Accountability *after* Economic Crisis

Individual Accountability & the IMF after the Crisis

E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

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Preface

This report is part of the *Accountability After Economic Crisis* project – a three-year initiative funded by the Economic & Social Research Council (ESRC- ES/M011321/1). Members of the project are based at City, University of London, Queens University Belfast, and the University of Kent.

The project explores the policies of accountability deployed in the aftermath of the global 2008 economic recession (the 'Great Recession'). Using six case studies (Cyprus, Greece, Iceland, Ireland, Portugal, and Spain), we approach political accountability through a comparative and thematic framework that focuses on the use of specific tools of accountability following the financial crisis. The policies of accountability include prosecutions, fact-finding commissions and truth commissions and official apologies.

At base, the project hopes to make contributions both to the theory of 'crisis governance' as well as to the practice of how governments react to economic crises. More than 100 elected officials, civil servants, academics, journalists, and activists were interviewed for the project. We also developed a novel database with prosecutions, truth commissions and apologies in the aftermath of the crisis in the six countries. Drawing on a experts' testimonies and the use of a new database, the project provides policy makers with concrete advice for pursuing accountability in future economic crises.

The reports have a wide readership envisioned, including policy makers in all countries and at various levels of government (including international bodies); scholars; activists; and journalists. They have been written without academic jargon to facilitate their practical utility.

We hope that you will find the report useful and urge you to share it amongst your colleagues and networks.

For further information about the wider project please feel free to contact us at:

https://accountabilityaftereconomiccrisis.com/contact-the-team/

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Acknowledgements & Disclaimer

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Summary

In the aftermath of the recent Global Recession, the design of accountability mechanisms has taken on renewed importance in academic and policy debates. In many countries, politicians have implemented reforms to hold the individuals responsible for the crisis accountable.

Yet, individual accountability norms are seemingly absent from the international economic agenda in response to crisis. In this report we address this puzzle by exploring the IMF's agenda in bringing accountability following financial crises.

There are three key features of the IMF's approach to individual accountability. First, it is geared almost exclusively towards addressing issues related to corruption. Second, in its effort to mitigate corruption in program countries, the IMF's agenda is tailored almost exclusively on prospective accountability, namely, setting up regulatory policies that would shape the behaviour of individuals rather than targeting individual actions or omissions. A third, crucial, element is that the IMF's agenda on individual accountability was not shaped in historical vacuum. Instead it was influenced predominantly by its experiences in individual countries.

Introduction

The post-2008 Global Recession took a heavy human and economic toll on several countries around the world. Inevitably, it stirred heated public debate over institutional causes, but also over which individuals were responsible for the crisis. In several countries this led to protest movements, like ‘Occupy Wall Street’ and the ‘Indignant’ movements in Southern Europe, all aimed at identifying and bringing to account those individuals responsible (Bermeo and Bartels 2014). Several populist leaders and parties rode the tide of widespread discontent and put the issue of justice for the economic crisis at the centre of their election campaigns.

Ten years on, despite the continuing demand to hold to account those individuals whose actions or omissions led to the global crisis, the topic is conspicuously absent from the agenda of major international economic organizations such as the International Monetary Fund (IMF). Policy responses have been geared towards forward looking institutional reforms that promote good governance and strengthen the regulatory oversight of financial institutions and markets. Despite this welcome focus on how to protect the international economy from the institutional and policy failures at the origin of the crisis, very little attention has been paid to questions of individual accountability.

The limited engagement with the role of individuals is puzzling for several reasons. It runs contrary to the recent trend in international politics, which has brought issues of individual accountability and ethical decision-making to the centre-stage. Additionally, individual accountability is pivotal to many international organizations’ programmes in other areas of global politics, such as the development of the human rights agenda. For instance, Truth commissions designed to document the actions and omissions of individuals have become an important part of the toolkit of the UN to deal with human rights violations (UN 2006). Moreover, this ‘justice cascade’ paved a way for several powerful heads of states to end up in jail (Lutz and Sikkink 2001; Sikkink 2011).

This policy report reviews the International Monetary Fund (IMF) agenda on good governance and examines how the Fund deals with the individual accountability of public actors.

The IMF

The IMF was founded in 1944 with the original mandate of safeguarding the work of the Bretton Wood exchange rate system. Following the end of this system, the IMF reinvented itself as the primary international institution in charge of providing financial assistance and policy advice to countries experiencing balance of payment problems . From this perspective, it has found itself at the forefront of shaping international norms regarding the appropriate response to economic and financial crises (Chwieroth, 2009; Woods, 2006).

Given that the 2008 crisis was global, and that the responses in many countries were not purely domestic, international organizations such as the IMF played a key role in shaping the trajectory of the crisis. Following the Great Recession, the IMF formed part of the troika in administering bailout funds and managing responses to the crisis. Whereas prior to the 1980s, the Fund avoided activities outside of the sphere of macro-economic policy, it has increasingly been involved in matters of governance. Through conditionality and technical policy recommendations, it often targets political and civil organizations for reform to support macro-economic stability. However, because issues of governance can be highly politically charged it has focused mostly on anti-corruption measures through the framework of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT).

Although the Fund's primary area of expertise is in macroeconomic policy, to address issues of governance it encourages its staff to collaborate with other multilateral institutions, such as the World Bank, to implement reforms outside of its expertise. These collaborations have enabled norms of accountability following crises to spread internationally, both through policy networks and through Fund (and World Bank) programmes. But the Fund has also learned through experience and through its own processes of accountability and learning. Importantly, it's approach to policy has been shaped by its own note on good governance in 1997.

1997 Guidance Note on Governance

In the early 1990s, the IMF recognized an important change in the perception of what constitutes sound economic policy (Camdessus 1998). Citing both internal studies and stakeholder pressure, the IMF, developed its 1997 Guidance Note on Good Governance that for the first time expanded the IMF's original economic mandate (Camdessus 1998). In the introduction the document clearly states that the IMF's 'involvement in governance should be limited to its economic scope' (IMF 1997).

In its effort to develop policy recommendations to mitigate the adverse (macroeconomic) impacts of corruption this 1997 framework focused almost exclusively on prospective policies of individual accountability. This official policy emerged after a half-decade of involvement in international forums on governance. In this framework, corruption was identified as worthy of being targeted in individual countries if "poor governance would have significant current or potential impact on macroeconomic performance in the short and medium term." Since then the main pillars of the IMF's strategy are the following:

- Direct attention if a country's corruption level prevents the successful implementation of the Fund's policy programmes and recommendations.
- Framing and definition of the problem of corruption as a systemic problem that is best characterized and tackled as a network; this is similar to the approach taken by most other international organizations.
- A "holistic and multifaceted approach," that includes increasing transparency in key institutions, strengthening the rule of law to prevent corruption in future as well as the use of both prospective and retrospective accountability (combining, for instance, a retrospective anti-corruption commission with a forward-looking set of transparency reforms).
- AML/CFT (Anti-money laundering/Combating the financing of terrorism): this framework, which focuses on forms of corruption, is rooted in several international treaties that give the IMF further legal instruments and standards with which to fight corruption.

The above approaches represent a slow and incremental process of learning from two key parallel mechanisms: collaborative research with other international organizations that focus on the economic effects of corruption, and (positive and negative) experiences in the field. The IMF of course operates in a larger context of international organizations. The primary international framework against corruption, the United Nations Convention on Anti-Corruption (UNCAC), was ratified in 2003 and is periodically updated.

Individual Accountability

There are three key features of the IMF's agenda on individual accountability. First, it is geared almost exclusively towards addressing issues related to corruption. While the OECD targets the 'supply' side of corruption, namely the corrupting influence of the private sector in international business, the IMF aims at facilitating national authorities in combating 'passive' bribery, that is the 'demand' side of corruption. Second, in its effort to mitigate corruption in program countries, the IMF's agenda is tailored almost exclusively on prospective accountability, namely, setting up regulatory policies that would shape the behaviour of individuals rather than targeting directly individual actions or omissions. A third, crucial, element is that the IMF's agenda on individual accountability was not shaped in a historical vacuum. Instead it was influenced predominantly by its experiences in individual countries.

Over the past twenty-five years the IMF has found itself in a challenging balancing act. On the one hand remaining loyal to the remit of the Fund, which prescribes limited involvement in governance solely to economic aspects. At the same time, the experience in programme countries has challenged the effectiveness of this strategy, de facto pushing the Fund to more intrusive political interventions to mitigate corruption. Although the evolution of the Fund's agenda is incremental, there are several key developments that are of importance: the ad hoc response to the Kenyan crisis in the early 1990s, the 1997 Framework for Good Governance and subsequent policies, and the post-Great Recession response to the crisis.

IMF Response to the Crisis

In the years after the financial crisis, the IMF has initiated a revision of its framework on how to deal with governance issues with the intent to improve its prevention of corruption. However, the IMF has faced resistance within the executive board to increasing the capacity of the fund to denounce instances of corruption, as certain countries sort to limit the extent of the fund's corruption analysis. The IMF executive Board agreed that "there had been an increasing recognition since then of the particularly pernicious effects that systemic corruption has on economic performance" (IMF, 2018, p. 6) and that "there remains significant scope for strengthening the Fund's engagement with members, particularly in the area of corruption", endorsing for instance the development of "more concrete and granular policy advice to help governments tackle corruption" and "establishing a better method of assessing the extent of corruption and its macroeconomic impact" (IMF, 2018).

However others stressed the need to stick to the traditional mandate and to "limit its engagement to the areas where it has a clear competence", arguing that "the Fund may not have the expertise and capacity to assess corruption generally" and a more intrusive approach has the potential to have harmful political effects and inhibit the future activities of the Fund. Different directors expressed concern at the possibility that the IMF may publish country rankings of its assessments of corruption (IMF, 2018, p. 7).

Following the endorsement by the IMF Executive Board in 2017, in April 2018 the IMF adopted a new policy framework which revised the 1997 Guidance Note on Governance (IMF, 2018). The new policy framework reiterated that the fund could tie the use of its resources to measures to address corruption if they were of critical importance "in order to reverse the members' underlying balance-of-payments problem within the time frame needed to repay the Fund for the use of its resources" (IMF, 2018, p. 21). While acknowledging that an "effective threat of prosecution" would be critical in countries characterized by widespread corruption, the emphasis should be "institutional and regulatory reform" such as "the elimination of excessive regulation, the promotion of transparency and accountability and general capacity-building of institutions" (IMF, 2018, p. 23).

This report has shown that while the IMF has recognized the significance of the abuse of office by public officials, the extent to which the institution has promoted policies to hold these individuals accountable has been limited. The framework on governance providing the guidelines for the actions of the IMF in this area limits the engagement of the IMF only if a country's level of corruption prevents the successful implementation of the Fund's macro-economic policy programmes and recommendations and it forbids the institution directly acting as a prosecutorial body. As a result, the action by the IMF has focused on promoting institutional reforms designed to deter corruption rather than targeting directly individual actions or omissions that may have directly contributed to the economic crisis in the first place.

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