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Defying Bureaucratic Malfeasance: The IMF's Push for Good Governance

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Abstract

Ryan Cadry's interest in politics and international relations began at an early age, when he read the Sunday newspapers with his father. Over time, that interest grew into an insatiable hunger for learning, one that has fueled his investigation into the underlying factors leading to global privation. Specifically, he sought to understand the roles of international organizations and financial institutions in promoting development throughout Africa and Latin America. Ryan has enjoyed the opportunity his research has given him to develop a friendship with his mentor, Professor Sandholtz, and to travel to Washington D.C. to interview officials of the International Monetary Fund and State Department.

The degree to which certain international organizations influence global economic sustainability (and to some extent, the foreign relations of various states) in the twenty-first century is unprecedented. The amplified roles of multilateral economic institutions, such as the International Monetary Fund (IMF), have allowed these institutions to extend their policies beyond the traditional tools for attaining economic sustainability in developing countries. In addition to its highly-controversial structural adjustment policies, for example, the IMF has adopted a tougher stance against political malfeasance, asserting that greater fiscal transparency and accountability of government finances is crucial to maintaining market confidence. Thus, the Fund has incorporated good-governance standards into its conditionality requirements for monetary assistance. Critics, however, have reproached the IMF for infringing on states' autonomy by necessitating certain governance-related reforms. They argue, moreover, that the Fund is going beyond its jurisdiction as a purely economic institution in calling for such reforms. In spite of these claims, scholarly research has justified IMF involvement in governance issues, showing that there is, indeed, a positive statistical correlation between good governance characterized by transparency and fiscal accountability on the one hand, and economic growth on the other.

Faculty Mentor



Ryan Cadry's article tackles an important problem in global governance. The International Monetary Fund (IMF) is one of the institutions charged with maintaining international economic stability. One of its key functions is to lend money to developing countries that find themselves in severe financial difficulty. The IMF has always attached economic conditions to its loans, but more recently it has also imposed political conditions. The political conditions include, for example, government transparency and integrity, which frequently means curbing corruption. Ryan asks if the imposition of political conditions on IMF loans constitutes an unwarranted trespass on the sovereignty of developing countries. Read the article to learn what he concludes.

Key Terms

- ◆ Article IV Consultations
- ◆ Good Governance
- ◆ Governmental Corruption (Graft)
- ◆ Highly Indebted Poor Countries (HIPC)
- ◆ IMF Guidance Note
- ◆ International Development
- ◆ International Financial Institutions

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Defying Bureaucratic Malfeasance: The IMF's Push for Good Governance

Over the course of many centuries, the world's most influential economists and political scientists have pondered the issue of global economic sustainability and the means by which to achieve this long-term goal. They have contemplated the reasons that some states enjoy high levels of economic growth while others are left to deal with a continual lack of social and economic development. Some scholars have denounced the practice of globalization as being culpable for the high levels of poverty within developing states, while others have placed much of the blame on states that refuse to adopt free-market policies. Regardless of the degree of popularity enjoyed by either of these theories, it can be said that the study of the international political economy is not a relatively new practice. Scholars dating back to the time of Adam Smith have considered the various factors that might restrain economic growth in developing countries, even as the high rate of poverty that has characterized the third world is now widely accepted as an unfortunate fact of life.

Furthermore, modern-day economists tend to look beyond economic policy as a means of predicting the average growth rates of countries. That is, they have come to the realization that economic development is now, more than ever, dependent upon social and political policies that are adopted by a state. Amartya Sen, a 1998 Nobel laureate in economics, has argued that democratization is a crucial factor in allowing for development and economic growth. The logic behind Sen's assertion is that there should be a statistically significant relationship between levels of human development and the degree to which economic growth is achieved; that is, low levels of human development (characterized by social deprivation, tyranny, and political corruption) should, in essence, be perceived as a major impediment to economic development (Hill 62). Thus, economic growth will only occur once these hindrances are removed.

Even so, when monitoring the economic growth rates in developed and developing states as well as the social and political factors behind this growth, greater attention should be devoted to the essential pursuits of international organizations. As issues concerning the global economy become increasingly complex, we must not lose sight of the important roles played by institutions such as the International Monetary Fund (IMF), whose structural adjustment policies, monetary loans, and traditional stabilization measures (which, to some degree, characterize neo-liberal policies) have arguably been effective in helping states emerge from

economic crises. Since its establishment at a 1945 international conference in Bretton Woods, New Hampshire, the IMF (together with its sister agency, the World Bank) has successfully fulfilled its duties as a major contributor to post-war economic reconstruction by adopting such tasks as providing loans to European states for the intent of purchasing capital goods. Today, the general purpose of the IMF is the same as when the Fund was established over 60 years ago: to help states avoid economic downturns that may, in effect, disrupt the mechanics of global growth and development. The means of achieving this goal, however, have changed to such an extent that the Fund has attracted considerable criticism from policy makers and academics.

Over the past decade, many of the policies of international financial institutions (IFIs) such as the IMF have been shrouded in a great deal of controversy. One argument is centered around the IMF's guidelines regarding governance-related issues and the Fund's uninvited influence on how debtor states expend the money that is lent to them. Many of the Fund's critics have maintained that by necessitating bureaucratic reform as a condition to qualify for loans and by withholding loans because the debtor state would use them for purposes that the IMF sees as fiscally unproductive, the Fund undermines state autonomy. These critics have reproached the IMF for assuming tasks and making demands that are beyond its jurisdiction as a purely economic institution, maintaining that the Fund should not retain any influence in how states manage their bureaucracies or how their monetary resources are invested.

The Fund has countered this criticism on the grounds that various institutional reforms are required in order to sustain economic growth. Issues pertaining to good governance have most recently taken precedence among the Fund's list of reforms. As former managing director of the IMF, Michel Camdessus, commented to the members of the Economic Club of New York in 1997,

Every country that hopes to maintain market confidence must come to terms with [the] issues associated with "good governance." Our approach at the Fund is to focus on those aspects of "good governance" that are most closely related to our surveillance over macroeconomic policies, such as increasing the transparency of government accounts, [which is] an excellent means of controlling corruption, and encouraging countries to reduce unproductive public expenditures in favor of investments in health, education, and basic infrastructure (Camdessus, 1997).

One can make three deductions based on Camdessus' remarks. The first is that while an "unproductive public expenditure" is not necessarily a form of corruption, the funds may be deliberately misused for the purpose of advancing programs that do not contribute to the development of social infrastructure. Such was the case in Uganda where, in 1997, the IMF withheld \$140 million in fiscal aid due to the disclosure of records revealing the government's excessive spending on its military at the expense of education and healthcare programs. Admittedly, there is some justification in allocating much of a state's monetary resources to the development and maintenance of its military, especially if that state seeks to sustain its national security and territorial integrity as a result of an ongoing cross-border conflict. However, in cases where such circumstances do not exist, it is unarguably beneficial to allocate a greater portion of a state's resources toward the development of basic infrastructure.

Yet, there are certain instances in which an unproductive public expenditure would not be deemed as corruption (or even questioned as such), but rather merely as an ineffective means of promoting economic and social growth within a potential debtor state. One such case involved the Brazilian government, to which the IMF had originally planned on advancing a \$41.5 billion rescue package (spread over a period of three years) in February of 2000. Brazil, a state that has for many years been grappling with incredibly high poverty rates and a skewed income distribution, had planned to allocate over \$22 billion of the money to various social programs that were intended to combat poverty. The Fund, however, objected on grounds that the loan should be used to reduce the state's financial debt rather than to deal with the issue of poverty. According to Camdessus, an expenditure of the funds to address social austerity would have accomplished nothing more than temporarily alleviate a dilemma that was likely to recur within a matter of years. Lorenzo Perez, the Fund's representative to Sao Paulo, had backed these claims by maintaining that an expenditure of the funds to offset the rising poverty levels within Brazil's borders would have, in effect, hindered any attempt at resolving the state's debt management crisis (Rhoter A9). Perez later retracted his statement, saying that he had made the assertion based on insufficient evidence and that a spending plan to reduce poverty would not have endangered Brazil's ability to reduce its debt.¹

¹ Interestingly, Perez and the IMF reversed their official position on the issue after strong nationalist appeals had been made for the Brazilian government to expel Perez from Sao Paulo.

Second, there are many variations of corruption that would necessitate government transparency. The point of contention between the IMF and Cote d'Ivoire president Henri Konan Bedie illustrates this idea. In March of 1999, the *Wall Street Journal* reported unfavorable relations between Cote d'Ivoire and the Fund on grounds that the latter was withholding \$228 million in loans due to suspicions that the state was in possession of "secret government slush funds" (Philips A2).

The third, and most significant, line of reasoning is that corruption would have negative impacts on a state's economy, because private investors would avoid a country with a politically corrupt and unreliable means of governance.

Is the Fund going beyond its jurisdiction as an economic institution in its calls for greater transparency and accountability? Moreover, should the IMF oblige debtor states to make expenditures that it perceives to be relatively more productive? Would the stipulations set by the IMF undermine a state's autonomy when deciding the best courses of action to take in response to economic downturns? Since these issues began to gain scholarly attention almost a decade ago, political scientists, economists, and policy makers have continued to carry out in-depth investigative analyses in their attempts to satisfy these queries. Many of their findings show that there is, indeed, a positive correlation between economic growth and what the IMF defines as good governance. I hypothesize that, in addition to the traditional structural adjustment policies that the Fund continues to advocate, the IMF's campaign against bureaucratic malfeasance yields long-term economic growth by promoting greater transparency and accountability of government finances, which, in turn, stimulate foreign investment. Therefore, the fund is not making demands that are beyond its jurisdiction as a financial institution, as its stipulations are justified on economic grounds.

The Gradual Growth of Corruption

Corruption is nothing new. Ancient writings dating as far back as two thousand years have delved into the economics of corruption and its dire effects on societal welfare. Kautilya, an ancient political philosopher under India's Mauryan dynasty, authored a treatise titled *Arthashastra*, in which he extensively discussed ethics as it applied to the economic and political climates of the fourth century B.C. (Encyclopedia Britannica, "Artha-sastra"). Twelve hundred years later, Florentine poet Dante Alighieri fated bribers and their beneficiaries to the deepest pits of *Inferno* (Hell), exhibiting his utmost distaste for dishonesty (Tanzi 19). By

the late 1700s, the drafters of the American Constitution established strict penalties against political malfeasance, the wrath of which was felt almost two centuries later by James Traficant Jr. (D-Ohio) who was impeached by the U.S. House of Representatives for making personal use of campaign funds.

However, over the course of two millennia, corrupt practices have evolved to a higher degree of sophistication. It is no wonder that this topic has sparked more debate and discussion among policy makers now than at any other time in history. With the fall of Soviet socialism in 1990/91, there came greater consciousness of the extent of corruption and its influences in the highest echelons of society and government. Transparency International's *Corruption Perceptions Index (CPI)* is a measure by which corruption is believed to exist among public officials within a given country. While the perceptions are those of the general public, the index places greater emphasis on the assessments of business people, due to their frequent interactions with government institutions. As measured by Transparency International's 1998 CPI (Figure 1), graft became especially rampant in the transition economies of Central and Eastern Europe.

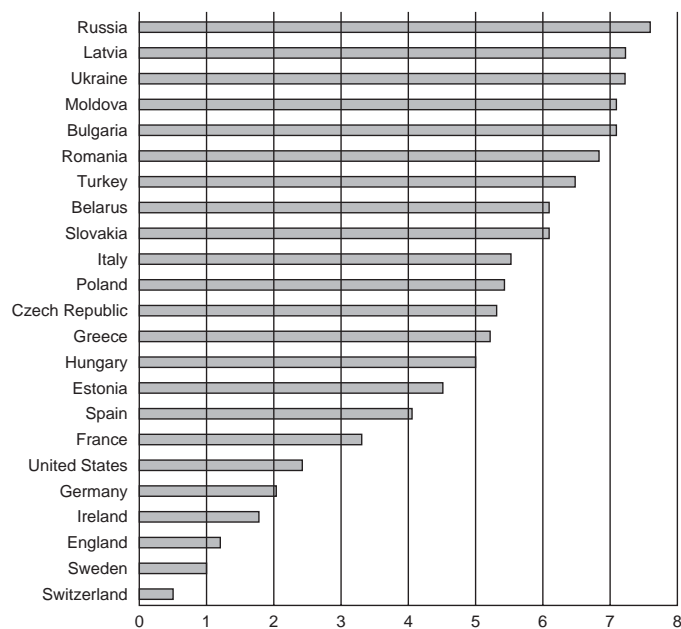


Figure 1
Transparency International Corruption Index 1998. Lower scores indicate less perceived corruption. For example, Sweden's score of 1.0 corresponds to a CPI of 9.0, indicating that Sweden was perceived to be among the least corrupt of the 85 countries studied in 1998.

By 1997, international organizations, with the help of Non-Governmental Organizations (NGOs), began to adopt a tougher stance against poor governance characterized by, among other things, bribery and rent seeking.² Thus, the degree of attention that was given to curbing governmental corruption in recent years is unprecedented.

A Sudden Awareness?

Naturally, one would come to question the basis for this seemingly abrupt shift of attention to fraud and malfeasance by public officials. Why is there so much concern now for a phenomenon that has existed since the birth of civilization? Tanzi³ (2002) has advanced several hypotheses outlining the reasons as to why corruption is attracting more consideration now than in the past. First, he maintains that the symptoms of political hypocrisy that were common throughout the Cold War era are no longer prevalent. This hypocrisy was characterized by a tendency to ignore acts of corruption as long as the authorities that committed these injustices were political allies of those whose job it was to enforce laws against them or, as he terms it, "in the right political camp" (Tanzi 20).

Second, the gradual rise in the number of countries with democratically elected governments promoting civil liberties has allowed for an increase in the availability of information via media outlets. A free and active media in Russia and the former Soviet bloc, for example, has led to an increase in the number of reports revealing cases of corruption. There is little doubt that widespread media coverage of the Ukrainian presidential elections of November 2004 played a significant role in uncovering the electoral fraudulence of Ukrainian Prime Minister Viktor Yanukovich in his unsuccessful bid to defeat Viktor Yushchenko as the next leader of the former Soviet republic.

A third factor, Tanzi argues, is the phenomenon of globalization, which has brought individuals coming from countries with relatively mild corruption into recurrent contact with individuals coming from states where bureaucratic malfeasance is notoriously rampant. These contacts have resulted in a greater scrutiny of corruption, especially since many companies owe the loss of their bids for overseas contracts to other companies that they suspect paid bribes to public officials overseeing infrastructural projects (Tanzi 21).

² Rent seeking refers to a firm's attempt to gain a strategic advantage in the business environment by manipulating economic circumstances. For example, a firm may lobby or bribe public officials to increase tariffs on a certain good, thereby raising the prices of foreign-produced goods while maintaining a competitive price on the firm's own domestically-produced goods.

³ Vito Tanzi, Undersecretary of State at the Ministry of Economy and Finance, Rome, Italy. Former Director of Fiscal Affairs Department, IMF.

A fourth contribution to the ever-growing awareness of political vice is the emergent role of NGOs, such as Transparency International, in exposing the problems of corruption and devising various means of controlling it. Their empirical analyses, in conjunction with those of the IMF and the World Bank, have contributed to a greater understanding of the consequences of this problem (it is this final factor that has been the center of much controversy surrounding the role of the IMF).

Interestingly enough, Tanzi also makes a case that the increased attention to bureaucratic malfeasance is due, in most part, to the greater frequency with which it occurs. This frequency is a function of time, particularly in countries that have traditionally lacked the means and the willpower to counter corruption (Tanzi 22). That is, systems that function under a dishonest bureaucracy are likely to unconsciously foster an environment that promotes the rapid spread of political malfeasance, which, in turn, bears the potential of spilling across borders. Moreover, the invasive role of the state (through its fiscal policies) is thought to have encouraged this propagation. The augmented role and influence of a government in its national economy has, in recent decades, provided ample opportunity for public officials to supplement their incomes via illegitimate means. In this context, government in the national economy (as an environment in which malfeasance prevails) would have numerous attributes. The greater level of taxation in many countries provides for an atmosphere in which graft may persist. Because tax laws are difficult to understand, they are subject to various interpretations and, therefore, require regular contact between taxpayers and tax administrators. The administrators may seek favors from the taxpayers in return for accepting a lax interpretation of the tax law. These acts of corruption are deliberately ignored or remain undiscovered; however, if discovered, such violations are usually dismissed with only mild penalties.

Increases in public spending may also provide opportunities to exploit monetary resources. Public spending may assume various forms; this, however, does not mean that spending decisions by the government are immune to acts of corruption. Illegitimate extra-budgetary accounts exist in many countries. These accounts are less transparent and are free from the controls that monitor and restrict the money that is directed through an otherwise normal budget. Due to the lack of transparency and accountability of the extra-budgetary accounts, much of the money in the accounts may be used for private gain.

As developing states strive to meet the higher standards of advanced economies, their political and economic interactions with businesses and industries become increasingly complex, requiring the establishment of various rules to regulate business practices. This sets the stage for a type of bureaucratic monopoly on the issuance of permits or authorizations by public officials, giving officials an opportunity to extract bribes from business owners who are otherwise denied the permits that they need to advance their businesses. Thus, in addition to the emergent role of NGOs and the free press in developing and transition economies, as well as the declining number of instances in which political injustice has occurred through hypocrisy, one may convincingly maintain that a larger state role in the economy creates opportunities for corruption.⁴

Economic Ramifications of Bureaucratic Malfeasance

Having established the favorable climate in which corruption prevails, it is appropriate to next examine the perceived corollaries of poor governance. Before delving into such an analysis, however, it is important to realize that the negative consequences of malfeasance are twofold. First, corruption (or graft as it is sometimes called) has a detrimental impact on the economic growth in a qualitative sense. That is, it is possible to consider the effects of corruption without examining any basic mathematical or statistical models. Second, some of the effects of corruption cannot be properly understood without the necessary mathematical or statistical explanations to corroborate them. It is beneficial to examine both of these types of effects on a state's economy.

The Qualitative Effects

Graft on the part of public officials usually harms the economy by undermining the government's ability to effectively regulate the elements that may lead to economic growth. For example, after deciding that an earlier agreement is no longer beneficial to its own interests, a party may choose to break free from its contractual commitments and obligations by simply bribing the proper authorities. This downgrades the essential role of the government in enforcing such contracts (Tanzi 45). Moreover, a bureaucracy that functions in a corrupt environment is one that fails to effectively regulate its state's infrastructure, resulting not only in market failures, but also a gradual decline in the quality of goods and services. For example, when lawmakers pave the road for a single corporation to enjoy a monopoly over an entire industry,

⁴ Ironically, some of these policies are directly advocated by the IMF through its Structural Adjustment Programs, which mandate tax increases for the respective countries to recover from financial crises (as it did with respect to the 1997 Asian Financial Crisis).

the consequential lack of competition in that industry eases the burden on a company to satisfy the needs of its consumers. The company may do this by reducing the quality of its goods and services in order to cut costs.

Finally, corruption may impose a greater financial burden upon the individual or business that pays the bribe because: 1) in addition to paying the bribe itself, the business must expend its monetary resources to find a public official who is willing to accept the bribe, and 2) the contractual commitments that are secured by payment of the bribe may be violated since the state's judiciary neither enforces nor acknowledges transactions that are established by illegitimate means (Tanzi 46). Either party may, therefore, break away from its contractual obligations without fearing state-imposed sanctions.

A Quantitative Approach

Although it is possible to appraise the negative effects of graft qualitatively, statistical models are more useful in substantiating the economic upshots of malfeasance. Before examining these models, however, it is important to reiterate the damaging effects that corruption may have upon the economic growth of a state, particularly those that come as a result of dramatic declines in foreign investment. There are numerous reasons why foreign investors avoid countries with a high degree of political corruption. As previously established, a reliable and efficient judicial system is crucial in enforcing contractual obligations of the parties involved. The lack of such a system fosters an environment in which one party may buy their way out of a contract by paying bribes to public officials who are willing to accept them (North 59). Recall that another reason why private investors do not develop an affinity toward countries whose bureaucracies operate under poor governance standards is that contracts for infrastructural projects may be awarded based on under-the-table payments to public officials, rather than to the highest legitimate bidder.

Table 1 shows the statistical relationship between economic growth (as measured by GDP per capita) and the Business International's (BI) bureaucratic efficiency index (BEI) over a period of fifteen years.⁵ The numbers that are labeled as part of the dependent variable represent the consecutive years between 1970 and 1985 during which per capita GDP

Table 1

Relationship Between Corruption and Investment. Dependent Variable: Per Capita GDP Growth (1970–1985). Source: Mauro (1995)

Independent Variable	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
BEI	.003		.011		.006		.014		.004			.001	.002	.001	.001
Corruption Index		.002		.008		.003		.011		.002					

growth had occurred. Here, the relationship between the two variables is statistically significant at an α -level of .01, allowing for a rejection of the null hypothesis of no relationship between the two variables. In simpler terms, it is argued (with 99% confidence) that the relationship between economic growth (as measured by GDP per capita) and BI's BEI is highly unlikely to have occurred by chance alone. This validates the notion that there is an association between the reliability of a state's judicial system, bureaucratic red tape, and corruption on the one hand, and lack of private investment on the other. Thus, Mauro (1995) rightly concludes that institutional efficiency is a major determinant of economic growth.

For the purposes of this study, however, it is even more practical to sift out corruption as a lone variable (that is, without red tape or the judicial system) to demonstrate its immediate effects upon economic growth as measured by per capita GDP and foreign investment trends. As illustrated in Table 1, the years during which BI's corruption index was measured against per capita GDP growth yielded values that are below α -levels of .01, again allowing for a rejection of the null hypothesis of no relationship. Moreover, it is apparent that the corruption index is more closely associated with the dependent variable than is the all-inclusive BEI. This is primarily established by the fact that the statistical significance of the former is slightly higher than the latter, thus substantiating the distinctive nature of corruption as a lone variable that is capable of discouraging foreign investment.

Mauro shows the graphical relationship between bureaucratic efficiency and the per capita GDP growth for sixty-seven countries, validating a positive correlation between the two variables (Figure 2). The inverse relationship confirms that, in general, less bureaucratic efficiency may inhibit economic development and growth over time.

He also shows the relationship between bureaucratic efficiency and a more precise indicator for growth: investment for the 67 countries.⁶ Figure 3 illustrates the positive correlation between bureaucratic efficiency and investment. The graphical analysis of the two variables substantiates the

⁵ In addition to quantifying the degree of corruption, bureaucratic efficiency (BE) also comprises two other variables: the reliability of the judicial system and the amount of red tape (federal restrictions) a government imposes upon business that operate within the country.

⁶ For the purposes of this survey, investment refers to the commitment of foreign corporate capital to the economic institutions of the state.

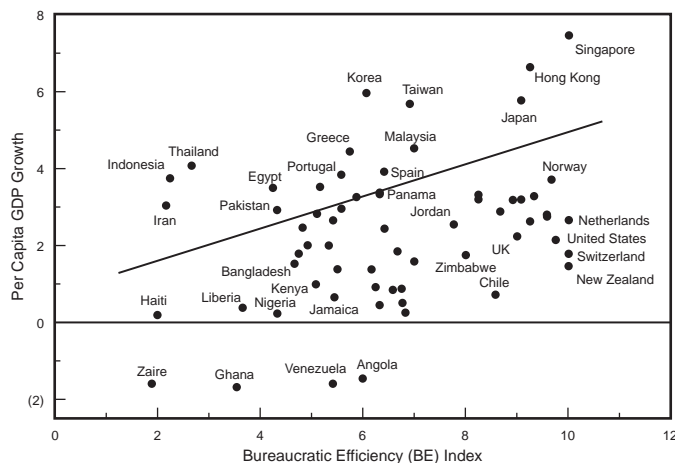


Figure 2
Growth and Bureaucratic Efficiency. (BE Average: 1980–1983). The trend line, which is not on the scatter plot in Mauro’s original article, is artificially added to more clearly illustrate the relationship between the two variables. Source: Mauro (1995)

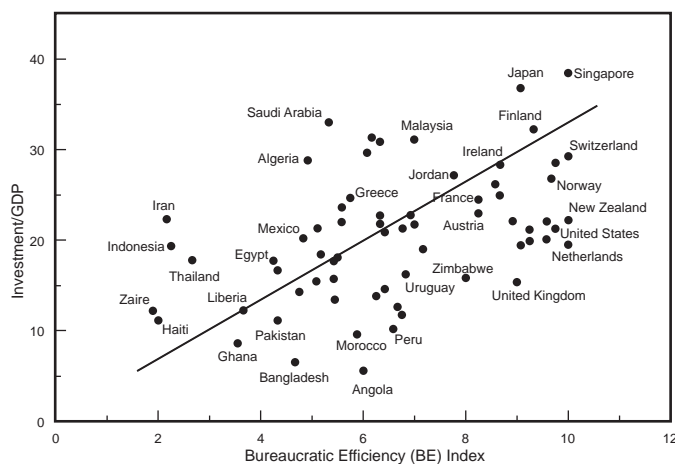


Figure 3
Investment and Bureaucratic Efficiency. (BE Average: 1980–1983). Source: Mauro

notion that less bureaucratic efficiency tends to yield progressively lower investment rates (and vice versa).

A Growing Awareness (Revisited)

A greater understanding of the economic effects of corruption has also arisen outside the domain of academia. As G-8 leaders held a summit in July of 2005 to discuss, among other things, debt forgiveness for fifteen of forty-seven African states, issues pertaining to corruption control once again enjoyed a great deal of popularity in the American and international news media.⁷ During the same week that the G-8 summit was in session, *The New York Times* published an article that attributed the continent’s economic underdevel-

⁷ The G-8 is a group of the world’s highly developed and most industrialized nations. It comprises Canada, France, Germany, Italy, Japan, Russia, United Kingdom, and United States.

opment to the widespread corruption that has plagued the Sub-Saharan region:

Awash in the oil and gas that has flooded its treasury with \$300 billion in the past 30 years, Nigeria remains utterly destitute, in no small part because of waste and graft...few corrupt officials have been convicted and millions of aid dollars go astray (LaFraniere A1).

Meanwhile, NGOs and international advocacy groups such as Oxfam America have continued to encourage greater transparency and accountability of the governments’ financial records. In July 2005, Oxfam spokesperson Djimon Hounsou expressed his frustration over the fact that “relief money go[es] into the pockets of corrupt dictators while children [continue to] go hungry” (Waters A11). The negative consequences of graft and political vice have also captured the attention of high-level government officials such as President George W. Bush, who emphasized that “countries like ours [United States] are not going to want to give aid to countries that are corrupt or don’t hold true to democratic principles.”

Corruption as Beneficial to Economic Growth?

Modern-day scholars do not unanimously dismiss corruption as inauspicious. Some believe that there are, indeed, inherent benefits to graft that are not as immediately apparent. Leff (1964) argues that many politicians are critical of corruption because it indirectly robs them of power in a society where “interest groups are weak and political parties rarely permit the participation of elements outside the contending cliques” (Leff 9). Consequently, bribery and other forms of graft may be the only means of articulating and representing grassroots interests in the bureaucracy of a developing country.

Another perceived benefit to corruption is the means by which it is thought to encourage competition between entrepreneurs. For example, when the number of available investment licenses exceeds the number of aspirants, bidding may force an increase in the price of the licenses which, in turn, favors those who have the monetary resources to remain in the business and succeed in the industry while weaker companies are weeded out in the process (Leff 9).

Leff also suggests that the benefits of corruption are manifested in an environment where the presence of a slow bureaucracy hinders growth. This bureaucracy is, in turn, partly characterized by the government’s assigning low priority to economic concerns or by its indifference to

entrepreneurial interests. This apathy is evident in the government's neglect to remove the restrictions and limitations (red tape) that serve as barriers to entrepreneurial investment, supporting the view that the inefficiency of a state's bureaucracy is harmful to growth:

...we should realize how illusory is the expectation that bureaucratic policy can intervene as a *deus ex machina* to overcome the other barriers to economic growth. In many underdeveloped countries, the bureaucracy may be a lagging rather than a leading sector (Leff 13).

Although there is some merit to the claim that bureaucratic red tape impedes economic growth, it is rather misleading to maintain that corruption remedies this hindrance because, in countries where there are many laws that restrict business activities, corruption does not aid in promoting favorable investment trends; this also applies to countries where there is low red tape. Table 2 statistically corroborates this notion.

Table 2
Investment and Corruption. Dependent Variable: Total Investment/ GDP, 1980–1985 Average. Source: Mauro (1995)

Corruption (Slope Coefficient)	R ²	Sample	N
0.0117	0.18	Entire BI Sample	67
0.0105	0.09	Low Red Tape (red tape index ≥ 5)	45
0.0138	0.23	High Red Tape (red tape index < 5)	22
0.0152	0.11	Low Red Tape (red tape index > 7)	24
0.0083	0.07	High Red Tape (red tape index ≤ 7)	43

The table illustrates the magnitude to which bribery and graft may allow for businesses to succeed in countries with laws that restrict commercial activity. The relatively low values of the slope coefficients (which measure the association between corruption and investment) show that corruption does not affect the degree of investment in both high red tape and low red tape circumstances. This is further substantiated by the low R-squared values for each sample.⁸

The IMF's Commitment to Promoting Good Governance

In light of the growing awareness of the negative ramifications that bureaucratic corruption was having upon developing states, the Executive Directors of the IMF prepared a 1997 Guidance Note (GN) that not only demonstrated an

⁸ In social statistics, lower R-squared values translate into a weak relationship between two variables. Conversely, a high R-squared value indicates a strong association between the variables.

ever-growing recognition of the impact of poor governance on macroeconomic stability in developing and transition economies, but also established a basis and criteria for IMF involvement in governance-related issues. A March 2001 policy analysis by the IMF (which was published four years after the calls for good governance were made by the GN) illustrated the Fund's determination to curtail corruption.

Synopsis of the Fund's Role

The global environment in which the Fund addresses governance-related issues has changed drastically since the process began after the fall of Soviet socialism at the turn of the decade. The most significant change involved a greater willingness on the part of member states to counter corruption within their respective bureaucracies in a gradual attempt to prevent (or otherwise offset) the unfavorable consequences of graft, rent seeking, and unproductive public expenditures.

...a global consensus has emerged on the importance of good governance for key dimensions of economic performance, including growth, poverty reduction, resilient economic and financial systems, and the effectiveness of aid and private capital inflows. (IMF Policy Development and Review, 5).

The IMF has extensively engaged in governance-related issues through its development and use of standards and codes that are intended to monitor state practices, establish policies that encourage fiscal transparency and accountability and enforce the proper use of the resources that it offers. The policy paper comes to the conclusion that the IMF's involvement in promoting good governance via the establishment of various initiatives has laid a firm foundation for its campaign against poor governance, and recommends that an emphasis on its broad-based policy of prevention should serve as the "main plank" for the Fund's forthcoming strategies to achieve its ultimate objectives.

The Fund's Involvement in Governance Issues

The Fund makes every effort to promote good governance while simultaneously limiting its involvement to those dimensions of good governance that are within its area of expertise. This ensures that the IMF remains within its jurisdiction as a purely economic institution in necessitating reforms of state practices. Given the various relevancies of governance to disciplines other than those pertaining to international economics (e.g. politics), the Guidance Note limits the scope of the Fund's involvement to issues that are known (or are suspected) to have considerable impacts on a state's economy: "...the IMF should focus its policy advice

and technical assistance on areas of the IMF's traditional purview and expertise" (IMF Guidance Note, 4).

There was a great deal of discussion and deliberation among members of the Executive Board as to the precise meaning of "significant macroeconomic impacts" (Policy Development and Review Dept.). The Guidance Note states that the "[IMF] staff should be guided by an assessment of whether poor governance would have a significant current or potential impact on macroeconomic performance in the short and medium term..." but admittedly neglects to specify the precise conditions under which economic changes are considered to be unfavorable. One may contend that a sharp decline in a state's economic performance would be obvious to the extent that there is no need to establish a precise definition of what constitutes a "significant macroeconomic impact." The ambiguity of this phrase, however, may allow a state to use it as a justification for refusing to meet IMF standards on fiscal policy. For example, the authorities of a state may deem it unnecessary to aim for a higher degree of transparency of its government accounts on the grounds that the seriousness of its economic downturns would not necessitate the adoption of such a policy.⁹ This would be based solely upon the authorities' interpretation of what constitutes the unfavorable bearings on their state's economy. Their criteria for identifying their country's economic decline may, therefore, differ from those of the IMF. Such instances would be analogous to a dysfunctional classroom setting, in which the pupils themselves (rather than the teacher) determine the amount of homework that is assigned based on their subjective, yet presumably inaccurate, measure of their own knowledge of the subject matter. In each instance, there is an absence of checks.

Initiatives to Promote Good Governance

Although the Fund has been involved in governance-related concerns prior to the issuance of the 1997 Guidance Note, many of its efforts in curtailing political malfeasance have occurred after the release of the Note. The driving forces behind the motivation of the Fund's efforts to achieve the goals established by GN were: 1) the financial crises that occurred in East Asia during the year preceding the issuance of the note, and 2) the development of the Highly Indebted Poor Countries (HIPC) initiative with a greater emphasis on debt relief and poverty reduction (IMF Policy Development and Review, 11).¹⁰

⁹. At which point, the Fund may, in turn, decline to provide further monetary assistance on grounds that the state did not meet its conditionality requirements.

¹⁰. The HIPC (Heavily Indebted Poor Countries) initiative was established jointly by the IMF and the World Bank to assess the degree of indebtedness in the world's poorest countries and assist these countries in reducing their debts to more sustainable levels.

The IMF has adopted a variety of strategies in achieving its general objectives with regards to good governance. They include the development of certain standards and codes for good practices, the enthusiastic encouragement of fiscal transparency and accountability (Code of Good Practices Apr. 1998, Sep. 1999), and safeguarding and monitoring the use of IMF resources. For example, the Fund has devised various means of helping its member states identify vulnerabilities that could allow for poor governance of state-run institutions. These efforts have been sustained by the implementation of certain codes within the Fund's area of expertise.

In 1999, the IMF introduced the *Reports on the Observations of Standards and Codes* (ROSCs) to assess whether member states had successfully complied with its stipulations. It also introduced the *Financial Sector Assessment Program* (FSAP) and *Financial System Stability Assessments* (FSSAs) to assist countries in carefully assessing the need for remedial action in response to the institutional vulnerabilities found within states. Although these programs are still in the experimental stage (a basis for why participation is largely voluntary), there has been a great deal of progress in carrying out these appraisals.

Another strategy has involved public resource management in HIPC countries: there is a need to properly track spending decisions as they relate to poverty relief. This program mostly applies to countries that are receiving monetary aid under the HIPC initiative. It seeks to improve the means of auditing the composition of a government's entire spending plan and, on this basis, the Fund would make recommendations for more constructive expenditure management.

Finally, the IMF promotes transparency and accountability, not merely through the use of standards and codes, but also by setting an example. The Fund has adopted various policies that promote good governance within its own organization. For example, the *Code of Conduct and Financial Disclosure* for its staff and a Code of Ethics for its executive board continue to advance good governance practices in the Fund's operations (IMF Policy Development and Review, 14).

A more prominent approach to advancing good-governance practices within a bureaucracy is through what are commonly known as the Article IV consultations. The Article IV consultations are annual meetings wherein a small delegation of IMF economists visits a member state to gather information from central bank officials, members of the parliament, and private investors regarding macroe-

conomic policy and governance-related issues. Upon their return, the IMF staff submits a detailed report to the Fund's Executive Board for discussion. The board's views, which are primarily based on the economists' reports, are later summarized and communicated to the country's authorities. The consultation process can serve as an effective means to expose problems pertaining to good-governance practices within a bureaucracy. Since economic growth and decline are clearly dependent upon (and thus manifested in) the quality of a bureaucracy, the IMF works with state authorities to improve policies and strengthen governance (IMF External Affairs e-mail).

This process is consistent with the phrasing of IMF's Articles of Agreement, requiring "each member... [to] collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates." It allows the Fund to "exercise firm surveillance over the exchange rate policies of members, [while] adopt[ing] specific principles for the guidance of all members with respect to those policies." Moreover, it obliges the Fund's member states to "provide the [IMF] with the information necessary for such surveillance, and, when requested by the Fund, [to] consult with it on the member's exchange rate policies."

The ensuing gains from the IMF's push for good governance are mainly apparent in the socioeconomic status of countries that have adopted such standards. A classic example is Uganda, which, since 1996, has recorded an 11.4% decrease in the proportion of its population living below the official poverty line. In an August 2005 report submitted to the IMF, Uganda's government attributed its successes to the Fund's counsel, which, in turn, recommended that the country strengthen its legal framework, codes of conduct, and the means by which it monitors and controls its own finances (See Intl. Monetary Fund: Uganda). Cameroon, which had adopted similar measures, enjoyed a 9.4% decrease in its poverty level between 1996 and 2001. A similar report submitted to the Fund in August 2003 outlined the measures that would be taken to improve governance and institutional efficiency in Cameroon, which included, among other things, the promotion of an anti-corruption campaign. Specifically, the report testified to the establishment of anticorruption units whose "activities are coordinated by the *National Anticorruption Observatory* under the authority of the Prime Minister who personally attends the meetings of an ad hoc corruption committee" (See Intl Monetary Fund: Cameroon, 93).

Conclusions

As we advance into the twenty-first century, attempts at achieving economic development remain a priority of international organizations such as the IMF and World Bank. Comprehensive studies have consistently shown that such growth is brought about, not only by a continual inflow of monetary aid to developing countries, but also by abidance to the good-governance standards that are continually advocated by these institutions. Given the statistically inverse correlation between economic growth and the extent to which corruption prevails, one may rightly dismiss claims that the IMF is beyond its jurisdiction as an economic institution in requiring bureaucratic reform.

As for the contention that the Fund tramples on a state's autonomy in making these stipulations, it is not unreasonable to express such concerns. However, certain sacrifices must be made for the respective states to realize their ultimate goal of enjoying economic development while retaining their competitiveness in a global marketplace. Moreover, IMF conditionality is not, under any circumstances, forcibly imposed on states that refuse to adopt its provisions; abidance by the IMF's Structural Adjustment Policies and anti-corruption measures are entirely voluntary. However, states declining the Fund's technical assistance might not be entitled to monetary aid from the IMF. In such instances, countries usually resort to private banking as an alternate source of financial support.

The distinctiveness of this study is warranted, not by its attentiveness to corruption and institutional inefficiency, but its focus on the role of international organizations in punishing unethical practices that have had unfavorable consequences for the economic interests of developing states. It touches upon an area that many academics have, to the detriment of social research, neglected to examine: the role of international financial institutions (most notably the IMF) in continuing the worldwide campaign to end the bureaucratic malfeasance that has proven counterproductive to social, political and economic advancement in the third world.

Much remains to be learned about the Fund's move toward corruption control as a means of realizing economic sustainability. As advances in the international political economy continue to assume increasingly important roles in our global society, one can only imagine the magnitude to which international organizations will influence the standards of living for future generations. However, the primary responsibility for ensuring the welfare of society lies not with these

organizations, but rather with those who decide to capitalize on, or completely reject, aid from these institutions. As Javier Perez de Cuellar, fifth Secretary-General of the United Nations, cleverly put it:

I am like a doctor. I have written a prescription to help the patient. If the patient doesn't want all the pills I've recommended, that's up to him. But I must warn that next time I will have to come as a surgeon with a knife.

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