REVIEW

Can the Voices of the Developing World be Heard? Calling for Deep Reforms to the International Financial Institutions

by William F. Arrocha

Challenges to the World Bank and IMF: Developing Countries Perspectives. By Ariel Buira, Editor. London, UK: Anthem Press, 2003. 277 pp. US$24.95, paper. ISBN 1843311410.

The voice of the developing world has been expressed in many forums, journals, and manuscripts. It is a voice, however, which is not often heard by those in power. There are also patterns of thought which deny the social and political consequences of economic models that often do not reflect reality. Conscious of this disparity, the editor of *Challenges to the World Bank and IMF*, Ariel Buira, worked among those in power as a former executive director of the International Monetary Fund (IMF). In this book, he brings together the ideas of those who, in addition to echoing these concerns, also see the pressing need for deep reforms in the international financial institutions (IFIs).

Challenges to the World Bank and IMF is a critical and well-researched multidiscipline survey that presents uncompromising questions related to the concerns of the developing world: Can the IMF, World Bank, and World Trade Organization (WTO) carry on with pressing changes in their governance structures? Do their institutional goals match the results of more than six decades of questionable policies? Is there political will from those who control policymaking bodies to share the economic and social burdens derived from their policy decisions?

Ariel Buira's writings on IMF governance and conditionality attempt to explain the systemic failures of the institution through an articulation of the institution's goals and governance structures.[1] The result of his analysis is very clear: although the IMF is an important IFI which uses mechanisms to manage financial crises, it is ill-equipped and has grossly overstepped its mandate by imposing political and economic directions that violate the sovereign will of states. As a former employee of this institution, Buira is very forthright when he states, "the legitimate institutions of the

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country should determine the nation's economic structure and the nature of its institutions. A nation's desperate need for short-term financial help does not give the IMF the moral right to substitute its technical judgments for the outcome of the nation's political process."[2]

A common thread throughout this volume is the lack of "ownership" developing countries have regarding two fundamental aspects of IFIs. The first, which is meticulously studied by Aziz Ali Mohammed,[3] shows serious structural asymmetries between creditors, which are mainly G7 countries, and debtors. Not surprisingly, the economic and political costs for running the institution end up falling heavily on the debtors' side. This situation is exacerbated by the fact that the IMF's resources are substantially declining,[4] yet the need to prevent financial crises has increased considerably, particularly for financially stressed low income countries (LIC) and the so-called transition economies.[5]

The second aspect of "ownership" is related to programs such as the IMF's Heavily Indebted Poor Countries (HIPC) Initiative and the World Bank's Poverty Reduction Strategy Paper (PRSP) process. The end result of Jim Levinson's study on PRSPs is that, although there have been some positive outcomes in debt relief and increased participation by civil society in PRSP implementation, LIC continue to suffer from a dependent relationship based on negative terms of trade and weak internal political and economic institutions.[6] Bernard Gunter's study on HIPC has similar findings and does not shy away from a recommendation of 100 percent relief on bilateral debt and a serious overhaul of the "international aid architecture."[7]

Contrary to the neoliberal policies promoted by most IFIs, G. Epstein, H. Grabel, and K. Jomo present several case studies which demonstrate the positive effects of state intervention through capital management techniques (CMTs) in avoiding financial risks and creating sound structures for economic growth and development. The two fundamentals of CMTs are capital controls and prudential regulation. Their results, based on strong empirical research, are clear: medium income countries (MIC) with high levels of *administrative and state capacity* are better off implementing CMTs than implementing orthodox policies from IFIs.[8]

However, even MIC with higher levels of administrative and state capacities need a robust ratio of international reserves to short-term external debt (IR-STED) to prevent financial crises that can have disastrous domestic effects and international spillovers. J. Guzmán and R. Padilla present clear evidence to this effect but remind us that the IR-STED ratio by itself falls short of preventing financial crises. As such, the authors demand better coordination between private creditors and government agencies.[9]

Regarding trade as a motor for growth, one has to ask if the vicious cycle of high indebtedness can be overcome by the WTO. Although the organization aspires to raise standards of living, achieve full employment, increase economic growth and real income, and create an effective demand based on sustainable development,[10] its structural problems are similar to those affecting the IMF and World Bank.

In "Developing a Global Partnership," Martin Khor calls for a deep restructuring of the WTO regarding its governance structures as well as its rules and procedures, especially those related to intellectual property rights. If such changes are not carried out within the present Doha Development Agenda, it will be very hard for the present trade regime to meet the United Nations Millennium Development Goals.

Finally, Buira's edited volume addresses whether developing countries can benefit from reforms if the systems in place for dialogue and cooperation are inherently inadequate. Berry Harman and Ravi Kanbur both attempt to explain this conundrum through different institutional approaches.[11] For Harman, innovative ways to bring together private creditors and governments through a more structured negotiating mechanism could foster closer and more constructive relations between creditors, hence avoiding further and deeper interventions from IFIs.

For Kanbur, IFIs need to return to their fundamental goals and let other regional institutions deal with the delivery of international public goods by working very closely with states. It is clear from reading Harman and Kanbur's work that the IMF and the World Bank have set agendas and goals incommensurate with their institutional size, governance structures, and programmatic goals.

Upon closing this book, one wonders if voices from the developing countries are taken seriously, especially when considering the unanimous confirmation by the World Bank's executive board of US Deputy Defense Secretary Paul Wolfowitz as the new president of the institution. Dr. Wolfowitz is known for his unilateralist approach and mistrust of diplomacy.[12] Regretfully, one can only conclude that from developing countries' perspectives, the issues facing the World Bank and IMF will remain firm challenges.

Notes

[1] See Ariel Buira, "The Governance of the IMF in a Global Economy," 13-37, and "An Analysis of the IMF Conditionality," 55-91, in Ariel Buira, ed., *Challenges to the World Bank and IMF: Developing Countries Perspectives* (London: Anthem Press, 2003).

[2] Buria, "An Analysis of the IMF Conditionality," 57.

[3] Aziz Ali Mohamed, "Who pays for the IMF?" in Ariel Buira, ed., *Challenges to the World Bank and IMF: Developing Countries Perspectives,* (London: Anthem Press, 2003), 37-55.

[4] Buira, "The Governance of the IMF," 22.

[5] One of the best studies regarding the daunting picture of the economic and social situation of Transition Economies is the following: The World Bank Group, *Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia* (Washington, DC: The World Bank, 2000).

[6] Jim Levinsohn, "The Poverty Reduction Strategy Paper Approach: Good Marketing or Good Policy?" in Ariel Buira, ed., *Challenges to the World Bank and IMF: Developing Country Perspectives* (London, UK: Anthem Press, 2003), 119-140.

[7] The reasons Gunter presents are: 1) inappropriate eligibility criteria; 2) unrealistic growth assumptions; 3) insufficient provision of interim debt rescheduling; 4) delivering HIPC debt relief through debt rescheduling; 5) lack of creditor participation and financing problems; and 6) currency-specific short-term discount rates. See Bernhard Gunter, "Achieving Long-Term Debt Sustainability in Heavily Indebted Poor Countries (HIPCs)," in Ariel Buira, ed., *Challenges to the World Bank and IMF: Developing Countries Perspectives* (London: Anthem Press, 2003), 95, 103.

[8] Gerald Epstein, Ilene Grabel, and KS Jomo, "Capital Management Techniques in Developing Countries," in Ariel Buira, ed., *Challenges to the World Bank and IMF: Developing Countries Perspectives,* (London: Anthem Press, 2003), 141-175.

[9] Javier Guzmàn and Rodolfo Padilla, "International Reserves to Short-Term External Debt as an Indicator of External Vulnerability: The Experience of Mexico and Other Emerging Economies," in in Ariel Buira, ed., *Challenges to the World Bank and IMF: Developing Countries Perspectives,* (London: Anthem Press, 2003), 175-203.

[10] See the preamble of the *Agreement Establishing the World Trade Organization,* at http://www.wto.org/english/docs_e/legal_e/04-wto.doc, accessed July 10, 2005.

[11] Barry Herman, "Mechanisms for Dialogue and Debt-Crisis Workout that can Strengthen Sovereign Lending to Developing Countries," in Ariel Buira, ed., *Challenges to the World Bank and IMF: Developing Countries Perspectives,* (London: Anthem Press, 2003), 203-207; see also Ravi Kanbur, "International Public Goods: Operational Implications for the World Bank," in Ariel Buira, ed., *Challenges to the World Bank and IMF: Developing Countries Perspectives,* (London: Anthem Press, 2003), 251-267.

[12] Elizabeth Becker and David E. Sanger, "Wolfowitz Gets Bush Nomination for World Bank," *New York Times* March 17, 2005. For additional information on this decision see "Why Paul Wolfowitz?" *New York Times,* March 17, 2005, as well as Paul Krugman, "The Ugly American Bank," *The New York Times*, March 18, 2005.