Global Policy / Volume 1, Issue 1 / p. 51-63

Research Article | Free Access

Global Governance after the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers?

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First published: 27 January 2010
https://doi.org/10.1111/j.1758-5899.2009.0013.x

Abstract

In the wake of the global financial crisis, three G20 Summits have reinvigorated global cooperation, thrusting the International Monetary Fund centre stage with approximately $1 trillion of resources. With China, Brazil, India, Russia and other powerful emerging economies now at the table, is a new more multilateral era of governance emerging? This article examines the evidence. It details the governance reforms and new financing of the IMF but finds only very limited shifts in the engagement of major emerging economies – insufficient to position the IMF to address the global imbalances, to set new multilateral rules, to operate as an alternative to self-insurance or indeed to provide a more multilateral response to the development emergency. The IMF is shifting between: borrower dependence (relying on fee-paying borrowers for income); independence (with its own investment income); and lender dependence (relying on wealthy members to extend credit lines to it). The result is an ambiguous set of forces restraining the IMF to stay as it is, and only weakly driving reform. A new order may emerge in which multilateral institutions – such as the IMF – end up with only a limited role to play alongside emerging national and regional strategies, unless a more radical transformation begins.

Policy Implications

- IMF governance (decision-making majority, location, management and staffing) needs to transform fast if it is to address the tasks assigned to it by the G20.
- The IMF's dependence on loans from its wealthiest members (for its new $600 billion) restrains the institution from serious reform, only weakly offering a driver for further change.
- There has been a failure to mandate and resource the IMF (and its sister institution the World Bank) so as to ensure a multilateral response to the 'development emergency' that has resulted from the financial crisis.

Has the global economic crisis launched a new multilateralism? A quick glance may suggest it has. Three G20 Leaders' Summits have been convened in rapid succession. The International Monetary Fund (IMF) has been thrust centre stage with approximately $1 trillion of resources. Central banks have coordinated their actions. New international institutions – such as the Financial Stability Board – have been created. Both the IMF and the World Bank, and other multilateral development banks, have been promised new resources to mitigate the 'development emergency' caused by the crisis.

Governments have agreed to resume the Doha Round of trade talks before the end of 2009. And alongside these reactions to the global economic crisis, the United Nations has become an important forum for discussions on issues ranging from climate change to international security. The World Health Organisation is leading the battle against fears of a new influenza epidemic. On the face of it, it would seem that multilateralism is breaking out all over the place. Are we witnessing the tipping point of a new, more multilateral era of global governance?

In this article I probe beneath the façade of recent statements and actions. First, I examine why we might believe that multilateralism has been revived by the financial crisis. Focusing on the IMF, I analyse the way pre-crisis reforms within the institution gave it the potential to be more financially independent of its member countries, and more representative of its emerging economy members. Subsequently, I dissect the impact of the trebling of the IMF's resources and governance reforms on the institution's ability to manage the post-crisis global economy. To preview the analysis, I argue that we may not be witnessing the dawn of a new era of multilateralism. It may well be simply the last gasp of an old-fashioned concert of great powers, embodied in the Group of Seven major industrialised countries and what some might see as their new consultation forum – the G20. In the place of the old-fashioned G7, an ambiguous new order may be emerging in which multilateral institutions – such as the IMF – have only a limited role to play alongside emerging national and regional strategies.

1. The G20 Transfusing Blood into Multilateralism

Prior to the crisis that began in 2008, international economic institutions had begun to wane in importance. The Group of Seven (G7) industrialised countries were beginning to sound shrill and unauthoritative as they collectively implored other countries to abide by their pronouncements, such as on other countries' sovereign wealth funds or aid programmes. [1] The institution of choice for the G7, the International Monetary Fund, had run into a financial crisis because its non-G7 fee-paying clients had begun to turn elsewhere, and its G7 nonpaying members had not developed new ways to pay for the institution. The World Bank had suffered from the G7-approved appointment of Paul Wolfowitz to its presidency, an appointment and process seen by many of the Bank's other member countries as secretive, overly politically partisan and illegitimate. The Doha Round of multilateral trade negotiations had been declared 'comatose' if not dead. Beyond the economy, the United Nations had been sidelined in Iraq and Afghanistan. Global climate change negotiations had stalled. In short, multilateralism was in a bad way (**Woods, 2008**).

The situation changed when the financial problems that began in the banking systems of America and Britain in 2008 rapidly spiralled. The collapse of US financial services firm Lehman Brothers in September 2008 brought to a head the crisis, exposing vulnerabilities across the sector as a whole. The first wave of effects occurred as the conveyor belt of global finance spread a 'credit crunch' across countries that had opened up their financial systems to global banking. Suddenly Iceland, Hungary, Romania, Ukraine and others looked in jeopardy. Initially, European governments failed to find a coordinated response. However, it very quickly became clear that coordinated actions by central banks and governments were required.

A second wave of effects quickly followed the first but this time the transmission belt was not finance, it was the 'real economy' as the credit crunch caused economies to seize up, halting global trade and spreading recession across the world. The IMF and World Bank used the title 'development emergency' in their report monitoring the impact of the crisis on the poorest countries of the world

(World Bank and IMF, 2009). Again, it became clear that governments would need to coordinate and to use existing international institutions if their emergency measures were to stand any chance of working.

Coordination and cooperation seemed quickly to materialise. In a move of unprecedented scope, the world's major central banks lowered their benchmark interest rates on Wednesday 8 October 2008. US Federal Reserve officials said at the time that this was the first time the Fed had ever coordinated a reduction in interest rates with other central banks. Taken together with other moves such as the passage of a $700 billion bailout plan in the United States, and the UK announcement of a £400 billion rescue plan for its banks, the rate cut was interpreted at the time as 'part of a broader, global strategy that embraces aggressive use of monetary policy and taxpayer recapitalization of ailing banks' (Dougherty and Andrews, 2008).

In November 2008 the leaders from 20 of the largest economies in the world were invited to a Summit in Washington DC. They agreed a series of measures and a joint Action Plan for dealing with the crisis, including measures to reinvigorate their own economies (without damaging global trade), to regulate global finance, to assist the poorest countries affected by the crisis and to reform global institutions.

The G20 process was a shot in the arm not just for coordination among governments but also for existing multilateral institutions – and in particular the IMF. From the first meeting of the G20 in November 2008 an action plan delegated specific tasks to different international institutions, including the IMF, the World Bank, other multilateral development banks, the United Nations Development Programme and the newly created Financial Stability Board. When the leaders met again in April 2009 in London, they bolstered the capacity of organisations to deliver on the plan, announcing nearly $750 billion of funding for the IMF for this purpose. All of this was again reviewed in September 2009 in their third meeting, held in Pittsburgh.

China, Brazil and India, for so long out of the 'G7' or 'G8' fold, now looked as though they were being given a place at the top table, and were prepared to participate in putting together an assistance package for the rest of the world. For example, alongside the much-expected pledges of new funding for the IMF by G7 countries, it was announced by the UK government at the end of the London Summit that China would contribute $40 billion to the IMF (how this contribution would be structured was not mentioned at the time). Soon it was reported that both Brazil and India were promising 'contributions' (we will return to these 'contributions' below). In practical terms, after three G20 Summits, multilateralism looks reinvigorated.

2. The 'Reformed' IMF at the Heart of the Response

At the core of the G20's multilateral action plan is the IMF, which they furnished with nearly $1 trillion. Subsequently, the IMF has been very active. By June 2009, it announced that its lending commitments had reached a record level of over $158 billion (IMF, 2009). The IMF, therefore, would seem to be a useful barometer or marker for the new multilateralism emerging in the wake of the crisis.

Prior to the crisis the institution had seemed moribund. Its 1997–1998 response to countries affected by the East Asian financial crisis had left it branded 'illegitimate' even by mainstream economists. Its big fee-paying clients such as Korea, Russia, Brazil and Argentina had deserted it in droves, preferring to take more expensive loans elsewhere. The IMF's income plummeted, leaving the institution with an estimated shortfall of $400 million a year by 2010 and forcing the once-powerful institution to lay off 300–400 of its staff (out of a total of 2,600).

When Dominique Strauss-Kahn took over as managing director in November 2007, he immediately announced that the institution's governance, mandate and financial structure all needed overhauling in order to enhance the institution's relevance, legitimacy and effectiveness. The United States was also calling for reform of the IMF's work and governance so as to reflect the growing weight of dynamic emerging markets in the global economy (McCormick, 2008). Few disagreed.

Three forces were driving the management and member countries of the IMF towards reform. First, there was the IMF's own financial crisis and the need either to find new borrowers or a new way to generate income to pay for itself. Second, there was the need to draw a line under the East Asian crisis experience and to win back legitimacy and the confidence of key member countries. Finally, the IMF needed to adapt to a major power shift occurring in the world economy, a shift exemplified by the transformation of the United States from being the world's largest creditor at the time of the IMF's creation, to being the world's largest debtor in 2009, and by the rise of China and other emerging economies.

In response to these drivers, two sets of reforms were afoot in the IMF prior to the crisis:

Governance reforms, which aimed to enhance the credibility and legitimacy of the institution by giving more voice to emerging and developing countries; and

Financial reforms, which aimed to give the institution an independent source of income.

Together it was hoped that these reforms would simultaneously make the IMF more representative and less financially dependent on any one group of countries for income. Greater representation would bring emerging economies closer to the institution. Independent finances would give it greater capacity to deliver on its mandate.

How the IMF Governance was Reformed Prior to the Crisis

Governance changes were made prior to the crisis. Two rounds of reforms took place. First, in March 2006 at the Annual Meetings of the IMF and World Bank in Singapore it was agreed to give an immediate ad hoc increase in quotas to the most underrepresented countries: China, Korea, Mexico and Turkey. At the time four other reforms were also proposed which were endorsed in March 2008 and constitute the second round of reforms. These were: a new quota formula (the formula determines a country's economic size and openness and thereby its voting power and access to resources in the IMF); a second round of ad hoc quota increases based on the new formula; a trebling of basic votes (a small portion of votes that are given in equal measure to every country regardless of size); and an increase in the representation on the Board of African Countries.

In April 2008, the IMF's Board of Governors announced the package as a set of 'far-reaching reforms' of the institution aimed at rebuilding its 'credibility and legitimacy'. [2] The results (in terms of the shift from pre-Singapore to post-second-round reforms) are summarised in Table A1 in the Appendix.

The reforms taken together have effected an overall shift of 5.4 per cent of voting power in the IMF including increases in quota shares (not basic votes) for Korea (+106 per cent), Singapore (+63 per cent), Turkey (+51 per cent), China (+50 per cent), India (+40 per cent), Brazil (+40 per cent) and Mexico

(+40 per cent). It is worth noting that some industrialised countries were prepared to forgo a part of the quota increase for which they were eligible, including Germany, Ireland, Italy, Japan, Luxembourg and the United States.

How the IMF's Finances were Reformed Prior to the Crisis

Financial reforms were also undertaken prior to the crisis. Experts had advised the managing director in January 2007 that the IMF's income model lacked economic logic, lacked predictability (with revenue levels depending on the widely fluctuating financing needs of borrowers), lacked flexibility and scalability and was perverse in its dependence on failure in its primary mission (to prevent financial crises).[3] Following their recommendations, it was agreed that the IMF should: have an endowment created with the profits from the limited sale of 403.3 metric tons of the Fund's gold holdings; have investment authority to enhance the average expected return on the Fund's investments; and be able to charge for its services in running the PRGF-ESF Trust. At the time of announcing the new model, the IMF management expressed the hope that it would generate an additional US$300 million in income within a few years.

The old financing model of the IMF made the institution reliant on income from its emerging economy members which borrowed from it in a crisis. Yet this did not give borrowing members power. In practice, during periods of international financial crisis when developing countries' alternative sources of finance dried up (such as during the 1980s and early 1990s) they were beholden to the institution for emergency loans. This gave the powerful nonborrowing members of the institution, as well as its management and staff, influence over crisis-stricken borrowers even though they were fee-paying clients. It also permitted the powerful nonborrowing members to continue to control the overall activities and governance of the IMF. For example, at their behest during this period the IMF expanded its public goods activities (so that eventually they accounted for more than 44.1 per cent of the administrative budget)[4] even though the costs of these activities were paid for by earnings from borrowers.

By the late 1990s the IMF – run by the G7 but paid for by borrowers – had to change. Once emerging economies turned away from the IMF, the institution beholden to them for income might have been forced to find a way to attract them back. The alternative was the new financing model to reduce the dependence of the IMF on its borrowing and nonborrowing members. With a new endowment and broader investment authority, the IMF management can acquire greater control over resources without depending on decisions made by member countries. The cost recovery on the PRGF Trust Fund also shifts resources from members to that which is controlled by the IMF management. Steps towards implementing the new income model have been undertaken this past year (more on this below).

One further element of IMF financing is also worth noting. At times of crisis the institution can seek an increase in its overall capital through the quota review process (which takes place at least every five years). However, this process takes time to negotiate and bring to completion. Table A2 in the Appendix lists all the IMF's quota increases. In recent years the quota review process has led to a periodic increase of about 50 per cent (e.g. in the years 1978, 1983, 1990 and 1998).

The IMF's more immediate financing needs in a crisis are met by 'arrangements to borrow' from its wealthier members. The original 'General Arrangements to Borrow' (GAB) were set up in 1962 among a club of 11 countries which each permitted their credit lines to be used exclusively for the IMF to lend to other members of the club (see Table A3 in the Appendix for a listing of the participants and their credit amounts). Subsequently they began to permit the IMF to use the borrowing lines to finance lending to nonparticipants where it has inadequate resources of its own. However, more recently, the original club of 11 has created a broader club of countries that share the burden.

A new set of arrangements to borrow was proposed at the 1995 Halifax Summit of the G7 in the wake of a Mexican financial crisis. The New Arrangements to Borrow (NAB) came into force in November 1998 and involve 26 countries (see Table A4 in the Appendix for a list of participants and credit amounts). The NAB has been renewed twice and constitutes the first and principal recourse the IMF makes (i.e. the IMF uses GAB only after exhausting the NAB).

The above analysis highlights that the IMF can be understood as funded in three different models that affect its governance. These are depicted in Figure 1. The 'borrower-dependent' IMF focuses on the IMF's income prior to the 2008 crisis when the IMF relied on borrower payments to cover its own administration expenses and was forced to downsize when emerging economies stopped borrowing. The 'independent' IMF focuses on the institution's own resources – somewhat independent of its members – for example its core capital and gold holdings, and as recently agreed, its own stream of investment income, and fees it might charge for administering trust funds (such as the PRGF). By contrast, the 'lender-dependent' IMF focuses on the IMF's needs at the height of a financial crisis when its own resources are not sufficient to give it enough lending power to meet the crisis, and when it uses arrangements to borrow from its wealthier members.

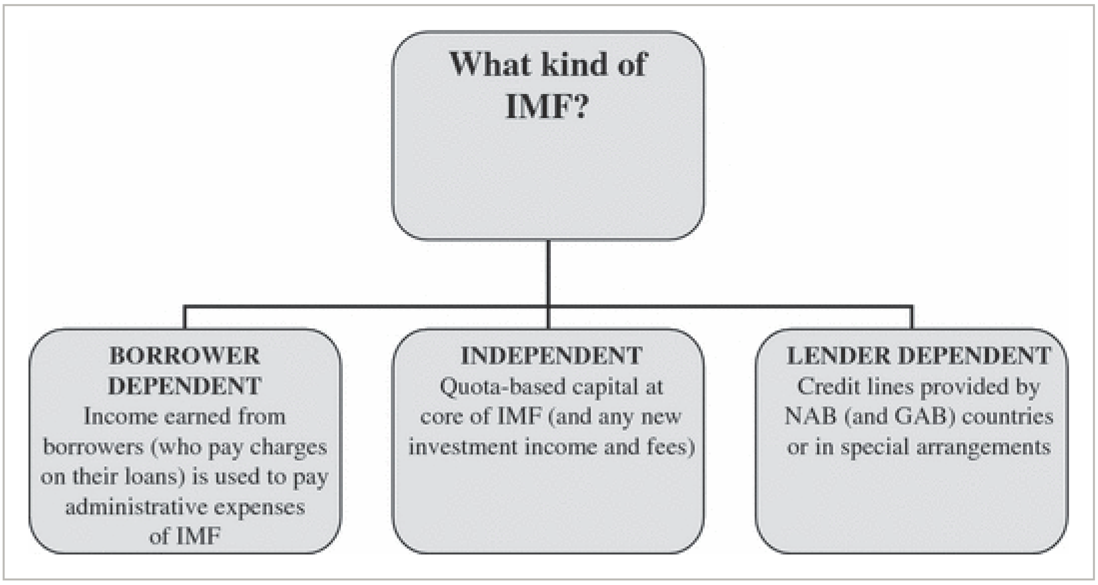

Figure 1

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Who holds the purse strings of the IMF?

The reforms undertaken prior to the crisis increased the 'independent' element of the IMF's financing in the face of a reduction in 'borrower-dependent' funding. Alongside new financing were reforms to the IMF's governance. What effect might we expect these changes to have had on the capacity of the IMF to address the crisis?

Three propositions about the nature of a reformed IMF follow from the analysis above:

(a) A multilateral institution more capable of acting independently of its members would result from the financial reforms.

(b) A more representative and therefore more attractive (to emerging economies) multilateral institution would emerge from governance reforms.

(c) An effective global response to the financial crisis would be brought about through new resources and governance reform in the IMF.

In the sections below the evidence confirming or refuting each of these is examined.

3. A New More Financially Independent Institution?

The G20 promised to treble the resources of the IMF to give the institution about $1 trillion in resources. What has the impact of this increase been on power within the institution and the relative influence of the G7, the emerging economies and other developing countries within the organisation?

Delving behind the statement of the G20, it is worth closely examining the composition of the new resources for the IMF. The IMF has not had its capital increased. Mostly the new money comprises credit lines which member countries have made available to the IMF if it needs them. This means that if the IMF believes that its forward commitment capacity might fall short of its member countries' needs, it can activate pledges by a group of countries to stand ready to lend to the IMF. On 24 November 2009, after heated political wrangling between the new emerging economy members and traditional economic power, agreement was finally reached on a new $600 billion NAB from the 26 Countries which belonged before the crisis to that arrangement (see Table A4 in the Appendix), along with 13 new participant countries. The result represents a big boost to the 'lender-dependent' element of the IMF described above.

The other quarter of the $1 trillion increase in the IMF's resources is a 'Special Drawing Rights' (SDR) allocation of $250 billion approved by the Board on 20 July 2009. This allocation of SDR is a distribution of assets direct to the central banks of each member country in proportion to their IMF quota. The SDRs are not a currency or a claim on the IMF. Rather, an SDR is a potential claim on the freely usable currencies of IMF members. Once distributed to all member countries, any country can exchange them with other countries, purchasing and selling SDRs in a voluntary market. Exceptionally the IMF can direct a member with a strong external position to purchase SDRs from a member with a weak external position. In brief, the SDR allocation of 2009 was a way to inject some confidence into the international financial system and liquidity into each member economy.

Alongside the new size of the IMF achieved through credit lines and the SDR allocation, a very small increase has been made in the institution's own resources. The institution has announced that it intends to use some additional resources from an endowment created by gold sales, together with some surplus income, and additional contributions to its trust fund for the poorest countries to provide $6 billion in additional concessional and flexible finance for the poorest countries over the next two to three years. This quiet shift towards a new financial model may well be seen as a small step towards a new more independent institution of the future. At present, however, these modest steps are dwarfed by the amounts (in excess of $750 billion) being lent to the IMF by its NAB-participating members (see Figure 2). The key to a more independent IMF lies in a capital increase, enabling the institution to deal with crises without depending on loans from friends.

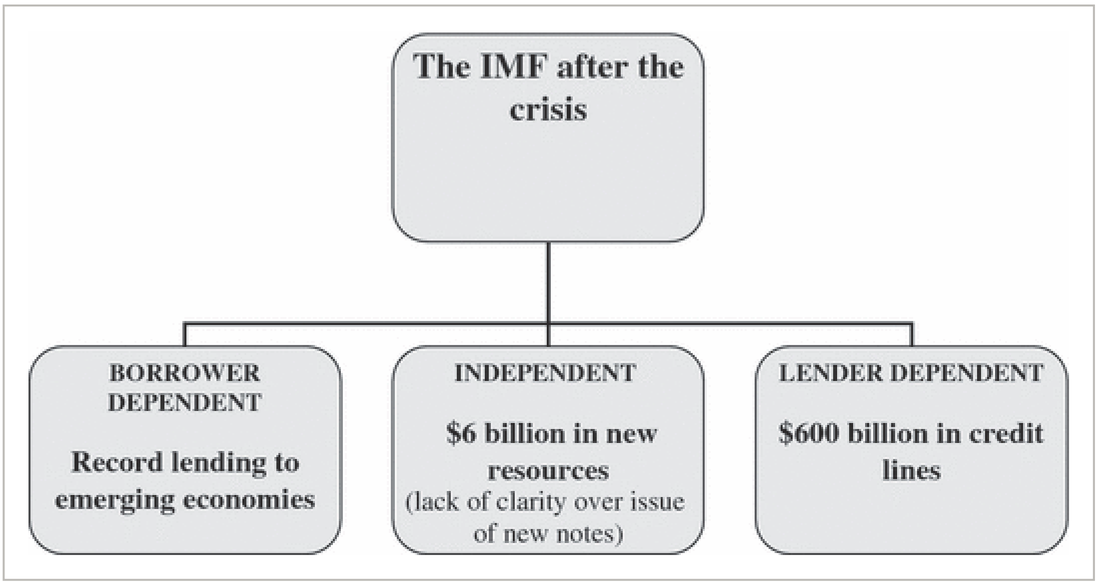

Figure 2

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IMF finances after the crisis.

In sum, the new financing for the IMF is mostly credit lines. In the initial wake of the crisis, these were forthcoming from exisiting powerful sharefolders, tying the IMF – at the height of the crisis – tightly back into its traditional pattern of power and influence, with G7 countries at the top of the pile. However, the ground has moved rapidly as the traditional powers have had to negotiate with emerging economics whose contributions they now need.

4. Engaging Emerging Economies?

The 'far-reaching' governance reforms agreed by the IMF's Board of Governors in April 2008, as described above, were aimed in large part at recognising the rise in economic power of emerging economies (see Table A1 in the Appendix for the summary of outcomes). Many thought that by giving emerging economies larger voting shares, these countries could thereby be induced to engage more closely with the IMF as shareholders. But the governance reforms were modert.

The largest 'winners' from the reforms were Korea, Singapore, Turkey, China, India, Brazil and Mexico. From their perspective, the changes were small. China's share of votes in the organisation was increased by 0.88 per cent, giving it a total of 3.81 per cent of votes (see Table A1 in the Appendix). India's voting power has risen to 2.34 per cent. Brazil got an increment of 0.31 per cent of total voting power, raising its share to 1.72 per cent while the addition of 0.27 per cent of IMF votes to Mexico gave it a voting share of 1.47 per cent. These changes were hard won and took endless negotiation among the G7 powers. At the same time, the results do little to offset the perception of emerging economies that the IMF is mostly a US organisation – a perception fed by the fact that the United States has a veto power in thee IMF, the senior management are all appointed only with the approval of the United States and Europe, the institution is situated amid US government agencies in Washington DC, and it works in English, with a large proportion of its staff being US-trained.

No surprise then that in the aftermath of the crisis, emerging economies were reluctant to extend credit lines to the Institution. At first, China, Brazil and India refused to join and participate in the NAB until more substantial reforms were undertaken in the IMF's governance and arrangements. Initially, they agreed instead to purchase IMF notes. For example, China agreed to purchase $50 billion, presenting this as an investment in the IMF, rather than a loan to the institution, the latter being an action that might be interpreted as an implicit acceptance of the institutional status quo. The logic of the emerging economies' position was spelled out by the Brazilian finance minister in April 2009:

> Depending on how they are designed, IMF notes or bonds could be an option to provide immediate resources to the institution without undermining the reform process. The New Arrangements to Borrow (NAB) may not constitute an adequate mechanism because it is a standing arrangement. Its expansion could limit the scope for and delay quota reform. We could support a proposal to set up a provisional plurilateral agreement, a Temporary Arrangement to Borrow (TAB), with more flexible rules than the NAB. [5]

Put simply, emerging economies, while willing to assist, were not willing to lose the opportunity to ensure more serious reform of the institution. At the Pittsburgh Leaders Summit, however, a new compromise was introduced. China, India, Brazil and Russia agreed that their purchases of notes could be rolled into the IMF's arrangements to borrow. In return they have been promised a further phase of quota reform in the IMF: a further shift of 5 per cent of voting power, as yet undefined in terms of who will lose and who will gain. They also negotiated new terms for participation in the NAB.

Meanwhile, the perception of insignificant reform still lingers. Speaking on a panel at the Annual Meetings of the IMF and World Bank in Istanbul in October 2009, the Mexican Central Bank governor spoke of 'no significant reform' having taken place.

The wider point is that the IMF has not yet transformed its relationship with major emerging economies. This has profound implications in respect of three core longer-term roles the G7 within the G20 are hoping the IMF will play in addressing the 'global imbalances' that have built up as some countries in the system (such as China) amass reserves while others build up ever larger deficits (such as the United States).

5. An IMF Equipped to Deal with the 'Global Imbalances'?

The global imbalances are driven by a number of factors [6] that point to several key roles the IMF might play in addressing them:

- to provide a multilateral alternative to national reserves;
- enhanced surveillance with a view to enforcing multilateral rules on exchange rates;
- work to improve emerging economies' financial systems so as to lower their incentives to accumulate reserves.

How likely is it that the IMF will be able to play any of these roles effectively?

A first hope is that the IMF could *provide a multilateral alternative to national reserves*. At the annual meeting of the IMF in Istanbul in October 2009, the institution was instructed to examine how it could provide 'credible alternatives to self-insurance'. [7] This goes to the heart of emerging economies' confidence in the institution. The amassing of foreign exchange reserves by emerging economies in the wake of the East Asian crisis of 1997 began in large part to ensure 'financial independence' in the event of adverse developments in a country's external position (see De Beaufort Wijnholds and Sondergaard, 2007). The fallout of the IMF's engagement in Asia during the 1997 crisis was dramatic. It greatly magnified the 'stigma' associated with assistance from the IMF in the region. It swept away the political acceptability (such as it had been) of any assistance from the IMF should an external shock hit a country. For this to be reversed would require reforms that effectively turned around the lack of trust in the IMF.

The failure to reform the IMF after 1997 probably exacerbated the rapid increase in global imbalances. The fact that no serious IMF reform took place after the East Asian financial crisis (when economists from East and West, from conservative to radical, were voicing criticisms of the IMF's legitimacy) is significant. Rather than translating criticisms of the IMF and its legitimacy into a reform agenda, the ad hoc group that came to be called the G20 of finance ministers was created to debate the reform of the international financial architecture. In its first three years, however, the pronouncements of this group were barely distinguishable from those of the G7. [8] The initiative may usefully have headed off some of the impetus for reforming the IMF at the time. Yet the counterfactual is that had reforms been undertaken in 1997, there might have been ways to mitigate the rash of self-insurance among emerging economies.

Instead, the effect of the 1997 crisis was to strengthen efforts to build regional and bilateral complements to self-insurance such as the Chiang-Mai Initiative (CMI) and its subsequent development (see Nesadurai, 2009). The CMI does suggest a role for the IMF as an outside (external agency of restraint) arbiter of conditions mutually agreed among players within the CMI, although a strictly limited player in contrast to the role envisaged in the failed attempt at creating the Manila Framework Group after the East Asian crisis. It is worth noting that the CMI member countries are currently investigating ways to formulate and apply conditionality within the region – further distancing themselves from the IMF.

A second potential role for the IMF is that through *enhanced surveillance it could enforce multilateral rules on exchange rates*. Various US officials have argued that multilateral rules on exchange rates (even though these are ambiguous at best) should be strongly enforced against China. The IMF's surveillance process should put serious pressure on China to appreciate further its currency. Although many economists have warned against overstating the impact of a Chinese appreciation on the US trade balance, nevertheless on this issue the IMF has found itself facing harsh criticism from the United States for failing to take a hard enough line on what some US policy makers and analysts called China's 'currency manipulation'.

In fact, for the IMF to have power to press non-borrowing governments to alter their exchange rate policies would require a change in the IMF's Articles of Agreement giving the institutions new mandatory powers. [9] In the face of a loud debate in Washington, DC and significant pressures from US politicians and commentators, the IMF has worked very hard both to clarify its mandate and to apply it. In this it has exercised quite a high degree of independence from at least one of its shareholders, producing a decision and guidelines clarifying its approach. [10] It would be difficult to imagine that the powerful members of the institution would agree to a new mandatory power if the US retains its ability to veto any application against itself. All would be aware that the powers could be invoked against them. Furthermore, any such provision would require consensus on a legally enforceable definition of what constitutes a breach of acceptable policy. The absence of any agreement on this, even among economists, makes it highly unlikely. Coordination and cooperation are unlikely to be achieved in this way.

Finally, some members, particularly the G7, would have the IMF redouble its efforts to *improve policies and institutions within emerging economies so as to lower their incentives to accumulate reserves*. But here there are some serious barriers. The instruments the IMF has available for this include technical assistance and policy advice associated with lending. However, even without considering constraints on how such advice might be delivered, the evidence available suggests that Asian finance officials are not interested in advice on financial sector reforms from the IMF. In the wake of the crisis, the message from emerging economies has been that their financial institutions are intact after the crisis. Some are even proposing that Washington, DC and London should carefully study their own institutions instead of preaching reform.

6. Equipped to Deal with the 'Development Emergency'

At the onset of the crisis nobody foresaw the devastating impact it would have on some of the poorest countries of the world. However, in the title of their 2009 Global Monitoring Report the IMF and World Bank describe a 'development emergency' (World Bank and IMF, 2009). The G20 at their London Summit announced:

> We recognise that the current crisis has a disproportionate impact on the vulnerable in the poorest countries and recognise our collective responsibility to mitigate the social impact of the crisis to minimise long-lasting damage to global potential. [11]

To this end the leaders pledged new resources for the IMF, new support for social protection and trade, new concessional lending and to live up to all their previous aid commitments.

The IMF has sprung into action, lending record amounts to its members, pledging to deliver more resources to its needy members by doubling member countries' access to resources (the 'normal access limits') and their cumulative limits on country debt to the IMF. The IMF has also promised significant increases in concessional lending, in part through doubling the Poverty Reduction and Growth Facility (PRGF) and the Exogenous Shocks Facility (ESF) and an expansion of technical assistance funded by donors through multidonor trust funds. To this end the institution has pledged to use some $6 billion (from the sale of IMF gold, and additional bilateral contributions to the PRGF Trust Fund, and the use of other IMF internal resources.

All that said, it does not follow that a $1 trillion IMF is able to lend immediately and generously to low-income countries. Table 1 details the 25 loans the IMF had made by early October 2009 since the onset of the crisis. What Table 1 reveals is that IMF lending post-crisis has been very heavily skewed towards European members of the IMF. Some 79 per cent of lending has been committed to European countries. Meanwhile, some 3 per cent has been committed to African countries. Underlying this is the fact that the IMF has stepped in to deal with the first transmission belt of the crisis – the direct financial crisis caused in European countries as other highly developed financial centres imploded.

Table 1. IMF loans since the onset of the crisis

		Approved date	Amount approved (millions of SDRs)	Per cent of quota	Amount for immediate withdrawal/already drawn (SDR mm)	Per cent of quota	Type
Ukraine	Europe	Nov 08	11,000	802	7,000.00	510	SBA
Hungary	Europe	Nov 08	10,538	1,015	7,587.00	731	SBA
Seychelles	Africa	Nov 08	18	200	7.92	90	SBA
Iceland	Europe	Nov 08	1,400	1,190	560	476	SBA
Pakistan	Asia	Nov 08	7,236	700	3,402.64	329	SBA
Latvia	Europe	Dec 08	1,522	1,200	713.79	563	SBA
Belarus	Europe	Jan 09	2,270	587	955.73	247	SBA
El Salvador	Lat. Am.	Jan 09	514	300	0	0	SBA
Serbia	Europe	Jan 09	2,619	75	701.55	150	SBA
Armenia	Europe	Mar 09	534	580	264.22	287	SBA
Mongolia	Asia	Apr 09	153	300	76.65	150	SBA
Costa Rica	Lat. Am.	Apr 09	492	400	0	0	SBA

The apportionment of new IMF lending confirms a concern expressed by the World Bank that ‘most of the available resources to be provided by the IMF and other international financial institutions are likely to be devoted to high-income emerging markets and middle-income countries that are likely to be able to repay the loans they receive’ (World Bank, 2009, p. 6).

Indeed, in June 2009 the IMF estimated that it can provide only around 2 per cent of low-income countries’ (gross) external financing needs (IMF, 2009). In an update published on 28 September 2009, the IMF estimated that it could meet up to one-third of the new additional external financing needs of low-income countries. For this reason, the institution underscores the need for other institutions, including multilateral development banks and bilateral donors, to be providing concessional resources and grants. The troubling thing is that other multilateral institutions have not been financed (as the IMF has) to deal with the crisis. The World Bank’s President Robert Zoellick has called for industrialised countries to pledge 0.7 per cent of their stimulus packages to a new Vulnerability Fund for developing countries that cannot afford bailouts and deficits (World Bank Group, 2009). [12] However, while individual countries are reporting bilateral efforts to respond to the crisis, major member countries have not given the institution new resources to ensure a coordinated response.

The World Bank’s crisis response, in the absence of new funding, has mostly been to frontload its existing loans to countries (sometimes relabelled as crisis response). [13] There are two risks in this. First, there is a postponed funding gap which will need filling in the near future. Second, there are many countries that have been rendered fragile and desperate by the crisis which did not have a preexisting loan from the World Bank and which can therefore not avail themselves of frontloading. Ensuring that such gaps do not emerge in the overall assistance to poor countries is one of the core reasons for a multilateral approach – since a donor-by-donor approach would risk creating such gaps.

One gap country was Botswana, a country hit particularly hard by the crisis. Faced with a long wait for World Bank assistance, Botswana instead ended up turning to the African Development Bank. In June 2009 the African Development Bank announced a loan of $1.5 billion for budget support. [14] Whereas previously Botswana's need would have been emphatically World Bank terrain, the African Development Bank stepped in, producing a loan in record time and reinforcing in the minds of some on the continent that regional solutions might well be more reliable.

Similarly in other regions development banks have come to play ever larger roles in their regions, with the Inter-American Development Bank and the Asian Development Bank each lending more than the World Bank in their own regions. In addition, other regional actors are emerging. For example, in Latin America, while Brazil has been very slow to offer support to the IMF, its national development bank has lent some $15 billion to countries in the region in the wake of the crisis. Meanwhile Venezuela's regional programmes have attracted much attention. Similarly in Asia there is a determination to pursue and to strengthen regional alternatives to the multilateralism of old. To quote Jiang Zemin at the opening ceremony of the Asian Development Bank Annual Meeting in May 2009:

> “Asian countries should step up their own efforts and work in closer regional cooperation with Asian characteristics … It is gratifying to note that thanks to concerted efforts of Asian countries, regional cooperation in Asia has been growing ever stronger in recent years. With the preliminary establishment of such cooperation mechanisms as the Asian Pacific Economic Cooperation, East Asian Cooperation, Shanghai Cooperation Organization and others, an open, healthy and mutually beneficial cooperation pattern has taken shape … we should base ourselves on the existing cooperative mechanisms and constantly explore new ways of cooperation, centering first and foremost on closer sub-regional cooperation and probing for, on such basis, effective approaches to Asian cooperation. [15]”

In sum, the G20's assertions that an IMF with trebled resources will assist in dealing with the global fallout of the crisis are a misnomer. The IMF management and staff have moved quickly to use their available resources, but mostly this has been to avoid financial crises in European area countries. Analysing the actions of the powerful members of the IMF and the World Bank, one finds that they are eschewing a multilateral response to the development emergency in poorer countries in favour of an individual approach that uses their own bilateral aid programmes.

Conclusions

This article began by proposing that the global economic crisis may have spurred a new determination on the part of powerful states to strengthen multilateral institutions. The creation of the leaders-level G20 means that a wider group of countries has engaged in shaping the agenda of global institutions. The new G20 has met and designed action plans with speed. The winner among multilateral institutions has been the International Monetary Fund, thrust centre stage with approximately $1 trillion of resources for the purpose of dealing with the crisis. The IMF has been tasked with lending to emerging economies to prevent financial crises, fostering cooperation that might prevent a future crisis and assisting poor countries affected by the crisis.

What kind of multilateral action and capacity is emerging behind the press statements and official communiqués? The IMF underwent governance and financial reforms before the crisis. However, its governance reforms have not yet gone far enough to win the confidence of emerging economies, which are arguing that not enough has changed. The financial reforms might have aimed at producing an IMF with more capacity for independent action; however, they have been swamped by two post-crisis realities. First, the IMF is now back to lending record amounts to emerging economies which extinguishes (for the time being) the institution's need to find an alternative income stream. Second, the resources necessary to deal with this crisis – as with previous crises – are being provided by credit lines from the IMF's main, most wealthy, members. Initially Brazil, Russia, India and China (the BRICs) refused to participate in the NAB or special arrangements. Instead, they offered to purchase the IMF's new notes. More recently, a face-saving compromise has been reached whereby the BRICs agree to permit their purchases of notes to be rolled into arrangements to borrow, provided more governance reform takes place.

Not achieved is a transformation in relations with the major emerging economies such that the IMF would be positioned to address the global imbalances, to set new multilateral rules, to operate as an alternative to self-insurance or indeed to provide a more multilateral response to the development emergency. There is very little (beyond rhetoric) of a multilateral response to poorer countries affected by the crisis. The IMF's lending to date has mainly been focused on middle-income countries facing financial crisis. The World Bank has called for, but not received, more resources. It is also hindered both by its own procedures and rules and by the unwillingness of powerful, wealthy members to take risks or to permit the Bank to take risks. The result is that different regions of developing countries, led to some degree by their emerging economy neighbours, are finding regional solutions.

Far from witnessing a new resolve by the G7 to open up and strengthen multilateral institutions, we may simply be witnessing the last gasp of an old-fashioned concert of great powers, embodied in the Group of Seven major industrialised countries. They are seeking new compromises with the emerging economies. However, to date they have not relinquished their command of the tiller of the main multilaterals – the IMF and the World Bank – even as it becomes clear that the future efficacy of these institutions requires them so to do. As a result, in the place of the old-fashioned G7, an ambiguous new order may be emerging in which multilateral institutions – such as the IMF – have only a limited role to play alongside emerging national and regional strategies.

Footnotes

- I would like to acknowledge the excellent research assistance of Christina Ward, and the research support of Canada's International Development Research Center and the Ford Foundation.

1 Canada's Center for International Governance Innovation (CIGI) had long been arguing that the G7/8 needed to be superseded by a broader, more representative leaders-level grouping: see Jim Balsillie at http://www.cigionline.org/library/cigi-special-g20-report-flashpoints-pittsburgh-summit.

2 Transcript of a Conference Call by Senior IMF Officials on Board of Governors Vote Quota and Voice, Washington, DC, 29 April 2008. Available from: http://www.imf.org/external/np/tr/2008/tr080429a.htm.

3 Committee to Study Sustainable Long-Term Financing of the IMF, 31 January 2007.

4 Final Report of the Committee to Study Sustainable Long-Term Financing of the IMF (the Crockett Report), 31 January 2007, Appendix 2, Table 3.

5 Statement by Mr Guido Mantega, Minister of Finance of Brazil on behalf of the constituency comprising Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname and Trinidad and Tobago to the International Monetary and Financial Committee, Nineteenth Meeting, 25 April 2009, Washington, DC. Available from: http://www.imf.org/External/spring/2009/imfc/statement/eng/bra.pdf.
6 A useful overview is given in a presentation by IMF Chief Economist Olivier Blanchard, 'Global Imbalances', Mexico City, 2007. Available from: http://econ-www.mit.edu/files/762 [accessed 19 October 2009].
7 Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund, 4 October 2009. Available from: http://www.imf.org/external/np/cm/2009/100409.htm [accessed 19 October 2009].
8 For a close comparison of their communiqués, see Martinez, 2009.
9 The IMF's formal powers on exchange rate surveillance are set out in Article IV Section 3 of the IMF's Articles of Agreement which state that the IMF 'shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies. Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies'.
10 The decision focuses on assessing whether countries' policies promote external stability, as well as what is and what is not acceptable to the international community in terms of how countries conduct their exchange rate policies; and also emphasising that surveillance should be collaborative, candid and even-handed, taking into account countries' specific circumstances. See http://www.imf.org/external/np/sec/pn/2007/pn0769.htm#decision.
11 London Summit Communiqué, April 2009. Available from: http://www.londonsummit.gov.uk/resources/en/news/15766232/communique-020409.
12 In the *New York Times* (22 January) Zoellick argued: 'The United States could begin by pledging some $6 billion of its own $825 billion stimulus package – just 4 per cent of what was provided to American International Group. With this modest step, the United States would speed up global recovery, help the world's poor and bolster its foreign policy influence' (Zoellick, 2009).
13 These are analysed in detail in Woods, 2009.
14 http://www.afdb.org/en/news-events/article/afdb-approves-us-1-5-billion-budget-support-for-botswana-to-help-country-cope-with-the-financial-crisis-4724/.
15 http://news.xinhuanet.com/english/2002-05/10/content_387756.htm.

Appendix

Table A1. Changes in quota and voting shares

Changes in quota and voting shares*						
Country	Quotas			Country	Votes	
	Percentage change from pre-Singapore to post second round (nominal)	Percentage point change from pre-Singapore to post second round (share)	Post second round quota share (in per cent)		Percentage point change from pre-Singapore to post second round (share)	Post second round voting share (in per cent)
Top 10: Positive change from pre-Singapore				*Top 10: Positive change from pre-Singapore*		
Korea	106.1	0.65	1.41	Korea	0.61	1.36
India	40.0	0.50	2.44	India	0.42	2.34

Brazil	40.0	0.36	1.78	Brazil	0.31	1.72
Japan	17.4	0.33	6.56	Mexico	0.27	1.47
Mexico	40.2	0.31	1.52	Spain	0.22	1.63
United States	13.2	0.29	17.67	Singapore	0.18	0.59

Source: Finance Department.

Based on final rounded figures.

†*For quota shares, sum for the 54 countries that receive ad hoc increases in the second round. For voting shares, sum for the 135 countries that see an increase.*

Proposed quotas for members receiving ad hoc quota increases			
Proposed quota (in millions of SDRs)		**Proposed quota (in millions of SDRs)**	
Albania	60.0	Malaysia	1,773.9
Austria	2,113.9	Maldives	10.0
Bahrain	176.4	Mexico	3,625.7
Bhutan	8.5	Norway	1,883.7
Botswana	87.8	Oman	237.0
Brazil	4,250.5	Palau, Republic of	3.5
Cape Verde	11.2	Philippines	1,019.3
Chad	66.6	Poland	1,688.4
China	9,525.9	Portugal	1,029.7
Costa Rica	187.1	Qatar	302.6
Cyprus	158.2	San Marino	22.4
Czech Republic	1,002.2	Seychelles	10.9
Denmark	1,891.4	Singapore	1,408.0
Ecuador	347.8	Slovak Republic	427.5

Source: http://www.imf.org/external/np/exr/ib/2008/040108.htm *[accessed 19 October 2009].*

Table A2. IMF general quota reviews

Quota review	Date resolution adopted	Overall quota increase (per cent)

Quota review	Date resolution adopted	Overall quota increase (per cent)
First quinquennial	No increase proposed	–
Second quinquennial	No increase proposed	–
1958/59*	February and April 1959	60.7
Third quinquennial	No increase proposed	–
Fourth quinquennial	March 1965	30.7
Fifth general	February 1970	35.4
Sixth general	March 1976	33.6
Seventh general	December 1978	50.9
Eighth general	March 1983	47.5
Ninth general	June 1990	50.0
Tenth general	No increase proposed	–
Eleventh general	January 1998	45.0
Twelfth general	No increase proposed	–
Thirteenth general (Jan 2008)	No increase proposed	–

** This review is the only one so far conducted outside the five-year cycle.*

Source: http://www.imf.org/external/np/exr/facts/quotas.htm *[accessed 19 October 2009].*

Table A3. GAB participants and credit amounts

Participant	Original GAB (1962–1983) Amount (SDR million)*	Enlarged GAB (1983–2008) Amount (SDR million)
Belgium	143	595
Canada	165	893
Deutsche Bundesbank	1,476	2,380
France	395	1,700
Italy	235	1,105
Japan†	1,161	2,125
Netherlands	244	850
Sveriges Riksbank	79	383
Swiss National Bank		1,020
United Kingdom	565	1,700

Participant	Original GAB (1962–1983) Amount (SDR million)*	Enlarged GAB (1983–2008) Amount (SDR million)
United States	1,883	4,250
Total	**6,344**	**17,000**
Saudi Arabia (associated credit arrangement)		1,500

* SDR equivalent as at 30 October 1982.

† 250,000 million yen entered into effect on 23 November 1976.

Note: Total may not equal sum of components due to rounding.

Source: http://www.imf.org/external/np/exr/facts/gabnab.htm *[accessed 19 October 2009].*

Table A4. NAB participants and credit amounts

Participant	Amount (SDR million)
Australia	801
Austria	408
Banco Central de Chile	340
Belgium	957
Canada	1,381
Denmark	367
Deutsche Bundesbank	3,519
Finland	340
France	2,549
Hong Kong Monetary Authority	340
Italy	1,753
Japan	3,519
Korea	340
Kuwait	341
Luxembourg	340

* *Total may not equal sum of components due to rounding.*

Source: http://www.imf.org/external/np/exr/facts/gabnab.htm *[accessed 19 October 2009].*

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