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ABSTRACT

Who Runs the IFIs?*

The World Bank and the International Monetary Fund play a key role in the international economic architecture. Yet, they are also 'political' institutions and their activities inevitably respond to the national interest of one or a group of shareholders. Assessing the role of 'influential' shareholders is, however, made difficult by the fact that votes in the Boards of either institution are rarely recorded and at any rate are not made public. We take a different route and look at the pattern of lending of both institutions as a function of their institutional mission and the commercial and financial interests of their main shareholders. We find that the Bank and especially the Fund are quick to respond to the borrowing needs of their members, particularly during a balance of payments crisis. Apart from that, however, the lending pattern of the two institutions is influenced by the commercial and the financial interests of the US and, to a lesser extent, of the EU. European countries in particular seem to be much more concerned by their commercial interests. The role of Japan is even smaller and more regional, being largely confined to decisions concerning Asia.

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Introduction

The major international financial institutions ---the World Bank Group (WB), the regional development banks (Inter-American, Asian and African, European) and the International Monetary Fund (IMF)-- are capital-based. The countries belonging to them have shares in their capital¹, which determine the relative weights of members in their decision making. Inside the IFIs, decisions are normally made either by a simple majority of shares (or votes corresponding to them) or, for the most important ones by a qualified majority of shares. In this respect the IFIs are fundamentally different than the UN-based international organizations, where the “one country one vote” rule prevails, and the World Trade Organization (WTO), where unanimity is the norm in decision-making.

Posing the question of “who runs the IFIs” may thus appear redundant, or even provocative. The simple answer would seem to be: their shareholders, i.e. the majorities of them that coalesce around the various issues under decision. The distribution of shares and votes in the World Bank and the International Monetary Fund is shown in Table 1. It is virtually identical in both institutions, and shows some notable features of the structure of power inside both of them: G-7 countries do not hold a majority in the World Bank and the IMF, but they come quite close to it, with 46% of the quotas. G-10 countries jointly have it. Europe and North America are close to majority ownership in both organizations. Practically all of the European quotas are held by EU member countries. Industrial countries hold together nearly 61% of the shares and votes, Russia nearly 3% and developing countries about 36%. Of the “non-industrialized” membership, the single most important shareholder is Saudi Arabia, with above 3% of the votes (a large and uncorrected anomaly arising from the brief period of “commodity power” in the 1970s, when the IMF borrowed resources from oil-exporting countries, and Saudi Arabia in particular). After it, come China (3%), India (2%) and Brazil (1.4%), i.e. the large developing countries. The regional development banks have, instead, region specific distributions of shares and votes, with “non regional representation” in their capital. European countries, for example, have capital shares in the Inter-American, Asian and African Banks.

¹ Technically called “quotas” .

Yet, the majority rule that applies inside the IFIs leaves open other questions: are there “normal” majorities (made up, for example, by one particular set of shareholders)? Are there blocking minorities, or even single members with blocking power? These questions are as legitimate as they would be for any similar public company, national or international. In many respects they are also core questions, since the IFIs are international in nature and their members, and shareholders, are sovereign states. In these circumstances therefore, when one thinks of majorities of shareholders, or blocking minorities of them, one necessarily configures coalitions of states represented by their governments, and thus inherently political coalitions. The limit situation is when a single shareholder (i.e. a single country) has the power to prevent the institution as a whole from taking a decision. This the case in both the World Bank and IMF on matters of capital expansion, which must be taken by 85% majority, and can thus be blocked by the United States alone or by the UK, France and Germany acting in concert. In such case, the major shareholder, or a very small group of like-minded ones, exert by themselves a veto power of considerable policy and political weight.

In normal circumstances, simple majority decisions are made by the Executive Boards of these institutions², where shareholders-appointed (i.e. member country-appointed) Directors sit. They make decisions on lending, on policies or on organizational matters. And these, one may argue, must reflect common denominators of country interests and goals (institutional, country or region-specific). These “winning” coalitions of shareholders, that vary from case to case, may have at their basis shared objectives (such as preventing a financial crisis in a country or a region, or helping a specific country develop economically and financially), or common national economic concerns in mind (preserving the value of national assets, enhancing national commercial relations or furthering the interests of nationals as suppliers of goods and services). Furthermore, motivating coalition and majority building inside IFIs can also come from common or parallel political interests. These can be regional (in cold war times, they were global) or country specific, such as the protection, or simply the helping, of friendly nations (be they neighbors, partners in regional arrangements, former colonies, strategic allies, political friends).

² All these institutions are formally headed by Boards of Governors, which meet once a year, and thus must leave to Executive Boards, always in session, the day to day running of the institutions. The key decisions are demanded to the Boards of Governors, but are first effectively arrived at in the Executive Boards.

Political positions inside these institutions are in many ways inevitable, given their nature, ownership structure and functions. Despite claims of “functionalism” and “content-based” decision making, which are standard regarding international financial organizations, a good part of their decisions are inevitably political, in the sense that they respond to the national interests of one or a group of shareholders, who can mass enough support from the others to carry them through or to block them. There are famous “historical” such cases, like the decision of the World Bank not to finance the Aswan Dam in Egypt in 1955 or the decision of the IMF to extend a huge loan to Mexico in 1995 (supported by a credit facility of the United States and a Bank of International Settlement loan on account of the Group of 10), that are normally rubricated as political decisions. The former took place under pressure from the United States and the United Kingdom wishing to “punish” in some ways President Nasser for his dealings with the Soviet Union. The second was taken, largely on behalf of the United States (and the nine other members of the G-10)³, set on helping a critically important country in the Western Hemisphere.

Yet, to answer to the questions of what are, if any, the recurrent coalitions that emerge in the governing boards of these institutions and of how frequently they hold sway, is more difficult than it may appear on the surface. The practice of the Executive Boards of the IMF and the World Bank, for example, is to discuss specific items of their decision agendas in depth and length, and then approve or disapprove the proposals under consideration without formal votes, when it becomes clear in which direction the (weighted) majority of the Directors is going. The formal votes are few and far between. The minutes of Board meetings do not reflect the yes/no votes cast by the single, or groups, of shareholders represented in them⁴, but only the abstentions or the rejections (i.e. the contrary votes) when the shareholder in question so requests specifically. Therefore, precise reconstruction, and quantitative analysis, of decisions taken inside these institutions are not possible, even if one could obtain minutes of past Board meetings. Actual voting patterns are not there to be analyzed, and hypotheses about them cannot be formulated and statistically tested.

³ As shown above, the G-10 countries have a majority in the shares of both institutions.

⁴ Apart from the five major shareholders (United States, Japan, Germany, France and the United Kingdom, plus Saudi Arabia, Russia and China for historical reasons, that hold individual seats in the 24 members Boards, all other countries group together in constituencies and elect an Executive Director that represents them on the two Boards.

Views held on who runs the IFIs

Views are nonetheless often expressed on who holds the most influence in these institutions. Some of them are held with particular vigor. The United States, the G-7, the United States-Europe acting in concert are often identified as the critical power holders in both the World Bank and the International Monetary Fund (Woods, 2003)⁵. In many ways they are, as more extensively argued below. There is even a widespread outside perception that the United States holds an unusual amount of power in one or both of them.⁶ Japan is often credited as a major influence in the Asian Development Bank, and the United States again in the Inter-American Development Bank.

These views are often expressed critically, both outside and inside the various “circles of power”. Claire Short, then Minister of Development Cooperation in the United Kingdom, is reported to have said “the US gets the World Bank and Europe gets the IMF.....What about the rest of the world? This is disgraceful”(Bretton Woods Project, 2002). This statement regarded apparently the informal power sharing agreement that has held so far, between Europe and the United States, on the selection of the Heads of the two institutions.⁷ Since both the President of the World Bank and the Managing Director (MD) of the International Monetary Fund hold considerable power and prestige, having a certain national in these positions is in itself an indicator of influence.

But, saying (correctly) that a) decisions in the IFIs are majority-based, b) majorities are variable in their Executive Boards, c) coalitions behind the various decisions are impossible to identify with precision, given the way majority rule is exercised inside them, and d) United States or US-European coalitions can dominate the institutions, one begs the question of what are

⁵ This author argues that at the core of US influence lies the financial structures of the two institutions. Additional resources to the capital of the IMF and aid resources to IDA do in fact need the consent of the United States because of the above-mentioned 85% rule of decision.

⁶ A recent survey of 2600 opinion leaders in 48 countries, for example, found that they believed that the World Bank was too much influenced by the United States .

⁷ According to which the United States as the largest shareholder on both the World Bank and the IMF (with about 17% of the capital) select a candidate for the Presidency of the World Bank Group, whom the (Western) Europeans (and Japan) support, and the Europeans (the largest bloc of share holders in both, with a combined capital shares of over 30% of the total) select a candidate for the Directorship of the IMF, whom the United States (and Japan) support. This “pact” arrived at when Japan was a minor shareholder non longer reflect current realities, since Japan has now over 6% of quotas in the Bank and the Fund.

the most common or regular patterns of influence that are at least implicit in their decision making. A key issue is how these patterns can be identified and analyzed.

Patterns of Influence in the World Bank and the International Monetary Fund

In this paper we look at two IFIs --the World Bank and the IMF-- not only because they are by far the most important among the existing ones, but also because they are the most homogenous in structure and decision making. They have the same origins (the Bretton Woods Agreements of 1944), they have the same members (to become part of the WB, countries must first be admitted to the IMF), they have largely similar Charters, and are both global in membership (184 members in July 2002)⁸. They are also complementary institutions in many respects. Thus, patterns of influence can be analyzed in both, separately and jointly.⁹

Some indicators of influence inside the World Bank and the IMF can be found in the national composition of their staffs and managements. The staff is in fact influential in both of them. It has high skills and often deeply held beliefs. Functionally, staff passes key technical judgments on country problems, programs, needs, goals and means. It advises management on issues that need to be brought to the attention of the Boards of Directors of their organizations, and prepares the documentation on which the Executive Directors in turn base their decisions. Both institutions follow a technocratic modus operandi, using documents and analysis quite intensively. The supply of this documentation and analysis is thus critical to the quality and speed of decision making.

The overall staff of the IMF is 25% US, 24% European, 7% from other industrial countries such as Canada, Japan and Australia-New Zealand.¹⁰

⁸ See Bakker (1996) for a competent description of the origins, structure and rules governing the IFIs, including the World bank and the International Monetary Fund. This book also covers salient aspects of their histories and evolution.

⁹ The most important of which was the General Agreement to Borrow from 10 industrial countries (which became the G-10) signed in 1962.

¹⁰ It would be preferable to look at distributions of professional and managerial staff by nationality, especially because the support staff does not weigh as much as the professional/managerial staff in influencing judgments and decisions. WE were not able so far to obtain this data.

The staff of the World Bank is 22% US, 13% European and 3% from other industrial countries (Table 1). Developing country staff would seem to dominate numerically here, but the reported shares could be biased by the presence of much support staff from developing countries in this institution. As far as they go, these figures indicate that the United States has a considerable staff presence in both organizations and so do European nations.

Staff is, nonetheless, hired by the management of the two organizations, largely outside the influence of member country governments. In the Fund and Bank there are no formal staff country quotas, as for example in the United Nations agencies, and the criterion of “broad geographical distribution” of staff to which both institutions are bound by their Charters is applied so as not to create rigidities and not to interfere with standards of technical competence and dedication that have traditionally been high in both of them. The nationality distributions carry, therefore, a somewhat ambiguous meaning. They do appear to be roughly consistent with both an hypothesis of size and national political influence of members, reflected in the “revealed choices” of management concerning hiring, but also with geography. Location of the institutions (Washington D.C.)¹¹ and cultural affinity, favor US nationals, nationals of English speaking countries, here included developing countries such India and Pakistan, at the expense of Japanese and perhaps some continental European nationalities.¹²

Management is powerful in both institutions, given their size¹³ and the hierarchical type of organization to which they conformed for a long time (now stronger in the IMF than in the WB, but almost equally so in both of them until the 1990s). Top management in effects controls the agenda setting, formally and substantively. Formally, each Executive Director can put any item on the agendas of either institution, but in practice this is never done. The time and content of the agendas are determined by top managements, often without substantive consultation with their Boards. In addition, given the strong consensus-propensity of both institutions, the analyses of staff and the skill of management in presenting problems and possible solutions that can aggregate a vast number of shareholders, assume a key importance. They largely determine the boundaries of many debates and mediate among shareholders. In both ways influence is exerted.

¹¹ By Charter, the institutions must be located in the country that holds the largest share of their capital.

¹² There may be as well supply constraints at work. Staff of some nationalities could be in short supply.

¹³ The World bank has nearly 9000 staff. The IMF about 2600.

Managers are chosen up to certain level (Country Director in the WB and Division Chief in the IMF) by their respective Heads almost exclusively on the basis of technical competence. Here skills are both necessary and sufficient for being appointed. Beyond that, and up to the next level (Vice-President in the WB and Director of Departments in the IMF), managers are chosen on the basis of both competence and nationality. Competence at this level is still necessary, but not sufficient to be chosen for the positions in question. At the top levels (Managing Directors in the WB and Deputy Managing Director(s) in the IMF) the choices are clearly political, which means that nationality becomes a necessary condition for the nomination. Therefore, by looking at the nationality of top managers in both institutions, some inference can be made as to the relative influence of shareholders.

The Presidents of the World Bank have all been US nationals. The World Bank's managerial structure has changed a great deal over time. But, when a number 2 position was operative inside the WB (e.g. under Robert Mc Namara from 1968 to 1981 when there were a Senior Vice President for Operations), he too was American. The same under President Tom Clausen until 1986. Under President Barber Conable, after the well known "reorganization of 1987", two parallel number 2 positions were created (Senior Vice-President for Operations and Senior Vice president for Finance). One of them was American. Under Lewis Preston, and then under Jim Wolfensohn, the last two Presidents of the World Bank, three Managing Directors were created immediately under them. At least one of the three was always American. Europeans have held positions of responsibility vis-à-vis Western and Central Europe and North Africa. Despite the justifiable public perception of US overwhelming influence in the World Bank, core European interests in parts of Europe and Africa have also been reflected in managerial responsibilities allocated inside this organization.

The Managing Directors of the IMF have all been European. The first was Belgian (Camille Dutt), the second and third were Swedes (Ivan Rooth and Per Jacobsson). Three of the next five were French (Pierre Paul Schweitzer, Jacques De La Rosiere and Michel Camdessus). In between (1973 to 1978) there was a Dutchman—Johannes Witteveen, and lately a German (Horst Kohler). The current Managing Director, Rodrigo Rato, is a Spaniard. Particularly long was the period of helmship of this institution by Frenchmen: 1979 to 1999. Throughout the period during which a formal number 2 in the IMF has existed (either a Deputy MD or a First Deputy

MD), it was always been an American national. The situation is still the same today.

Until quite recently, therefore, one might have characterized the US position in the top management of the World Bank as dominant, while the top management of the International Monetary Fund for at least the past thirty years could be seen as a kind of European-US partnership. All in all, however, the influence of the largest shareholder (the United States) and of a few European nations (traditionally the United Kingdom, France and more recently Germany) through the top management of both institutions seems to have remained very strong, continuous and visible in both institutions.

More difficult is to gauge the influence of member countries in the Boards of Directors of the two institutions. Assessments of this nature are somewhat subjective and also inevitably tinged by specific personalities, but at least the "oral tradition" concerning the two institutions has gone fairly consistently in the following direction: US Executive Directors are generally very influential inside the two Boards, followed by British, French and recently also German Directors. The United States Treasury, moreover, has been able to exert a relatively stronger day to day monitoring and "control" over both organizations because of its locational advantage.

In the end, however, in order to infer patterns of influence in the WB and IMF, a safer and more meaningful way may be that of looking at the broad factors that shape their lending and at how it is distributed among members. Decisions about lending are the most continuous and homogenous among those made inside them. They are also precisely known. The World Bank lending is none the less by nature more steady, being influenced (at least historically) by development needs, while the IMF lending is more cyclical, being more determined by country events and exceptional circumstances, such as balance of payments or financial crises. The World Bank, moreover, should lend "with market", while the IMF substitutes market by lending in times of turbulence and low confidence in borrowers. In deciding how much and to whom to lend, both institutions are driven by an assessment of local and global needs –the particular situation and prospects a country faces and the possible external (at times systemic) consequences that may follow from its failures. When risks are pervasive and countries are large, the IMF lending also shape the ways in which World Bank and other Regional Development Banks lend.

Yet, every lending decision that is made in the IFIs also reflects a judgment of the benefits that accrue to members, as borrowers or lenders. There can be benefits of stability (positive externalities) that accrue to all. There can be benefits that accrue directly to the borrowers (help with the financing of a project or a balance of payments deficit). There can be benefits that go specifically to certain lenders (as the safeguard of national interests, the enhancing of trade linkages, or the protection of domestic banks exposed in a borrowing country) . By analyzing the stream of decisions made by the Boards of the two major IFIs concerning loans and credits to members (by IBRD and IDA) and “quota purchases” or access to special facilities (in the IMF), and looking for patterns and factors of relative influence, one can infer some of the specific functional interests to which they may conform and the country or regional advantages that they can serve most (US or European, for example)¹⁴.

World Bank and IMF lending since 1984

Conventional wisdom is about an ever expanding, and intrusive, role of the World Bank and the IMF in the economic lives of member countries. However, at least on one important count, namely the amount of disbursements to developing countries, the conventional wisdom seems to be misleading. Figure 1 shows that over the last twenty years the value of disbursements by the two Bretton Woods institutions, normalized by GDP, has if anything trended downward. A glance at regional patterns (Figure. 2) shows that most of the downward trend in the amount of the IFI disbursements comes from a progressive disengagement from Sub Saharan Africa, possibly a reflection of the efforts made to substitute lending to the poorest countries with debt cancellation. Still, the pattern is at odds with the ongoing rhetoric concerning the two institutions and with outside perceptions.

Both Figure 1 and 2 also show a marked variability in the pattern of disbursements to member countries. The impact of systemic currency crises is visible in the two lending peaks: in 1995 – following the Tequila crisis –

¹⁴ We do not investigate in this paper whether bilateral lending is even more subject to political influence. The issue has been extensively studied in the literature. See for instance Rodrik (1995).

and in 1997-98 -- in response to the outburst of the East Asian crisis. In both these episodes, the IFI's were quick to react to financial emergencies by extending generous loans to the countries under pressure in Latin America and Asia.

The aggregation of IMF and World Bank disbursements under a single heading hides, none the less, a number of interesting patterns. There are indeed some relevant differences between the two institutions. Consider first the behavior of disbursements to Asia (Figure 3). Three facts stand out. First, the World Bank provides a significantly larger amount of resources to this region in any given year than the IMF. Second, the trend of disbursements for the World Bank, but not for the International Monetary Fund, is clearly downward. Third, while World Bank's disbursements show some rise in the aftermath of a crisis, the IMF is much quicker to react to a balance of payments-financial emergency than the World Bank Group.

More or less similar conclusions come from an examination of the patterns of disbursements in Latin America (Figure 4). Again, the International Monetary Fund reacts much more swiftly to the outburst of a crisis than the World Bank. Also, the role of the latter as a provider of fresh finance is shrinking over the period. This time however, the size of disbursements by the IMF seems to be at par with those of the World Bank Group, particularly in the later years of the sample, possibly reflecting the protracted economic emergency in the region.

The case of Sub Saharan Africa (Figure 5) deserves a separate mention. As noticed before, the weight of total disbursements by the two IFI's shows a negative trend. Whether this simply reflects debt cancellations in the context of the Highly Indebted Poor Countries (HIPC) program or some more fundamental reasons is too early to tell. We can only speculate as to whether absorptive capacities in Sub Saharan African countries, particularly their inability to stick to sound stances in policies, have represented a stumbling block to the expansion of lending activities of the World Bank and the International Monetary Fund in these countries in the 1980s and 1990s. Still, if persistent, this trend needs to be carefully watched and better understood in its determinants. At any rate, also for Sub Saharan Africa there are some relevant differences between the two institutions. First, the role of the World Bank is now significantly larger than that of the IMF. Second, in the case of Sub Saharan Africa, disbursements by the IMF are also on a downward trend.

To sum up, the overall role of the IFI's, and in particular that of the World Bank, as a source of development finance has been progressively eroded, most likely as a reflection of the greater role of private capital markets in emerging countries. However, even in Sub Saharan Africa, where private flows are conspicuously absent outside countries with mineral resources, the World Bank has been unable to play an expanded role or even to fully hold her ground as a lender. IFI's have been substantially more effective, in terms of lending volumes, in their response to balance of payments crises. By and large, however, this positive finding reflects mainly the behavior of the IMF.

Patterns of lending and the role of influential shareholders

For the purpose of this paper, a key question is how the size and the pattern of disbursements by the two institutions reflect the interests of their shareholders. Two questions spring to mind. Are such institutions just devoted to provide global public goods such as financial insurance to their members, the stability of the international financial system or the reduction of poverty? Or are there influential shareholders that are relatively more successful than others in pressing their national interests and have a disproportionate impact on the lending policies of these institutions?

Concerning the first question, our analysis so far shows that disbursements, particularly by the IMF, were strongly affected, at least in the 1990s, by the outburst of currency crises and, hence, at least implicitly by the desire to limit the national and international repercussions of national or regional financial instability. Moreover, both institutions have repeatedly asserted their commitment to poverty reduction, which in itself, and given the respective means of action, should be a much greater concern of the World Bank than the IMF.

Assessing the role of influential shareholders' interests is relatively more complex. Powerful shareholders may be keen to promote their national interests by channeling IFIs resources toward those borrowing countries to which they are most closely linked in political, ideological, historical, commercial, or financial terms. Unfortunately, some of these factors are not easily amenable to quantitative analysis. Geographical links are by definition

quite stable and their impact hard to identify, particularly in a time series context. It would be hard to tell for instance whether geographical proximity to the US or cultural affinities with Europe is predominant in affecting the pattern of disbursements to Latin America. Similarly, it is difficult to assess whether Sub Sahara Africa receives relatively more funds, as a percentage of its GDP, because of its historical (colonial) connections with Europe.

Commercial and financial links instead are easier to measure and their effects can be, at least in principle, identified. Trade relationships between US and Latin America have often been mentioned as a major cause of the protracted intervention of IFI's in the region (Bulow and Rogoff, 1989). Similarly, the need to preserve the stability of the US banking system in the aftermath of the 1982 debt crisis was seen as a main motive for pushing the two IFI's to increase their lending to the region.

Even so, assessing the impact of trade and economic links on the behavior of influential shareholders and on the pattern of lending is a complex task. The simplest case would be if a lending institution were run under the influence of a single shareholder. We call this the monopoly case. Lending decisions would then be mainly determined by the commercial and financial interests of the 'monopolist'. Borrowing regions that have strong economic links with the monopolist would be favored in the allocation of lending. Alternatively, there may be a "collusive oligopoly" setting, where the main shareholders cooperate to advance their joint interests. Differences in the bargaining power between the various players may nonetheless mean that one oligopolist carries more weight than the other. Again, regions with tight links with the more powerful player would be favored. The third case is that of a (partly) segmented duopoly (or oligopoly), where 'markets' for IFI lending are not fully integrated. In this context, even relatively weak shareholders may nonetheless carry considerable weight in a specific region ('market').

These models offer different predictions as to the pattern of lending. The monopoly model would predict that only the links with the dominant shareholder affect the pattern of lending. By contrast, the collusive oligopoly model would hold that a region's access to lending will be determined by the aggregate – trade or financial - exposure of the main shareholders. Even in this model, though, if one shareholder carries more political weight than the others, its exposure will disproportionately affect the distribution of lending. Finally, in the segmented market case, different shareholders may carry

different influence depending on the lending region being considered. These are all testable implications.

With these considerations in mind, we first look at the main links between major shareholders of the World Bank and IMF and regions to which lending goes. In Figures 6-8 we report the weights of different regions in US and EU exports. We see how exports to Latin America are much more significant for the US than for the EU, with the gap increasing in the aftermath of the NAFTA agreement. The opposite holds for Africa. Finally, the shares of US and EU exports to Asia are pretty similar, with the EU catching up with the US in the more recent years. As shown by Figure 8, Asia carries a disproportionate weight in Japan's exports. If Japan is to play at least a regional role, it is therefore in Asia where this would be most visible.

Financial links are reported in Figures 9-11. We take as a measure of such linkages the ratio to the lending country's GDP of total consolidated foreign claims of the respective banking sector toward a given region. An alternative, and possibly superior measure, would have normalized regional foreign claims with their aggregate value. Unfortunately, our source – the Bank of International Settlements (BIS) – provides comprehensive information on the aggregate value of consolidated foreign claims only from 1999 onwards. Still, our measure offers some interesting insights. The patterns largely reflect those observed for trade. For Africa, in particular, the EU plays a predominant role in finance as well as in trade. However, banking exposure toward Latin America is not substantially different between the US and the EU during the 1980s, with the EU however taking the lead in the 1990s¹⁵. Differences in the level of exposure between the US and the EU are also much less marked in Asia. Interestingly enough, though, US banks have been substantially more successful in reducing their exposure to this region in the aftermath of the recent crisis. Moreover, as highlighted by Figure 11, Asia also plays a key role in the case of Japan and this may have therefore affected the pattern of IFI disbursements toward the region.

What the evidence shows

¹⁵ European banks played a leading role in the banking consolidation process in Latin America during the nineties and in the financing of privatization.

We turn to more formal evidence on the pattern of lending of the World Bank and the IMF. We focus on the 1984- 2001 period, for which a complete data set could be assembled. We distinguish five developing regions: Africa, Asia, developing Europe, Latin America, and the Middle East¹⁶. Our discussion so far has highlighted that IFI disbursements may reflect the outburst of a financial crisis, regional income patterns (with poor countries likely to receive a disproportionate amount of funds relatively to their GDP) and the direct interests of influential shareholders. In an attempt to capture this set of factors we relate the flows of annual World Bank and IMF disbursements toward a given region to the following variables:

- A set of dummy variables taking a value of one if a balance of payments crisis did take place in that year, and zero otherwise. While financial crises would be better measured at the country level, most of such events, at least in the 1980s and even more so during the 1990s, occurred at the regional level. We feel, therefore, confident that our regional balance of payments crisis variable adequately captures periods of financial stress. Table 2 provides more detailed information on such variable.
- Regional fixed effects, which are intended to capture both the regions' ranking in per capita incomes and other time invariant factors. To allow for changes in the regional ranking of per capita incomes we also tested whether regional fixed effects showed a break between the 1980s and the 1990s.
- The trade and financial exposure of influential shareholders toward a given region¹⁷. Trade exposure is simply measured as the ratio of exports toward a certain region of destination to total shareholder's exports. Alternatively, we could have use total trade (rather than exports), but this would not have changed much the results, being the two highly correlated. As noticed before, financial exposure is measured as the ratio to GDP of consolidated banking claims of an influential shareholder toward a capital-recipient region.

¹⁶ We plan to extend our analysis to a data set that relies on individual countries rather than on regional aggregates.

¹⁷ In a closely related paper, Rodrik (1995) measures political influence through a set of dummy variables that take a value of one if a given country is deemed to be a close friend of the US (France, OPEC).

As dependent variable we take the ratio of World Bank and IMF disbursements to regional GDP. This is to uncover the link between the trade and the financial exposure of the main shareholders and the patterns of IFI disbursements. Otherwise, the small weight of say Africa in the total exports of Europe and the United States would seem to bode ill for the ability of the region to benefit from IFI loans. However, while it is obviously true that large regions, or countries, should have a larger clout in accessing the resources of IFI's, their needs will be proportionately larger, thereby placing a significant burden on the limited resources of such institutions and crowding out the lending possibilities open for other countries. In this sense, therefore, Africa could still benefit from the lobbying effort of one of the main shareholders. We capture this eventuality by normalizing IFI disbursements by the borrowing region's GDP.

We first assess the impact of financial crises on disbursements. We estimate two separate regressions for the World Bank and for the IMF by seemingly unrelated methods. We allow, therefore, for the presence of common shocks to the lending operations of the two institutions. This set-up offers one additional advantage. By estimating two separate sets of regional fixed effects, respectively for the Bank and for the Fund, we are able to infer the relative role of each institution in a given region. In Table 3 we report the results of a regression relating annual regional disbursements by the World Bank and the Fund to a set of regional fixed effects and to our crisis indicator. Two facts stand out. First, the World Bank typically plays a quantitatively large role than the IMF, as shown by a comparison of the regional effects. This is true in Africa, Asia, Latin America, and the Middle East. Only for Europe is the amount of IMF lending in normal, i.e. non crisis, conditions, at par with that of the World Bank. Second, both institutions respond significantly to the emergence of a financial crisis. However, and not unexpectedly, the response of the IMF is substantially larger than that of the World Bank. Following a balance of payments crisis, the IMF is shown to increase its lending by almost half a percentage point of the borrowing region's GDP. For the Bank the increase is less than one decimal point (always in relation to the region's GDP).

Summing up, this set of findings support the notion that the International Monetary Fund plays a key role in cushioning the impact of financial crises on developing countries, with the World Bank having at best a supportive one. However, in normal times, World Bank's lending is substantially larger than that of the IMF. These results conform to well established notions of an

IMF lending massively only in time of crises, and of a World Bank Group intermediating, instead, capital to member countries in a normal way.

We then assess how the pattern of response to crises changed between the past two decades. Econometric results are reported in the second column of Table 3. The first striking finding is in the large increase over time in the size of the coefficient of IMF response to crisis. In the 1980s its value was 0,271. In the 1990s, it is seen to increase by 0,268, thus virtually doubling in size. IMF disbursements reached almost 0.5% of the GDP of recipients. Clearly, this reflects the sizeable increase in IMF intervention during the 1990s when balance of payments crises increasingly involved the capital account of several large countries, rather than simply their current account, and required official intervention on a much larger scale than in the past. Interestingly enough, the size of World Bank response declined in the 1990s compared to the eighties and became not significantly different from zero. Most likely, this finding reflects the fact that while the World Bank Group was quick to react to the debt crisis in the 1980s through a massive increase in the amount of structural adjustment lending, in the next decade shrunk due to overall lending constraints and exposure considerations.

We also test whether the pattern of regional lending by the two institutions changed significantly over the two decades in question. To this purpose, we check whether the pattern of regional fixed effects shows a structural break between them. The results, which are not reported here, are not statistically significant for the IMF, while for the World Bank they indicate a redirection of lending away from Asia and Latin America and toward developing Europe. This well correlates with a new emphasis on transition economies by the Bank and the need to diversify the portfolio of lending. The previous findings of a larger response to crises by the IMF and a more marginal role by the World Bank are also confirmed in this more general specification.

Finally, we turn to the role of influential shareholders. In light of the previous results, we focus our attention on the 1990-2001 period, to reflect the fact (and finding) that both the patterns of lending of the two IFIs and their responses to the crises that emerged were not constant over the two decades. We focus, therefore, on a shorter, but more homogeneous period.

We take our first shot at what we have called the monopoly model. We first estimate a simple equation that seek to capture the notion that the US may be the only influential shareholder in both the World Bank and the International

Monetary Fund. Only US variables - the regional share of US exports and the ratio to GDP of US banking exposure toward regions – are thus added to the right hand side of the previously estimated equation that already included the crisis variable and the regional fixed effects. The results are reported in the first column of Table 4.

The key finding is that the disbursements of the two Ibis are positively and significantly related to both the indicators of US influence that we highlighted. However, one should not read too much in the results derived from this equation, since it was not tested against any alternative specification. In particular, one cannot infer from the findings obtained here that the monopoly model with the United States as the dominant shareholder adequately describes the pattern of IFI lending. Indeed, if we simply replaced all US variables with the corresponding indicators for the European Union we would find again positive and significant coefficients and would conclude that the EU plays a monopolist role in the allocation of World Bank and IMF lending!

In order to discriminate among different hypotheses, we need to specify a more general model that includes trade and financial exposure indicators for the United States, the European Union, and Japan. This was done and estimated. The second column of Table 4 contains the results obtained from estimating such a model. They show a mixed pattern. Financial indicators are not significant for the European Union; conversely, for Japan trade variables have a wrong signed impact on the pattern of IFI lending. Only for the United States, do both trade and financial exposure indicators show a significant, and correctly signed, influence in determining the pattern of IFI lending. These results lend themselves to a simple, but intriguing interpretation: the pattern of European influence seems to be motivated mainly by mercantilistic considerations, with a view to propping up export markets, while for the United States both trade and financial considerations matter in motivating its actions within the IFIs. For Japan, financial considerations are paramount. However, the finding that trade links have a negative impact on IFIs lending is quite puzzling and hard to explain.

The contrast among a globally motivated United States, a mercantilistic oriented Europe and a financially focused Japan is probably too stark. More likely, financial considerations are not totally absent from the lobbying efforts of Europe (or Japan) within the IFI's. Similarly, the desire to support exports is unlikely to be completely absent in Japan's influence-making

process. We, therefore, consider a further generalization of the model where, consistent with the segmented market framework, Japan's trade flows are allowed to affect IFI disbursements in Asia, an area where Japan's presence should be found as particularly significant. Similarly, financial factors also are allowed to play a role for the European Union in Africa, developing Europe, and the Middle East, all regions where EU banking exposure is substantial. More generally, we test for regional patterns of influence separately for either trade and financial exposures and for each of the three main shareholders.

For the European Union, we were able to identify a significant role of financial factors in the case of developing Europe. This is consistent with the fact that the EU banking sector greatly increased its exposure toward Central and Eastern European countries during the 1990s. Trade shares, on the other hand, turned out to play a statistically significant role for all the five borrowing regions, thereby supporting the notion that mercantilistic considerations are paramount in shaping the pattern of EU influence.

For Japan, even regional disaggregation did not help much in solving the puzzle of a negative link between trade exposure and IFI lending. The finding of a negative and significant coefficient for the trade variable carries over to a disaggregated specification and, more specifically, to Japan's trade exposure in Asia. We can only speculate as to the reasons of this finding. One possible explanation is that for Japan exports and FDI to Asia may have become substitutes. If so, a decline in trade exposure would be equivalent to an increase in the stock of FDI, thereby explaining Japan's interest in propping up lending to the region. Regarding financial exposure, we found that all of the action came from Asia, supporting the view that Japan's influence does not extend significantly beyond this region.

Finally, for the United States both trade and financial exposures have a positive and statistically impact on IFI disbursements for basically all five regions. This confirms the view of the United States being the only truly global source of influence in IFI lending.

The results of the final version of the model are reported in the last column of Table 4. Summing up, three facts stand out. First, the United States exerts a dominant role in affecting the lending operations of the IFI's. Financial exposure of US banks is associated with greater IFI lending across all regions. Similarly, the impact of US trade interests is strong and significant

in all the five regions considered here. Second, Europe also, and to a much lesser extent Japan, carries some influence within the IFIs. Japan's role seems to be exclusively motivated by financial considerations and confined to its backyard, Asia. The European Union casts a broader net of influence that includes developing Europe when financial exposure is significant in size, and all the five regions when trade considerations are allowed for. However, the quantitative significance of Europe's influence is substantially more limited than that of the United States, as demonstrated by the smaller value of the coefficients of the trade share variable and, more substantially, by the coefficients of the financial exposure variable

Conclusions and policy implications

The United States and the European Union have together an overwhelming influence on the lending decisions of both the World Bank and the International Monetary Fund. They jointly "run" these IFIs, even though, relatively speaking, the United States has a more general influence.

The United States may have a primacy, but not a monopoly over the running of the two institutions. Despite its large voting share and a disproportionate representation in the staff of the two institutions, this country must add its influence to that of others; it must forge alliances with other members, such as the Europeans and Japan, if it wants to play a decisive role in the institutions. In critical areas, these alliances need a progressively larger reach. This explains perhaps past US insistence to strengthen the G7 and recent attempts made to create new broader groups – like the G20- that include the largest emerging countries, in addition to the most established ones.

Even if short of the absolute primacy, the role played by the United States in both institutions can be seen to conjure up images of domination, particularly as European countries are often divided on key policy issues and exceedingly focused on their individual commercial interests. Their overall ability to impact on the lending decisions of the Bank and the Fund is relatively modest when compared to the United States. The role of Japan is even smaller and more regional, being largely confined to decisions concerning Asia.

We have not investigated in this paper why the United States holds such a disproportionate influence on the activity of the IFI's. One palatable conjecture is that influence on IFI decisions may be largely dependent on capital shares of member countries. If so, one implication would be that countries that wish to play a larger role in them have a way of doing so by securing for themselves larger voting powers. China, and to a lesser extent Brazil and India, have much smaller capital shares than they should. The interesting question is why they have not pushed in a more determined way to acquire it. At least China and India also have sufficient means to do so individually.

Asia, the fastest growing area of the world for several decades, and the region towards which the baricenter of world production is rapidly moving, seems currently very attracted by the idea of setting up a regional IMF (Bergsten, 1998; Wolf, 2004), largely on the basis of the enormous foreign exchange reserves it has now accumulated and the need to put them to some "good use". One could argue that a more effective way of achieving greater regional security and gaining influence on world financial decisions might be to enlarge substantially its share of the capital and related voting powers inside the IMF. The same capital investment would leverage more influence if made within the IMF than outside it, or in parallel to it.

Our paper carries also carries some additional implications for the reform of the World Bank and the International Monetary Fund. We have seen how the IMF has strengthened its ability to respond to the sudden emergence of financial crises. Moreover, other measures designed to improve the ability of the institution to prevent financial crises from occurring have been taken, Finally, in the case of other crises occurring, steps to more fully involve the private sector in their resolution have been envisaged (Fisher, 1999b; Fischer and Citrin, 2001). The recent agreement on widespread use of collective action clauses in new bonds issue is another important step in this direction, a step that seemed out of reach only a couple of years ago. There is still a long way before the reform of the IMF is, if it ever will be, completed. However, the International Monetary Fund holds a clear place in the new financial architecture and has shown at least some significant ability to react to emerging financial instability by increasing its lending and dishing out its policy advice.

The role of the World Bank in the global financial architecture is, instead, a source of greater concern. Its lending has shrunk as a percentage of

borrowing countries GDP. Private capital markets have relegated it to a marginal role as a global financial intermediary. Even in Sub Saharan Africa, a region not particularly able to tap private capital markets, the World Bank Group has lost ground. In good times, developing countries tend to turn to private markets where capital is plentiful and available without too many strings attached. In bad and dangerous times, they turn to the IMF for finance and advice. What is left to do for the World Bank as a financial institution is not much¹⁸.

¹⁸ John McCloy, the World Bank second president was quoted to say that “the Bank would go out of business in due course because the long-term capital needed for development would eventually be provided directly by private investors”. See Rodrik (1995).

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Table 1 Ownership distribution and staff distribution in the IMF and the World Bank: 2003

	Quota(IMF)	IMF Staff (% of total)	Bank Staff
United States	17,45	24,9	21,7
European Union	30,18	23,9	12,8
Other Industrial Countries	12,92	7,8	2,7
TOTAL INDUSTRIAL	60,55	56,6	37,2
(of which: G7)	46,15	45,5	33,5
REST OF WORLD	39,45	43,4	62,8

Note: The percentage distributions are for all staff (including support). This skews the distribution in favor of "Rest of World" staff, especially in the World Bank, where much of the support staff comes from developing countries.

Sources: IMF e World Bank

Table 2 Timing of financial crises

Regions	Years
Africa	None
Asia	1997, 1998
Developing Europe	1997, 1998, 2001
Latin America	1984-1990, 1995, 1998, 1999, 2001, 2002
Middle East	None

Table 3 Financial crises and IFI disbursements: econometric results

Dependent variable: $DISB_{ki}/GDP_i$

Variables	Coefficients (t-stats)	Coefficients (t-stats)
D_IMF_AFR	0.29 (12.1)	0.29 (12.1)
D_WB_AFR	0.87 (26.2)	0.87 (26.6)
D_IMF_AS	0.11 (5.42)	0.10 (6.1)
D_WB_AS	0.43 ((15.0)	0.43 (15.9)
D_IMF_EUR	0.31 (4.3)	0.32 (4.3)
D_WB_EUR	0.24 (8.5)	0.25 (8.5)
D_IMF_LA	0.02 (0.5)	0.10 (2.2)
D_WB_LA	0.32 (12.9)	0.28 (18.1)
D_IMF_ME	0.05 (3.6)	0.05 (3.6)
D_WB_ME	0.18 (5.6)	0.18 (5.6)
Crisis_IMF	0.47 (13.9)	0.271(4.3)
Crisis_WB	0.097 (5.1)	0.22 (12.1)
Crisis_IMF_90	--	0.268 (4.2)
Crisis_WB_90	--	-0.18 (8.92)

Legend

$DISB_{ki}$: disbursements by institution k (k=IMF, WB) to region i

GDP_i : GDP in region i

D_IMF_i: regional fixed effects for the IMF (i=AFR,AS,EUR,LA,ME)

D_WB_i: regional fixed effects for the World Bank (i=AFR,AS,EUR,LA,ME)

Crisis: see table 2

Crisis_90: shift in the coefficient for crises during the nineties

t-statistics in parentheses

Table 4 Influential shareholders and IFI lending

Dependent variable: $DISB_{ki}/GDP_i$

Variables	(1)	(2)	(3)
X_{US}	0.017 (5.2)	0.035 (4.6)	0.06 (8.3)
X_{EU}	--	0.032 (12.7)	0.03 (9.5)
X_{JAP}	--	-0.022 (6.1)	-0.02 (7.1)
$CLAIMS_{US}$	23.9 (3.5)	22.2 (4.4)	54.8 (8.7)
$CLAIMS_{EU}$	--	2.4 (0.8)	28.6 (4.7) ¹
$CLAIMS_{JAP}$	--	13.8 (3.1)	48.8 (9.1) ²
CRISIS_IMF	0.47 (73.7)	0.44 (30.8)	0.41 (31.3)
CRISIS_WB	0.07 (8.4)	0.04 (4.4)	0.01 (1.5)

Legend

See table 3

X_i : regional share of total exports from country i ($i=US,EU$)

$CLAIMS_i$: ratio of country's i ($i=US,EU,JAP$) regional banking exposure to GDP in country i

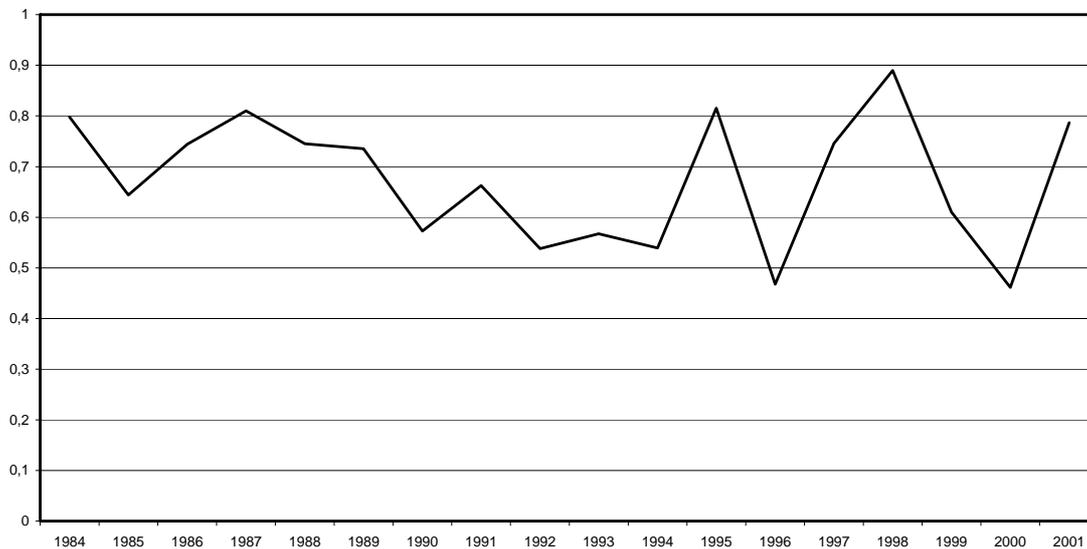
Regional fixed effects are not reported

Notes:

¹: to developing Europe

²: to Asia

**Fig. 1 Official flows to developing countries
(gross disbursements to GDP)**



**Fig. 2 The regional patterns of official flows
(disbursements to GDP)**

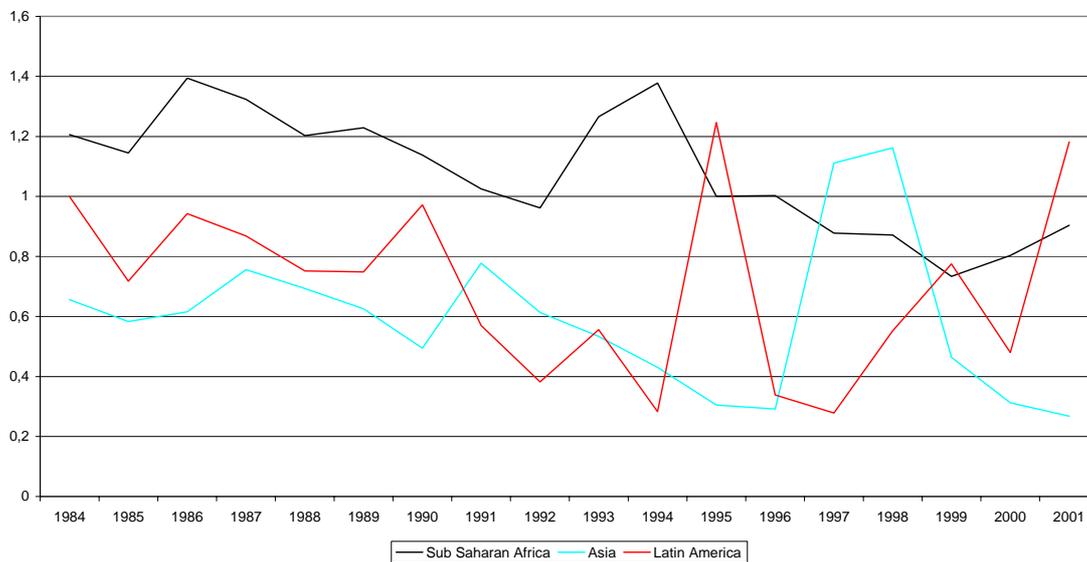


Fig 3. World Bank and IMF disbursements in Asia
(percentage of GDP)



Fig. 4 World Bank and IMF disbursements to Latin America (percentage of GDP)

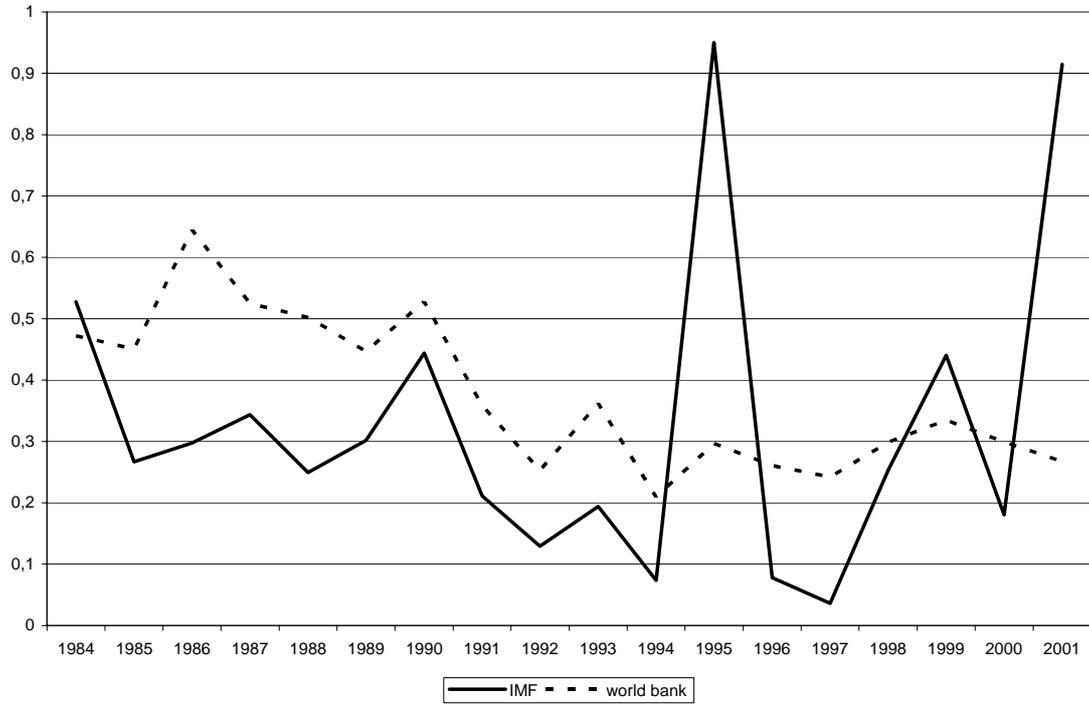


Fig. 5 World Bank and IMF disbursements in Sub Saharan Africa
(percentage of GDP)

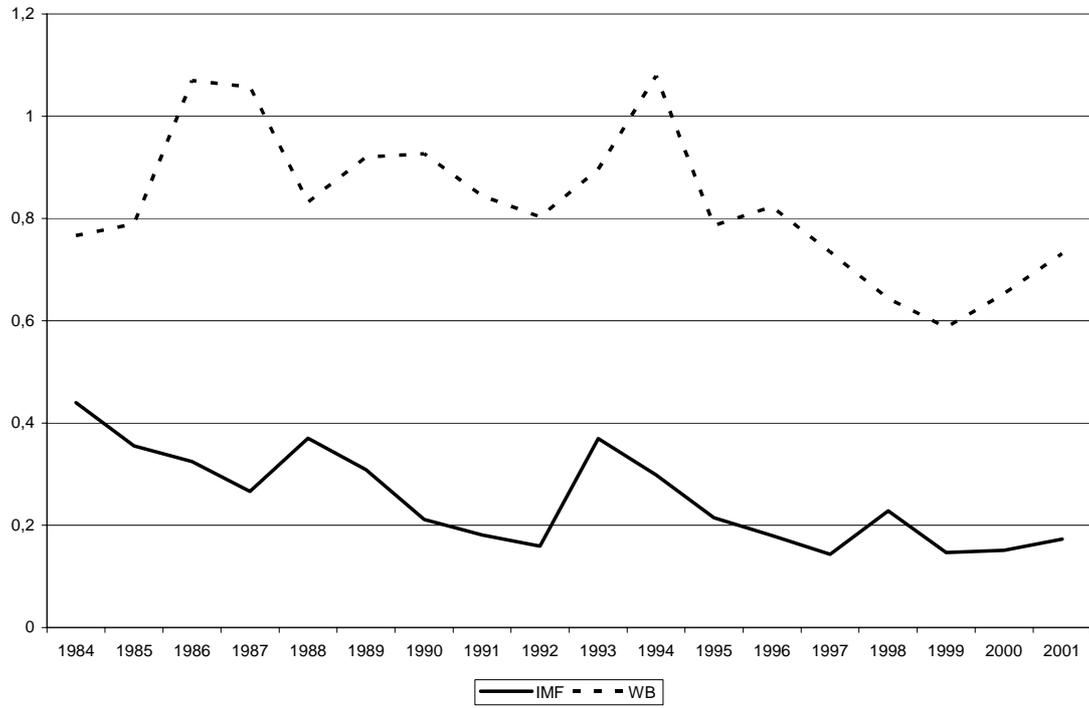


Figure 6
Latin America's share in EU and US exports

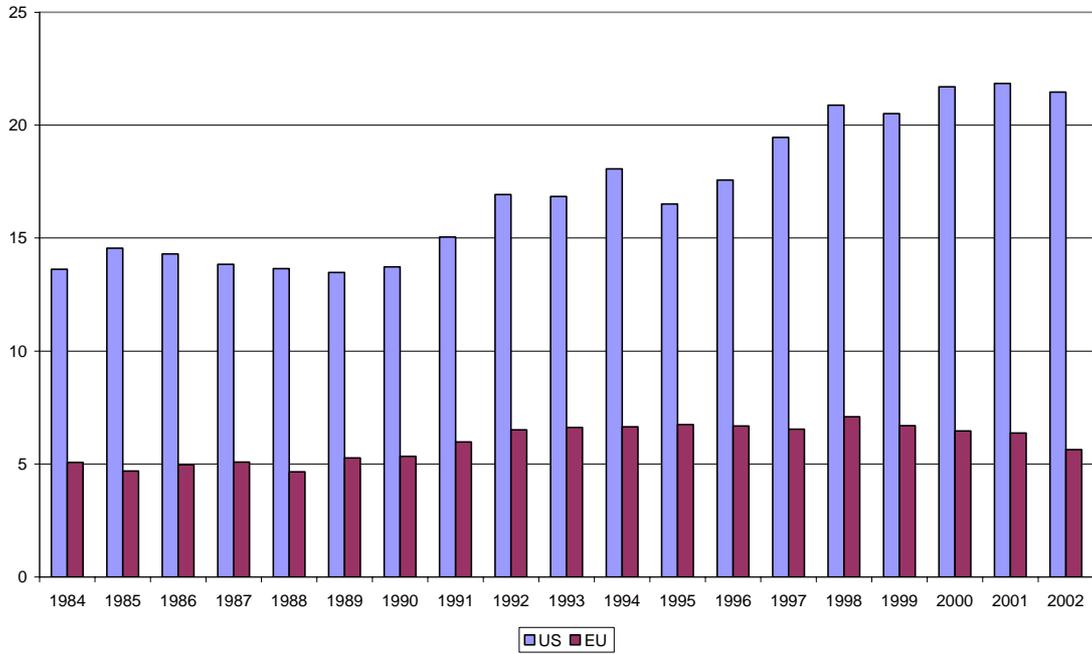


Figure 7
Africa's share in EU and US exports

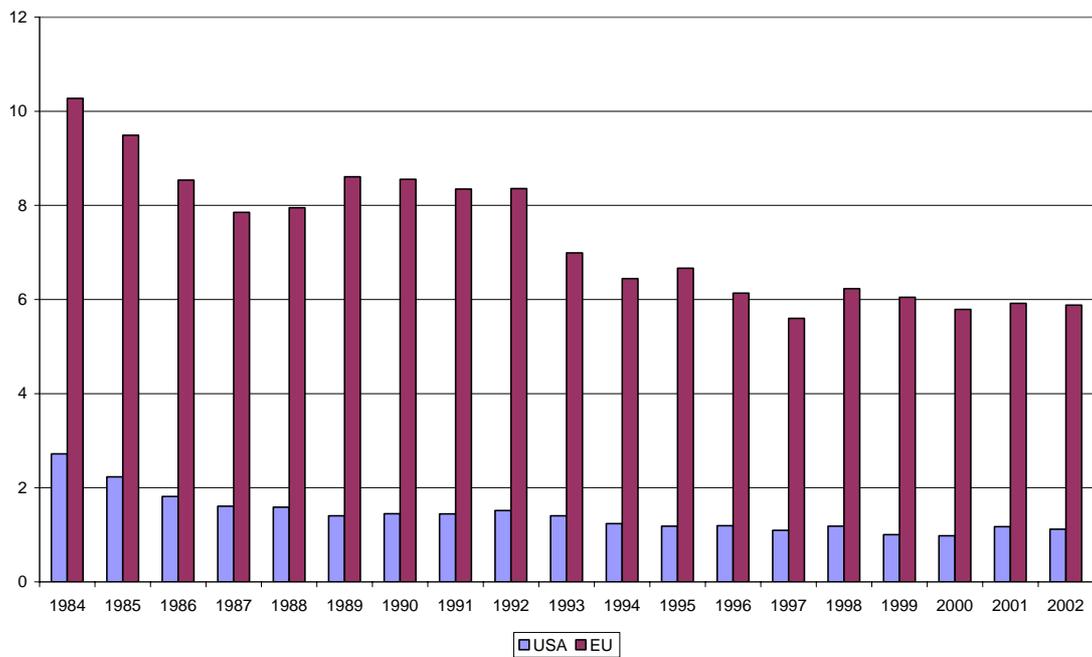


Figure 8
Asia's share in EU, US, and Japan's exports

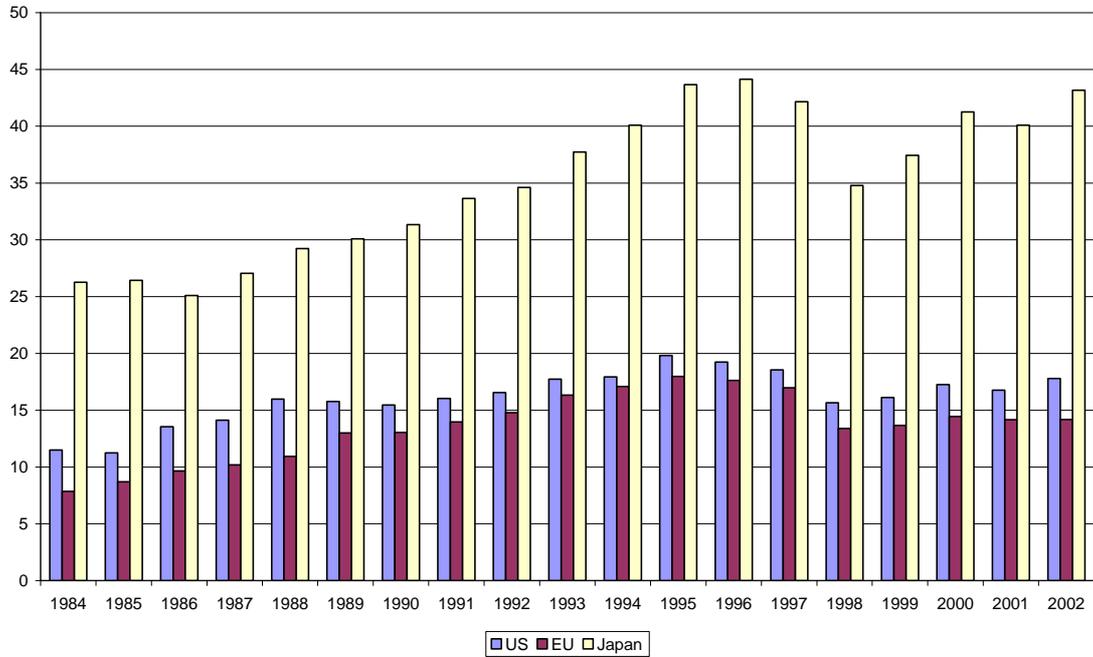


Figure 9
Latin America's financial links

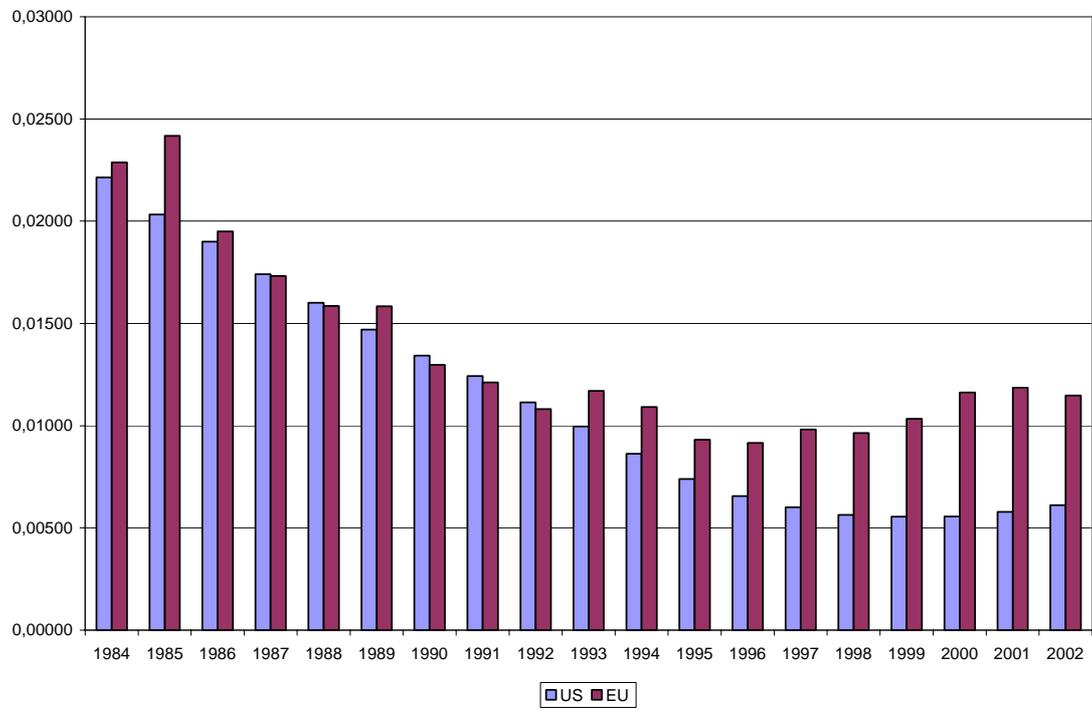


Figure 10
Africa's financial links

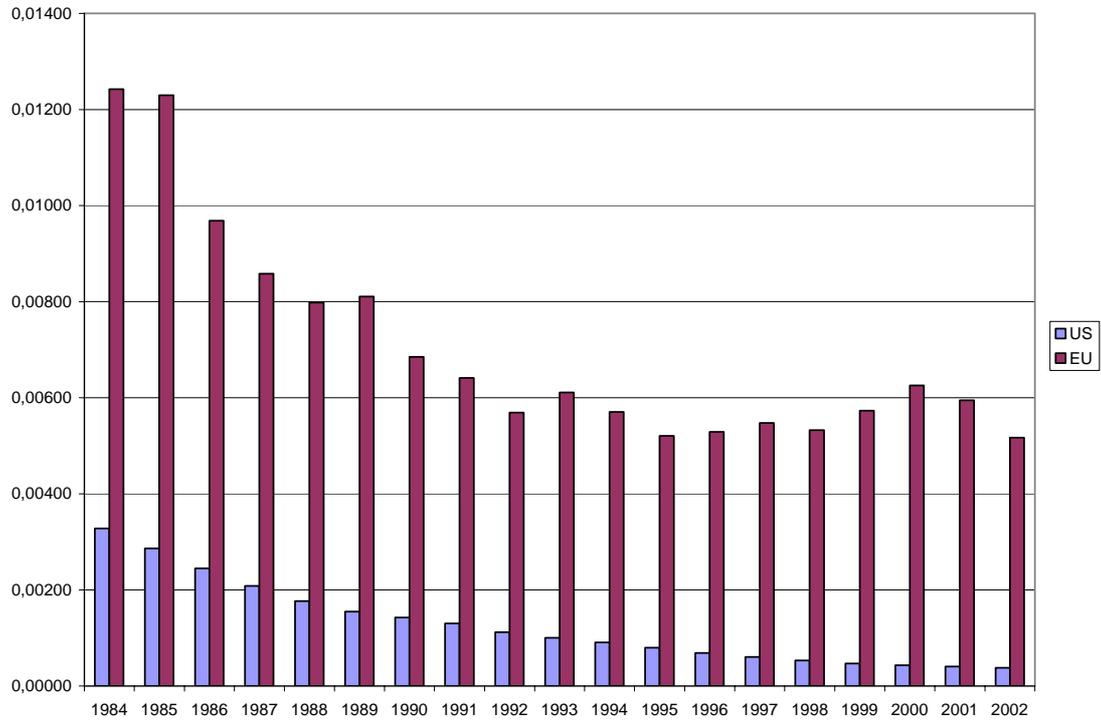


Figure 11
Asia's financial links

