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"Multiple-State Constituencies in the IMF: An Agency Approach"

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Multiple-State Constituencies in the IMF: An Agency Approach

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While each international organization (IO) has its own organizational structure, the IMF stands out in that different member states are given voice in its decisionmaking through different mechanisms of representation. We are interested in the challenges posed for the IMF and its member states by the fact that some Executive Directors (EDs) represent single states, while others represent multiple states. These multiple-state constituencies are unusual, at least in a formal sense, among international organizations. On the one hand, these constituencies could increase the effectiveness of IOs if they allowed groups of states to overcome their collective-action problems. On the other hand, a mix of single- and multiple-state constituencies raises the question of whether an IO could develop rules of procedure that provide equitable treatment for all member states. This is an especially pressing issue for the multiple-state constituencies of the IMF, since some of them are made up of relatively homogeneous groups of states, while others are more heterogeneous.

We begin by considering, in the abstract, the problem of delegation from a principal-agent perspective. When a group of states is represented by a single ED, they form a collective principal that delegates its right to vote on IMF policy to this ED. That ED in turn is part of a Board which delegates to the staff and management. From an agency perspective, IMF Board members can be seen as part of a large chain of delegation. The ultimate principals are the voters in member states. The chain of delegation roughly moves from voters to governments to EDs to staff and management, although of course other actors such as private financiers are involved at various steps in this delegation process (Broz and Hawes 2006b; Gould 2006; Copelovitch 2005). In this paper we will focus on delegation from member states to their ED; and in part, from EDs to staff and management. For this purpose we cast the EDs as agents of member states, although in reality they are of course in part representatives of the principals (member states) and in part officers of the organization.

In multiple-state constituencies delegation is complicated by each member state's calculations about how best to achieve its own interests. This involves not just a calculation about how best to influence an outcome in the Board as a whole, but at a prior level calculating how to influence outcomes within the constituency. Choices that a state might make in an attempt to achieve its goals include moving from one constituency to another, pushing to change the procedures by which decisions are made within a constituency, and day-to-day bargaining within the constituency. States calculate how to influence the constituency as well as the relative effectiveness of the constituency in the Board overall. Both elements of the calculation affect how effectively a state believes itself to be represented.

As a start at providing an analytical framework within which to study multiple-state constituencies, we turn to the literature on principal-agent relationships . We derive some observable implications from this literature relevant to multiple-state constituencies, then see how these propositions help us to understand their actual functioning . Empirical study of multiple-state constituencies suggests ways in which we need to extend or clarify elements of the agency framework. We conclude with some implications for further empirical research on these issues.

Principal-Agent Models

Scholars have increasingly begun to ask in a systematic manner about variation in the autonomy of IOs. In doing so, they have turned to the general literature on principal-agent relationships. The basic idea is that those who create and authorize IOs – in most cases, states, although some IOs are created by other IOs – delegate certain types of authority to them. The IO's member states thus become the principal in this relationship, and the IO functions as an agent. The agency literature has been thoroughly developed by economists and political scientists (Epstein and O'Halloran 1999; Huber and Shipan 2002), and has yielded insights into many aspects of economic and political life. Here, we summarize some of the major general insights of this literature, and focus on those that are most relevant for understanding the challenges facing multiple-state constituencies in the IMF.

The agency literature suggests five general categories of factors that will influence whether an agent will effectively represent the interests of a principal. We rank this roughly in the order to which we believe they are important in the context of multiple-state constituencies in the IMF, although all of these factors provide some explanatory leverage and they often interact with one another.

1. The principals' and agents' *interests*
2. For collective principals, *decisionmaking procedures* within the collective
3. *Monitoring* capabilities
4. The agent's *competence*
5. The *incentive structure* the agent faces

In this section, we elaborate the logic behind each of these factors and specify some observable implications for multiple-state constituencies.

Interests. How likely is an agent to take actions that are consistent with a principal's interests? This, of course, depends on how closely aligned the agent's and principal's interests are. Here, we narrow our focus to the exogenous sources of preferences – that is, the interests with which principals and agents are endowed, independent of the institutional structure. Of course, the structure of delegation itself induces certain preferences. We consider these institutionally-induced preferences below, under the heading of incentives.

Agents who desire an outcome substantially different than a principal will take advantage of any autonomy they have to shift outcomes in their desired direction. In the classic agency literature, agents are assumed to have a preference for leisure that is at odds with principals' desire for them to devote all their energies to the principal's agenda. In more recent applications, we see the possibility introduced that an agent may have substantive policy interests that are not completely aligned with those of the principal. For example, in multi-country constituencies in the IMF, the Executive Director who is agent for a group of countries may have an interest in maximizing the interests of the investor community or the income accruing to the IMF from lending. However, individual countries within the constituency may have an interest in limiting the rights of private creditors or reducing borrowing charges. To the extent that conflict in these basic policy goals exists, principals will worry that their interests are not being effectively represented by an agent.

Of course, at times it works to a principal's benefit to delegate to an agent whose interests are slightly different than his own. A classic instance of this situation arises in the literature on central bank independence (Kydland and Prescott 1977). Here, the reason that a government might delegate authority over macroeconomic policy to an independent central bank is that the government itself has time-inconsistent preferences. In the long run, the government prefers a low level of inflation, as this will avoid economic inefficiency. However, in the short run a government facing a political constraint has the incentive to generate high levels of economic growth. It thus adopts policies that tend to generate levels of inflation above what would maximize its interests in the long run. The government can solve this time-inconsistency problem by delegating policymaking authority to an agency with a preference for somewhat lower inflation than the government itself prefers. Thus, even if the agency itself faces problems of time inconsistency, the long-run outcome would be closer to the government's ideal point.

In the IMF context, the question is whether anything analogous to this problem of time inconsistency might characterize decisions about delegation. There may be an element of this in decisions about the size of a loan and stringency of conditions attached. In the short run, a country may wish urgently to access sizeable resources with little conditionality attached. However, in the longer run, such resources will simply not be available unless all members have taken tougher short-run positions to safeguard the institution's resources. Delegating to a relatively "tough" agent would be in a principal's interest in such a case.

The problem of alignment between agent and principal interests becomes even more complex when we consider collective principals. Here, the agent is representing a set of principals who may themselves not all agree on the most-desired outcome. A multiple-state constituency that includes both developed and developing countries, for example, may face substantial internal divergence of interests. Such a situation creates the potential for an agent to implement its own preferences (unless, of course, its own ideal point is outside the range defined by the ideal points of the individual states in its constituency) (Martin 2006). If the agent has preferences that consistently line up with those of a particular state, the members of the constituency whose interests diverge will not have their interests effectively represented. On the other hand, a relatively "neutral" agent whose preferences lie somewhere between the extremes within the constituency will come closer to representing all members effectively.

As detailed below, the multiple-state constituencies in the IMF can roughly be divided into three types (here our work draws on Woods and Lombardi, 2005). One, which we will call the *dominated* type, is made up of one relatively powerful state and a group of smaller states. The constituencies chaired by Canada, Italy, and India, for example, exemplify this pattern. Other constituencies are more *balanced*, in that they have at least two relatively powerful states that may offset one another, perhaps in conjunction with a group of small states. Constituencies currently chaired by Indonesia and Spain illustrate this situation. Finally, some constituencies are relatively *egalitarian*, with no dominant state or subset of states. Those currently chaired by Egypt, Equatorial Guinea, and Iran come close to this type.

The agency literature suggests that the extent to which the representative of each constituency is autonomous will depend heavily on the makeup of interests within the constituency. We thus specify the following expectations:

1. In dominated constituencies, the ED will have little autonomy and reflect the interests of the dominant state.

2. In balanced constituencies, the ED will have substantial autonomy as long as the interests of the core set of states exhibits some diversity. The ED will then be able to play these states off against one another.
3. In egalitarian constituencies, a convergence of interests is likely to provide the ED with little room for maneuver.[1]

The importance of interest heterogeneity in explaining how much autonomy EDs have also suggests that this consideration will drive state calculations about to which constituency they should belong. For example, states who feel that their interests are being neglected by their ED may use the threat of exiting the constituency – and so decreasing the votes the ED has on the board – in order to force more attention to their demands. We can specify the following general proposition:

4. A desire to constrain the ED will play a major role in determining state choices about which constituency to join.

Decision-making procedures. In multiple-state constituencies, the collective principal – the group of states in the constituency – must itself work out procedures for giving policy guidance to its agent. In the abstract, the procedures used could vary widely, along a number of dimensions. The constituency could adopt a one state-one vote, simple majority rule procedure, giving extensive power to the median member of the constituency. It could rely on informal consensus, which would encourage logrolling and trade-offs across issues. It could weight votes by the economic power of each member state, giving greater weight to richer or larger members. Or, decision-making

[1] This effect of interests in egalitarian constituencies may well be offset by the fact that these constituencies are made up of small, poor states with minimal monitoring capacities, see below.

procedures could be ill-defined, worked out on an ad hoc basis or developed in response to crises.

Each type of procedure would tend to benefit different members of the constituency. Large states would feel that their interests were best represented by a weighted voting scheme, while small states would prefer a one state-one vote rule. Those whose preferences tended to be outliers would benefit most from consensus procedures, while those with moderate preferences might do best with some version of majority voting. Conflict over preferred decisionmaking procedures could lead to a situation where they are not clearly defined, with decisions being made on a case-by-case basis and individual bargains being cut each time. The lack of clear procedures is likely to enhance agent autonomy, as the agent's mandate will be vague. If this is the case, agents will pursue their own interests, effectively representing those states who happen to agree with them, while neglecting the concerns of those states whose interests diverge from their own. Constituencies that are dominated by a relatively rich state easily find themselves without clear and consistent governance procedures, as these would tend to constrain the dominant state and give voice to smaller members.

Consideration of the role of decisionmaking procedures in constraining agents leads to the following observable implications:

5. Governance procedures will reflect the distribution of power within the constituency.
6. Poorly-defined governance procedures will allow EDs substantial autonomy in balanced constituencies; they will lead to capture of the ED by the dominant state in dominated constituencies.

Monitoring. A fundamental problem of principal-agent relationships is that the agent's actions are imperfectly observable. The effort necessary to precisely monitor an agent's actions would require such an investment of resources that the rationale for delegation would disappear; it would not make the principal any better off. Typically, agency models assume that the principal cannot directly observe an agent's actions (Bendor, Glazer, and Hammond 2000). Instead, all the principal can observe is outcomes, which are correlated with an agent's effort but not perfectly so. Reward and punishment schemes are thus constructed around outcomes (share price, in the business world) rather than actions taken. If outcomes are only weakly linked to agent effort, such incentive schemes may have minimal effects. In the IMF, EDs vary a great deal in their ability to affect outcomes, as they have different voting power and access to resources. On the other hand, in contrast to the assumptions of classic agency models, the actions of EDs are at least partially observable, so that accountability mechanisms conditioned on actions are not out of the question. Monitoring can take place through Advisers and staff situated within the ED's office, through reporting requirements, the role for which is being enhanced by the introduction of technology within constituency offices, and through transparency.

The political-science literature has often seen the imperfect observability of agent actions as a source of substantial agent autonomy and even the complete failure of delegation. For example, much of the literature on regulation in the United States assumes that agencies created by Congress quickly elude legislators' grasp and are captured by the interest groups they are supposed to regulate (the iron triangle model).

Since Congress seems to devote few resources to monitoring agency behavior, such capture seemed inevitable. McCubbins and Schwartz (1984) contributed a vital insight in this literature, by distinguishing among different monitoring methods. Those claiming that agencies are captured because they are not subject to direct congressional oversight assume that Congress is using a *police patrol* method of monitoring. However, McCubbins and his co-authors (e.g., Lupia and McCubbins 1994) have pointed out that another, often more efficient, method of monitoring would rely instead on *fire alarms*. Here, the idea is that interested third parties would themselves have incentives to monitor agency behavior, and would alert Congress if the agency wandered far from its legislative mandate. Relying on these "fire alarms" would require a lower investment of resources by Congress, and could still keep agencies on a relatively tight leash, as long as appropriate interest groups existed and had the ability to observe agency actions.

Within the IMF, the ability of states to directly observe their agents' actions likely varies substantially. Large states that make up their own constituency, and that have substantial resources and economic expertise of their own, may be able to closely monitor what EDs and IMF staff do on a day-to-day basis. The U.S. Treasury, for example, only rarely complains about not being aware of what is going on within the IMF. However, for small states that are part of a multiple-state constituency, and with limited resources, observing what its agent is doing could be a substantial challenge. One pertinent question, then, is whether the failure of a police-patrol model of monitoring means that delegation has failed for these states. One possibility is that being able to observe outcomes is sufficient; that agents' actions are highly enough correlated with outcomes that being unable to observe what agents are doing on a daily basis is not a major problem. Another possibility is that some version of a fire-alarm monitoring system is in place. While a small state cannot itself monitor agents directly, perhaps it can take its cues from NGOs, interest groups, or larger states with aligned interests. This fire-alarm mechanism can only function when a certain degree of transparency is in place, for example access to Board transcripts.

The following general implications follow from these sorts of considerations about monitoring:

7. The ability of constituencies to constrain their EDs should increase as transparency increases.
8. Those states with the greatest monitoring capacities will play a leadership role within the constituency, and the ED will be most responsive to their interests.
9. In constituencies that lack the resources for effective monitoring, the ED will have substantial autonomy.

Incentives. Much of the classic agency literature concentrated on the problem of mechanism design: how could incentives facing the agent be structured so as to induce the agent to carry out the principal's interests faithfully? This literature developed the concept of "high-powered incentives": incentive structures that tied an agent's payoffs tightly to realized outcomes. If an outcome came close to the ideal point of the principal, a high-powered incentive structure would offer large rewards to the agent, while outcomes that diverged from the principal's ideal point would lead to punishment (such as the loss of her job) for the agent. Rewards and punishments would thus outweigh any preference of the agent for leisure or particular policies. Much of the agency literature originally developed in the context of the theory of the firm, and in this context the concept of high-powered incentives is directly relevant. This literature has provided substantial insight into, for example, the structure of executive payment schemes.

High-powered incentives may be possible in the business world, but are they available, or even conceivable, in the world of IOs and the IMF in particular? One mechanism for structuring incentives would be to link compensation to outcomes. An agent who was successful in bargaining about the structure of programs, or who could present evidence that the programs developed were effective in improving the economies of the countries involved, could be rewarded with higher pay or with promotion. On the other hand, as in any bureaucracy, it becomes difficult to tightly tie rewards to performance.

The role of an ED in negotiating or approving a program tends to be very limited. Furthermore, the relationship between an IMF program and economic outcomes is difficult to ascertain. The IMF has repeatedly tried to evaluate the success of its own programs, but has found it difficult to develop clear criteria by which to measure them. Is success measured by faithful implementation of IMF conditions, or by outcome variables such as growth rates? Because many aspects of performance are difficult to observe or measure precisely, incentives become less highly-powered, more routinized. For example, staff may be rewarded for the size of the programs they are able to negotiate, rather than for the appropriate design of programs or their success.

Another way to structure incentives is to concentrate on punishments rather than rewards. Here, the idea would be that an agent that fails to represent principal interests would be replaced. In the abstract, such an incentive scheme is surely imaginable for multiple-state constituencies. However, again, practical concerns may make designing such schemes impossible. If the interests of principals within the constituency diverge, they will disagree about when an agent should be replaced. Efforts to assure that all member-state interests are represented can result in a rotation of agents, rather than strategic decisions about when an agent should be replaced. As in the case of rewards, decisions about when to terminate an agent's contract become routinized rather than leveraged by performance. We will further probe these elements below.

The following implications follow directly from these sorts of considerations:

10. Constituencies that are able to establish clear schemes of rewards and punishments will most effectively constrain their ED.
11. If an ED's rewards are provided by one state – e.g., if that ED looks forward to a lucrative career in that state after leaving the IMF – the ED will primarily represent the interests of that state.

Competence. Why do principals delegate in the first place? Because they believe that an agent can more efficiently carry out a task than they can themselves. Often, this is because the agent has specialized expertise and capabilities. In the context of the IMF, an informational explanation for delegation is quite persuasive, especially when we consider the link in the delegation chain from EDs to staff. Deciding IMF policy, and bargaining effectively within the IMF, require a certain level of technical expertise. While some governments already have such expertise in abundance, and the resources to gather the necessary information to make good decisions, other governments lack the requisite expertise and information. Some may also find that they are in a weak bargaining position vis-à-vis other member states, perhaps because of political and economic conflicts. If this is the case, delegating to an agent to carry out bargaining could increase their influence within the organization.

Clearly, if the fundamental motivation for delegation is to benefit from the expertise and capabilities of an agent, the competence of the agent becomes a central factor in determining whether the principal's interests will be effectively represented. Agents that have proven their competence, that have a background that promises a high level of expertise, and who can efficiently gain access to relevant information will have a better chance of being able to do right by their principals than those who are new to the organization, have inappropriate training, or lack the resources to gain vital information. The early years of the IMF provide evidence that considerations of agent competence were important in shaping patterns of delegation within the organization. In the very early years, states were reluctant to allow management and staff any degree of autonomy. However, as the staff demonstrated its competence and ability to carry out member states' wishes, it gained substantial autonomy in designing country programs. The IMF has been careful to protect its reputation for technical expertise and competence, for example in its pattern of hiring and in its allocation of resources. The fact that the IMF is staffed by those with extensive training in American economics departments does present problems of potential conflict of interest – see the next section – but is consistent with the need for agents to be highly competent if they are to retain a significant level of delegation.

The following implications follow from this consideration of competence issues:

12. EDs will tend to come from educational backgrounds that provide technical competence.
13. As EDs demonstrate competence, for example by effectively representing the constituency's interests on the Board, or gaining experience and seniority on the Board, they will gain autonomy.

The remainder of this paper applies the agency framework to multiple-state constituencies and considers how the framework may need to be extended in order to fully understand their functioning and challenges. First we provide some basic descriptive information about the multiple-state constituencies and how they have evolved. The next section is more analytical, showing how consideration of agency problems illuminates variation in the way that multiple-state constituencies work, concentrating on the observable implications developed above. We then turn to implications of this preliminary analysis for further empirical research.

Historical Background on Multiple-State Constituencies

The IMF is governed by a Board of Governors made up of member countries' finance ministers or central bank governors. In practice the work of the institution is overseen by an Executive Board chosen by the Governors. The Executive Board represents all members but in different ways. The five countries holding the largest quota in the organization each appoint a Director.[2] They may not waive this right. They must

[2] A right also enjoyed by the two countries whose currencies have been sold by the IMF in the largest net amounts in the two years preceding elections if they are not among the five already entitled to appoint: on

appoint their own Director. This means they cannot instead participate in a group electing a Director with the aim of then wielding the larger voting power of the group of countries being represented. The scope for building or manipulating constituencies is left to others.

All but the largest-shareholding countries participate in elections which decide the remaining members of the Board. The elections are governed by rules set out in the Articles of Agreement and Rules, Regulations and By-laws of the institution. The Articles provide for the election of an agreed number of Directors but leave plenty of flexibility for countries to form `constituencies' which elect these Director and indeed this is what occurs. The Director so-elected then wields the votes of all electing members and must cast them as a whole without dividing them (e.g. to represent a disagreement among members of the group).

Of the IMF's current 24 Executive Directors, five are appointed (US, Japan, Germany, France, and the United Kingdom), and a further three represent a single country (Saudi Arabia, Russia, and the People's Republic of China). The remaining sixteen are elected by groups of countries. These groups range in size from the four-country constituency led by India to the twenty-four country constituency led (in 2005) by Equatorial Guinea.

The voting power of the various constituencies varies a lot. The rules governing elections historically attempted to ensure some equality of voting power across Board members. The original Articles provided that any elected Director would have to command at least 19% of votes of members of the organization yet not more than 20%. This permitted countries to group together but prevented too great an ensuing

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this basis Canada made an appointment in 1958 and Italy made an appointment in 1968. See Gold 1972, p.56.

disproportion in voting strength among Directors. To quote former IMF Legal Counsel Joseph Gold writing in 1972: `the greater the difference between the minimum and maximum percentages, the greater is the scope for the formation of compatible groupings but the less is the emphasis on the relative equality of the voting strength of the executive directors elected under the provision' (Gold 1972, 60).

Over time the distribution of voting strength has become less equal. In 2005 the minimum voting power wielded by a Director had dropped to 4% and even then in practice the rule was waived. Some 15 Directors wield less than 4% of the votes of the organization, with voting power across the Board ranging from 17.08% (the United States) to 1.41% (the most numerous African constituency). The protection of equality through a minimum and a maximum vote for Directors ceased operating as the minimum and maximum numbers were rapidly to be altered to allow for the increasing number of countries joining the IMF and the increase in the number of Directors on the Board. By 1970 the minimum had been reduced to 6% and the maximum to 13%.

The rationale for a maximum percentage of votes to be wielded by an elected Director was, like the minimum, to ensure equality on the Board. However, it also led to a specific vote-counting procedure. The maximum is currently 9% and in theory where any Executive Director receives more than 9% of votes, the smallest vote-holding electors are simply excluded from that election. The largest vote-holding elector's votes are counted, then the next largest elector and so forth, leaving the smallest vote-holding electors to the end. All those whose votes (counted last) take the Director beyond 9% relinquish their position in that election and must take part in the election of another Director. This rule is interesting in two respects. First, in theory it not only balances power among Directors, but also ensures some balance within constituencies by ensuring that the largest vote-holding country is always joined by the next-largest vote-holding country (who can then counter-balance the leader). That said, a second consequence of the rule is that it leaves out the smallest vote-holders, relegating them to other elections. These trade-offs are significant for our analysis of delegation between member countries and representatives on the Board.

In practice, what we find is that voting power is unequally spread both across Directors and also within constituencies. Some groups have relatively balanced voting power among members, In other groups, one country clearly has a preponderant voting power. For example, in the constituency led by Equatorial Guinea no country has more than 18.15% of the group's votes, while in the groups led by India, Canada and Italy, each of these countries commands around 80% of the group's total voting power.

The potential for balancing power within and across constituencies through the application of rules of election has been limited over time by the formation of fairly stable electoral groups. As new countries have joined the institutions and other countries have shifted from one grouping to another, several patterns have emerged. One has been towards more regionally coherent constituencies. For example, Indonesia initially joined the constituency headed by Italy in the 1950s but subsequently moved to a group comprising the Islamic countries of North Africa and Malaysia (eventually also joined by Laos and Singapore), before finally forming a more geographically-tidy constituency including the likes of Korea, the Philippines and Vietnam in 1972. In the Asia-Pacific region, a group has formed around Australia which originally joined the IMF in 1947 and formed a constituency with South Africa that eventually included various countries from southern Africa and the Pacific (including Lesotho, Swaziland, New Zealand and Western Samoa). However by 1972 African members began to move to other constituencies and Australia's constituency gained new Asian countries including Korea and the Philippines. Now this constituency – still chaired by Australia – accounts for 14 countries spanning throughout the whole Pacific region.[3]

New members permitted Switzerland, when it joined the IMF in 1992, to become head of a constituency of new members from the former Eastern bloc including Azerbaijan, the Kyrgyz Republic, Poland, Serbia and Montenegro, Tajikistan, Turmenistan, and Uzbekistan. The group as a whole wields 2.84% of the total votes in the IMF of which Switzerland holds 56.34%.

Regional coherence is not the only logic behind the way constituencies have evolved. A country's search for a more influential role within a constituency group has also led to shifts which reflect competition for the top jobs within the constituency office at the IMF. Within each group a pattern of appointments below the Executive Director has been forged. The Articles provide that the Executive Director shall appoint an Alternative with full power to act for him when he or she is not present. Directors also appoint a number of Senior Advisers and Advisers. In some groups there are conventions which bind the Director's appointments to ensure representation of various constituency members. In other groups the Director's own choices play a much more significant role. These examples illustrate the extensive variation in decisionmaking procedures within constituencies mentioned above, and are likely a source of substantial variation in ED autonomy.

[3] Boughton 2003 gives a good account of these changes.

The desire of individual countries to take up a senior role within the constituency office (as with the Executive Director, the Alternate and Advisers all work as officers of the institution itself) seems to have shaped a number of countries' decisions about which constituency to join. Spain, Poland and Greece were all once in the constituency chaired by Italy. Spain joined a Central American constituency in 1978 to hold the chair in turn with Mexico and Venezuela. Poland opted to move to the constituency chaired by Switzerland to hold the position as Alternate Executive Director.[4] Greece initially moved to the Iran-led constituency to take up the position of Alternate Director but then when the Spanish left the Italian constituency (leaving the Alternate position open), Greece moved back to the Italian constituency to take up the alternate position there.

Constituencies were not formally planned in the constitution of the IMF. However, flexibility was built into its Articles of Agreement so that groups of countries could elect Directors. Formal rules were established so as to ensure some equality of power across constituencies. However, those rules have ceased to operate. Over time constituencies have each established their own modus operandi and rules of appointment and representation. The result is a diversity in how countries are represented in the organization which have intriguing consequences for our hypotheses about the relative autonomy of EDs and the quality of representation of other members of any constituency.

Applying the Agency Framework to Multiple-State Constituencies

[4] Originally, Spain and Poland held the positions, respectively, as Alternate Executive Director and Senior Advisor to Executive Director in the constituency chaired by Italy.

We return now to the suppositions drawn from principal-agent theory about the autonomy of EDs which we presented in the first section of this paper. How do these match against the evidence of actual constituency formation and practice? We concentrate in this draft on variation of power and interests within constituencies, which above we suggested was likely the most potent source of variation in the effectiveness of representation. We also note some preliminary observations on variation on the other dimensions of interest, including decisionmaking procedures, monitoring, incentives, and competence.

The distribution of power within constituencies. Interests and the way interests of members map onto the configuration of power within a constituency was the first of our concerns. Drawing from principal-agent theory, we proposed that in *dominated* constituencies, we would expect the ED to have little autonomy and reflect the interests of the dominant state. In *balanced* constituencies, the ED will have substantial autonomy as long as the interests of the core set of states exhibits some diversity. The ED will then be able to play these states off against one another. In *egalitarian* constituencies, a convergence of interests is likely to provide the ED with little room for maneuver. In testing these suppositions we need a way to categorize constituencies, and a way to characterize the convergence or divergence in interests of their members. We will begin with the first of these tasks.

A first simple characterization of power within constituencies looks at which country has the most voting power and what share the constituency's voting power they enjoy. On this calculation we could roughly group constituencies according to the percentage of the constituency's vote enjoyed by the largest vote-holding member (LVM) – henceforth in this paper we will refer to constituencies by the name of the country which has the largest voting power in the constituency:

(Type I) LVM has more than 75%: Italy, Canada, India

(Type II) LVM has between 40-75%: Netherlands, Australia, Switzerland, Brazil, Argentina (constituency currently led by Chile), Belgium

(Type III) LVM has less than 40%: Spain, Sweden (constituency currently led by Iceland), Indonesia, South Africa (constituency currently led by Nigeria), Kuwait (constituency currently led by Egypt), Iran, D.R. Congo (constituency currently led by Equatorial Guinea)

A more sophisticated analysis would take into account the relative equality or inequality of voting power across the constituency so as to indicate the degree to which members other than the leader have influence. One way to measure this is to compute relative voting power across each constituency, as has been done by Domenico Lombardi (Woods and Lombardi 2005). Using Gini coefficients, Lombardi computes some interesting results in respect of our categories above.

The Type I countries enjoying more than 75% of their constituency's vote are confirmed as *dominated* constituencies, exhibiting Gini scores of 0.8 and over (where a score of 1 is the most unequal, and a score of 0 is the least unequal). However, within Type II and Type III the order changes slightly. Of the seven constituencies emerging with a Gini score of 0.6 over above, four are Type II as we might expect (Australia, Switzerland, Netherlands, Brazil) but three Type III countries steal ahead of the other Type II constituencies. We find that South Africa (Type III), Indonesia (Type III), and

Spain (Type III) are more unequal in their power distribution than the constituencies led by Chile and Belgium. The most equal constituencies are thus Type III as we might expect, including Iran (with a Gini coefficient of 0.41), D.R. Congo (0.41), Kuwait (0.47), and Norway (0.55) but also Belgium (0.55), and Chile (0.57). These computations highlight the degree to which voting power is spread (or not) across the constituency, leaving us with slightly revised categories to our Types I-III above:

Dominated (Gini of more than 0.8): Canada, India, Italy

Balanced (Gini of 0.6-0.79): Australia, Switzerland, Netherlands, Brazil, South Africa (constituency currently led by Nigeria), Indonesia, Spain

Egalitarian (Gini of less than 0.6): Argentina (constituency currently led by Chile), Belgium, Sweden (constituency currently led by Iceland), Kuwait (constituency currently led by Egypt), Iran, D.R. Congo (constituency currently led by Equatorial Guinea)

One last characteristic about these constituencies which may help explain why some EDs seem to have more autonomy than others is the power of the runner-up. In just eight constituencies the next-most-powerful-member has more than half the voting power of the most powerful. The list below charts these starting with the constituency with the most powerful `runner up' and expressing their share of the constituency vote as a percentage of the most-powerful-member's share. This particular characteristic may help explain why in some constituencies divergent interests lead to a constraining of ED power, whilst in others this does not occur. For instance, where the runner-up has a divergent interest and significant voting power relative to the leader, we would expect more constraint.

Runner-up power within constituencies
(largest vote-holder, runner-up with their vote as a percentage of the largest vote-holder's vote)

South Africa: Nigeria has 93% of South Africa's voting power

Iran: Algeria has 86% of Iran's voting power

Spain: Mexico has 85% of Spain's voting power

Indonesia: Malaysia has 73% of Indonesia's voting power

Sweden: Norway has 71% of Sweden's voting power

Kuwait: Egypt has 68% of Kuwait's voting power

D.R. Congo: Cote d'Ivoire has 61% of DRC's voting power

Australia: Korea has 51% of Australia's voting power

Our analytical framework suggested that the degree of ED autonomy would be largely determined by the interaction between the type of constituency and divergence of interests within the constituency. The analysis of distribution of voting power has allowed us to classify each of the mixed constituencies as dominated, balanced, or egalitarian, although it has also highlighted interesting variation within each of these groups. We expect the three dominated constituencies to exhibit little agent autonomy, as the ED will answer primarily to the dominant member. In the egalitarian constituencies, especially the two without strong runner-up power, ED autonomy is likely to depend heavily on internal decisionmaking procedures. In the seven balanced constituencies and the four egalitarian with runner-up power, autonomy is likely to be a function of the divergence of interest between the two most powerful states within the constituency.

Divergent and convergent interests. Having ascertained the different configurations of voting power in constituencies, it remains for us to consider whether the interests of members converge and diverge and with what implications for the autonomy of the ED? But first recall that there are two aspects to an ED's autonomy. The ED may be relatively autonomous from his or her own government, and/or from other constituency members' governments (and therefore in some cases more constrained by his or her own government). Recall our supposition that in dominated constituencies we would expect the ED to have little autonomy and to reflect the interests of the dominant state. However, across balanced and egalitarian constituencies, autonomy would depend upon the divergence or convergence of interests across the government members of any constituency.

The simplest way to conceive of converging or diverging members' interests is to type them as either borrowers or non-borrowers of the organization - where borrower refers not to a credit-outstanding at the time of writing this paper but rather whether the member has borrowed in the recent past or is perceived as likely to borrow from the IMF. This permits us to categorize constituencies as non-borrowing, borrowing, and mixed.

In two categories of constituency, those that are relatively homogeneous, we would expect interests to converge, i.e.:

Non-borrower constituency: Sweden (e);

Borrower constituencies: India (d), Iran (e), Indonesia (b), Nigeria (b), Brazil (b) Argentina (e), DR Congo (e)

The consequences for ED autonomy, recalling our starting suppositions, are that where interests converge (be it in balanced constituencies (b) or egalitarian constituencies (e)) we would expect the ED to have little room for maneuver.

In a third category of constituency - `mixed interests' we would expect a divergence of interests which could confer greater autonomy on the ED. These constituencies are:

Mixed-interest constituencies include: Italy (d), Canada (d), Belgium (e), Netherlands* (b), Spain* (b), Australia* (b), Switzerland* (b), Kuwait** (e).

The mapping of the configuration of power onto divergent interests becomes crucial. Obviously in the dominated constituencies (d), any divergence of interests is easily subsumed in the dominance of the non-borrowing chair. However, in the balanced and egalitarian constituencies, the divergence of interests is sometimes represented by powerful counter-balancing voting power.

The ED from every mixed constituency but one is from a non-borrowing member -- the exception being that Egypt holds the chair in the Kuwait constituency. But the 7 non-borrower led constituencies are very differently balanced beneath the ED. Four have an Alternate Director from a borrowing country (* in the above list) and some of these borrowing runner-ups have significant power. We might distinguish in descending order of runner-up power: Spain (where Mexico has 85% of Spain's voting power), Australia (where Korea has 51% of Australia's voting power), Switzerland (where Poland has 41% of Switzerland's voting power), and the Netherlands (where Ukraine has 26% of the Netherlands' voting power). We would expect then that in the Spain and Australia constituencies, the ED would have more autonomy than in the Switzerland and Netherlands cases. Recall our starting supposition that in relatively balanced constituencies a diversity of interests would give the ED some autonomy as he or she played members off against one another.

Additional Explanatory Factors. As we expect patterns of interest to be a driving force behind effective representation in multiple-state constituencies, for this draft we have concentrated our empirical efforts on describing and analyzing this dimension. However, our theoretical framework led us to suggest a range of additional factors that will influence agent autonomy, often by interacting with patterns of interests. Here, we identify our preliminary thoughts on how to pursue empirical research on these factors.

Decisionmaking procedures will matter a great deal, especially in egalitarian constituencies where no single state or small set of states dominates. Across different constituencies, very different informal governance procedures have evolved. EDs consult, report, and represent their members in different ways, sometimes reflecting different levels of active engagement by the agencies in member countries with whom they work. Our starting supposition was that governance procedures would reflect the distribution of power across the constituency and that poorly defined procedures would leave the ED autonomy except in dominated constituencies where vague procedures would lead to capture by the dominant government.

Monitoring capacities also vary substantially across and within constituencies, and again are likely highly consequential. Countries within a constituency will only be able to constrain their ED if they have information about what the ED is doing. The monitoring of an elected ED by member states will depend upon: the transparency of the processes in which the ED takes part; the capacity of the country and its specialized agencies to collect, digest, and use information about what the ED is doing. Formal procedures place quite stringent limits on access to transcripts of Board minutes, but informal contacts may provide more information.

Incentives generated by the internal structure of the IMF will contribute to possible divergence between agent and principal interests. The formal rules of the IMF may provide rather perverse and different incentives for EDs, who variously might care about continued employment and promotion within the IMF or about future employment opportunities in their home state. At present the incentives within which EDs work are asymmetric. In dominated constituencies EDs can be tightly held to account for performance by their sending-government-agency (be it the Italian Central Bank or the

Netherlands Ministry of Finance). In other constituencies, informal performance evaluation is undertaken.

Finally, we introduced agent competence as an explanatory category. Effective representation in any international organization takes a competence not just about the substance of decisions being taken but about the organization's procedures, rules, and conventions about which knowledge these takes time and experience to acquire. So too voice within an institution can depend upon effective networking within the institution. Within the IMF this means beyond the Board itself and across staff and management of the institution. For these reasons long-standing EDs tend to have more capacity to exercise influence – some constituencies have made a habit of this – Brazil, Iran both stand out. Longevity of service doubtless gives autonomy from one's own government, while providing benefits in terms of being able to pursue the constituency's interests within the Executive Board. So too with technical competence

Implications for Future Research

This paper has just begun to sketch out an analytical framework for studying multiple-state constituencies within the IMF and other IOs, and to apply it to the IMF. Beyond more complete description of variation in the categories of explanatory factors, the next step in research will require developing indicators of ED autonomy and the effectiveness of representation. Positive research testing the propositions developed here will enhance our understanding of the IMF and provide a foundation for more rigorous discussions of possible reforms and their consequences.

We therefore need to think about a research program to flesh out this framework and begin rigorous testing. Research will require collecting the following kinds of information. Interviews can be a valuable source of evidence, for example in asking about the reasoning that has gone into decisions to switch constituencies or to stay. Careful study of Board minutes accessible under the IMF's archives policy would be extremely valuable, as it would allow us to see whether the dynamics that we predict in fact hold in practice, and potential provide some indicators of ED autonomy and influence. We will need to document and categorize the governance procedures used by each constituency. Along similar lines, describing the monitoring and accountability mechanisms in each constituency, and how they have changed over time, will be of substantial interest. Collecting publicly-available data about the EDs themselves, for example their educational backgrounds, turnover, and related statistics, will get at some of our questions about competence and incentive structures. A further source of evidence would be in member countries which have figures on staff employment on IMF-related issues at domestic agencies, as this would provide insight into monitoring capacity. The potential of this research agenda is large, as are the demands for data. Our initial analysis suggests that this agenda is well worth pursuing.

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