susceptible to the influence of its member countries than the IMF, due to this greater bureaucratic autonomy within the institution (Guimarães 2012; Apolinário Júnior 2016).

The World Bank, like the IMF, has a voting system based on a quota system proportional to the contribution of its members. Thus, the decision-making process takes place based on the relative voting power of its members. Each member has 250 votes plus one vote for each share acquired from the institution's shares (Apolinário Júnior 2016).

Of the twenty-five seats on the Executive Directories, only five are occupied by countries that have enough votes to directly nominate their representatives: the United States, Germany, Japan, France, and the United Kingdom. Recently, Russia, China, and Saudi Arabia have also appointed their representatives without the assistance of other countries due to the increase in their participation quotas. As in the IMF, the remaining countries occupy the remaining seats through constitutions formed by several countries but led by one in particular. These countries form alliances to elect a representative to act on behalf of the countries that make up their constituency. As in the IMF, these elections take place every two years, and although there are no formal rules for forming these coalitions, there are clear rules about the process by which these elections take place. In practice, the compositions of these constituencies vary very little regarding the IMF coalitions, and vary even less among the World Bank agencies themselves (IMF 2020; World Bank 2020).

III. Theoretical Framework

The study of international institutions has acquired a prominent role in the field of international relations over the past few decades. Martin and Simmons (1998) point out that the first works carried out systematically on the topic, in a post-World War II context, presented highly practical analyzes on the role of OIs in the international system, so that the focus of the analysis of these works was how these new institutions addressed the problems they were supposed to solve. Few authors at the time were optimistic about the effectiveness of these institutions, largely because of the predominance of the realistic perspective in the period, which skeptically viewed the capacity of these organizations to constrain the performance of States (Goodrich 1947; Malin 1947; Knorr 1948; Kindleberger 1951).

A new wave of works published over the 1950s began to analyze, then, what impact these institutions and their sets of norms could have on the behavior of States, notably the great powers (Johnson and Niemeyer 1954). Martin and Simmons (1998) highlight that some of these researches presented many insights that would later support the "modern" institutionalism approach. However, due to the lack of a theoretical tool capable of aggregating all these observations and of a systematic organization of these studies, many of the findings of the period were only rediscovered and developed decades later. They also point out that this fact becomes more evident in the analysis of the relationship between the domestic politics of the powers and international institutions, since some studies of that time already highlighted the role of domestic actors in this process (Matecki 1956).

It should be noted that these first studies on OIs were much less naive, legalistic and more fruitful than is usually credited. This literature was not only concerned with finding out whether IOs mattered, but what mechanisms could be thought of to analyze these effects. Transparency, legitimacy and domestic pressures were topics suggested in these studies, although there was no theoretical framework capable of condensing these findings. This research agenda ended up being deprecated by a more behaviorist agenda, which gained strength with the incorporation of methodological tools imported from American political science (Martin and Simmons 1998).

This new research agenda focused on analyzing how that power was exercised within these institutions. Using methodological tools used to analyze legislative behavior in US domestic politics, this agenda focused on analyzing the voting behavior of countries within international institutions (Carter 1950; Ball 1951; Rieselbach 1960; March 1955). This change of agenda did not come without criticism; some authors (Emerson and Claude 1952) drew attention to the fact that voting in international bodies did not have the same functions as voting in democratically elected parliaments. It is noted that one of the factors that influenced this agenda was the priority given to forms of social sciences that were replicable and objective so that there was a prioritization of the method over the substance (Martin and Simmons 1998).

In response to criticism by the most skeptical about the United Nations General Assembly's centrality in world politics, and the influence of other topics in American political science such as the study of bureaucracies and political systems, Cox (1973) argued that international organizations could be analyzed fruitfully, as long as they were seen as distinct political

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systems with specific characteristics. His work encouraged studies in the field of IOs to consider more transgovernmental models in their analysis. While research inspired by behaviorists typically assumed a unified model of state interests and actors, Cox focused on transgovernmental coalitions involving governments and IOs (Martin and Simmons, 1998).

The 1970s brought a new range of challenges to the study of IOs. Ernst Haas neofunctionalist approach to regional integration processes coupled with methods brought in from American political science, such as survey research, rekindled researchers' interest in analyzing how international institutions shape the behavior of actors (Schmitter 2005). However, the lack of consensus regarding the influence of IOs on the States behavior, the methodological problems of these researches, and the apparent stagnation of integration processes weakened this research agenda (Martin and Simmons, 1998).

Martin and Simmons (1998) highlight that the international events of the 1970s gave rise to studies that focused on international regimes, these, defined as rules, norms, principles, and procedures that generate expectations regarding the behavior of States (Hoole 1977; Hopkins and Puchala 1978). This change of focus has made the research on international regimes move in three directions: 1) some authors have focused their analysis on the process of creation and transformation of these regimes, and on the consequences of its norms and rules on the behavior of states (Krasner 1983); 2) a branch of these researches, in line with constructivist ideas, turned its attention to the subjective interpretation of these norms (Ruggie 1972); 3) some authors, especially Keohane, based on functionalist assumptions, argued that these regimes provided ways for States to overcome problems of collective action, reducing transaction costs and information asymmetries (Keohane 1989).

In general, the regime schools of the 1980s had the strength to explain the creation and maintenance of international institutions. However, their flaws opened space for criticism, especially by the realists, as these theories did not satisfactorily explain the effects of IOs on the behavior of States. Some realists, particularly the neo-realists, raised objections to the institutionalist research agenda. Grieco (1988) and Mearsheimer (1994) argued that states' concern about relative gains could prevent them from seeking more intensive cooperation, especially in the area of International Security (Mearsheimer 1994; Grieco 1988). They also pointed out that there was little empirical evidence that institutions shaped behavior States (Martin and Simmons, 1998).

The most recent studies on IOs, especially from the 1990s until today, sought to overcome the previous debate with the use of broader sociological approaches that incorporated the notion of global governance (Ruggie 1993). These approaches sought to understand how some norms of these institutions are internalized by States, constraining their behavior. However, these theories failed to consider how bureaucracies generate differentiated interests that influence the process of creating standards and its internalization by States. During this period, the agency's strategic action was not yet a relevant research topic. The subject of bureaucratic autonomy was not part of the research agenda in IOs until lately. Recently, some works linked to the functionalist approaches of the 80s and 90s that use the principal-agent theory have made this effort (Pollack 1997; Nielson and Tierney 2003; Hawkins et al. 2006).

The delegation theorists, using principal-agent models, sought to understand how the principal delegates power to the agent so that the later acts on behalf of the former (Nielson and Tierney 2003). The principal-agent approach does not necessarily imply any assumptions about the preferences of the actors. In this sense, this theory is compatible both with the approaches that postulate that the actors act rationally for selfish interests and with the theories that see the actors as altruistic, limitedly rational. What aggregates these theories under the principal-agent approach is the focus on the substantive actions of the principals in guaranteeing conditional authority and designing institutions in order to prevent possible opportunism by the agents (agency loss). In this sense, the relations developed between the principal and the agent are always governed through a contract, formal or informal, limited in time and space, with the principal having the right to revoke it (Hawkins et al. 2006).

Hawkins et al (2006) point out six reasons why this delegation occurs on the international stage: specialization of work, control of political externalities, facilitation of collective decision-making, dispute resolution, increasing credibility, and creating a political bias. The principal delegates power to the specialized agent so he can do what the principal does not want or cannot do. The more expertise the task requires, the greater the probability of delegation. The principal also benefits from delegation when there are political externalities (Milner 1997). These externalities can occur under two conditions, characterized as coordination and collaboration dilemmas. The coordination dilemma arises when actors want to avoid results that are bad for both parties. The delegation of power to a third party can help to solve this problem. Similarly, the dilemmas of cooperation can also be mitigated through delegation. The idea is that the actors create mechanisms to guarantee a specific result that benefits everyone involved, despite their individual preferences (Hawkins et al. 2006).

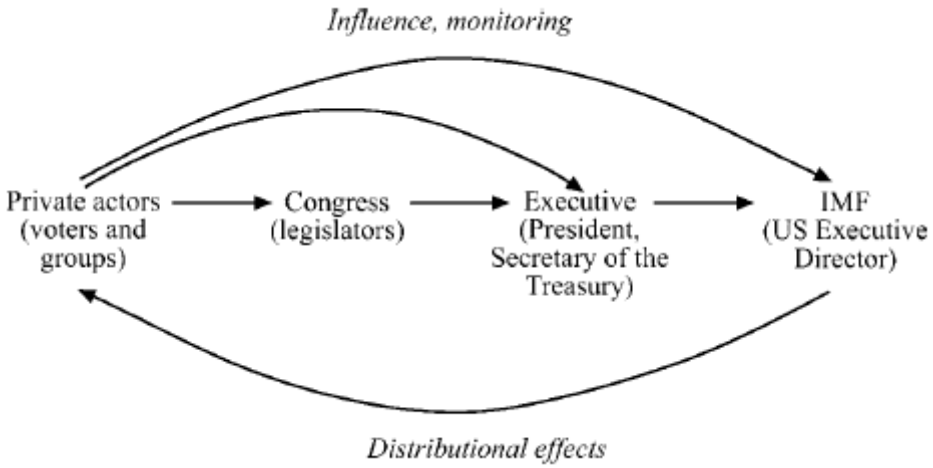
The idea of facilitating collective decision-making through delegation is evident when actors have individual preferences. In this case, this group of actors

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is unable to agree on a common decision on a given policy. Delegating authority to an agency that will be responsible for formulating the agendas can lead to a balance between the parties. Delegation for dispute resolution occurs when States delegate authority to an IO. States can also delegate authority to an agency to maximize the credibility of their political commitments. Thus, the agent could guarantee compliance with long-term policies, even when they are not in the principal's immediate interest. Finally, the actors can choose to delegate to create a political bias, with a lock-in objective. The idea is that any political action will imply winners and losers. Winners at a given historical moment can use the delegation to insulate the beneficiaries of a given change action in the future (Hawkins et al. 2006).

IV. The Governance of the IMF and the World Bank

Analyzing the IMF and the World Bank, we note that the delegation of power could occur as a way of creating an aura of neutrality in these organizations and, consequently, guaranteeing the legitimacy of their policies. At the same time, the great powers, named the United States, would maintain mechanisms to ensure that this staff does not act contrary to their interests. For example, The US representative at the IMF needs to be approved by Congress. Also, he needs to report regularly to the domestic sectors of his country. Broz and Hawes (2006), in their study on the role of the US Congress on the operations of the Fund, point out that because the United States has more than 15% of votes in the institution, the country is capable of vetoing any significant change in the Fund that could affect US interests. They use the principal-agent theory to analyze the influence of private actors in the congressional votes regarding the IMF (Broz and Hawes 2006).

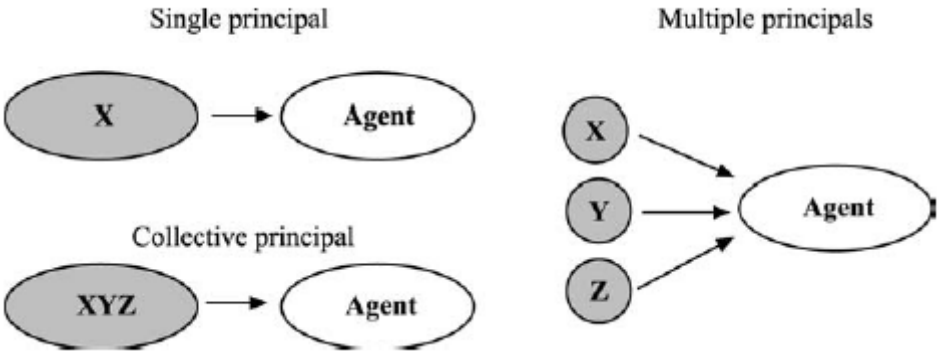


Source: Hawkins et al (2006). Delegation and agency in international organizations

Figure 2: Chains of delegation

Countries that do not have enough votes to indicate an Executive Director individually elect their representatives through constitutions formed by several countries, but led by one in particular. These executive directors must be elected through the votes of a group of countries. In this case, there is more than one principal in this relationship. This phenomenon is known as complex principal. Hawkins et al (2006) point out that the simplest agent-principal relationship involves only one principal and only one agent. However, when more than one principal delegates authority to an agent, it is a complex principal. This phenomenon can occur in two ways. The first case is when an agent has more than one contract with organizationally distinct principals. In this case, it is a delegation relationship with multiple principals. The second type occurs when the principal complex consists of a collective principal, in which more than one actor assigns authority, through a common contract, to only one agent.

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Source: Hawkins et al (2006). Delegation and agency in international organizations

Figure 3: Types of delegation

We note that among the different theories formulated to examine the phenomenon of international bureaucracies, the principal-agent perspective appears to be one of the most appropriate theoretical models for analyzing the governance of International Financial Institutions. In particular, in the investigation of the countries' representation within the Executive Board, an instance where the executive directors exercise a dual function within these organizations. Although they represent the interests of their principals, they are paid by the organizations.

V. Concluding Remarks

This work sought to clarify the functioning of the two principals institutions in the international financial system: the IMF and the World Bank. To this end, we carried out a synthesis of the evolution of these institutions, besides a descriptive analysis of their power structures. We also sought to determine which would be the most appropriate theory for the study of the internal processes of both organizations. To answer this question, we conducted a review of the literature on international institutions, highlighting the evolution of this area of study in recent decades.

Among the different theoretical approaches regarding the functioning of international bureaucracies, the principal-agent theory appears to be one of the most appropriate theoretical models for analyzing the object in question. This theory satisfactorily explains the process by which States delegate power within these organizations. Also, the principal-agent approach does not imply any assumptions about the preferences of the actors. This theory focuses only on the substantive actions of the principals in guaranteeing conditional authority and designing institutions to prevent possible opportunism on the part of the agents.

This work showed how countries delegate powers to their representatives in these IOs. In this sense, the executive directors have a dual role in these organizations. While representing the interests of their countries, they get paid by these organizations. Finally, this article also highlighted the concept of principal complexes, which would be when more than one principal delegates authority to an agent. This concept helps to explain the process in which several countries combine their votes to choose an Executive Director, who will represent the interests of the entire coalition

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