Modernizing and Re-shaping the Bretton Woods Institutions for the 21st Century
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ABSTRACT: This paper lays out the contours of a reformed Bretton Woods Institutions – the IMF, the World Bank Group (WBG) and the WTO – a Bretton Woods 2.0 that the world needs for the 21st century. Some of the challenges the world faces today – rising inequality, growing nationalism and protection are what led to World War II from whose ruin emerged the current Bretton Woods international financial architecture. While these institutions performed well over their first 50 years – they have been struggling in more recent times as problems of rising inequality, financial instability and protectionism have re-emerged. But in addition, the threat of climate change and ecological stress, rising disasters, and a more inter-connected world with new threats like cybersecurity and pandemics require a new international financial architecture. A modernized and reshaped set of Bretton Woods institutions to help address and mitigate these challenges, with three R’s - a revised global Remit and the mandate to monitor agreed global Rules and enhanced Resources not only to help individual countries but also to address global problems. If this is a bridge too far in today’s fractured world a Bretton Woods 1.5 with enhanced Remit and Resources is proposed.

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“Sometimes it takes a crisis for people to agree that what is obvious and should have been done years ago, can no longer be postponed. We must create a new international financial architecture for the global age.” Gordon Brown, former Prime Minister, U.K.

I. Introduction

In July 1944, during World War II, the United Nations Monetary and Financial Conference – known more popularly as the Bretton Woods conference reached agreements on an international financial architecture which, with some modifications and additions, has existed until today. That agreement was designed to create a rule-based international financial architecture and open trading system that would reduce protectionism, rampant nationalism, growing inequalities, and beggar-thy-neighbor policies that had led to the financial crash of 1929, the Depression and eventually to WWII. For the next seventy or so years, despite hiccups the world has seen not only reconstruction and recovery from World War II, but also rising incomes and lowered poverty in large parts of the world – especially where they have been drawn into the global economy. Global inequality has decreased, but with-in country inequality – has increased dramatically in most countries in the world (see Figure 1). In advanced economies – especially in the EU, taxes and transfers have help reduce inequality to some extent, but less so in other parts of the world.  

How much of this phenomenal rise in prosperity since WWII can be attributed to the Bretton Woods system – built on open trade and finance and to peace is widely debated but it is broadly true. There have been regional conflicts and wars in one part of the world or another and even a cold war, but the absence of global conflict has certainly helped prosperity and allowed the open trading and financial system that was envisaged at Bretton Woods. This has clearly also helped in the reduction in poverty – especially in Asia, and reduced global inequality, which rose after WWII, until about 1980. But subsequently with much of Asia opening to international markets global inequality has declined. However, with-in country inequality has increased very sharply linked very much to the forces of globalization – freer trade and financialization of global markets – that were at the heart of the Bretton Woods system.

The 2008 Global Financial Crisis (GFC) marked a turning point in many ways. While there was a brief period of heightened global coordination to deal with the crisis, since then rising protectionism, and lack of global coordination on the pandemic and lack of access to vaccines in large parts of the world – which some have termed “vaccine apartheid” have exposed huge differences and disparities in the world. And now the Russia-Ukraine war, the resulting sanctions and food and energy supply disruptions, have created huge geo-economic divisions – which will outlast this war. But in addition to old problems even more dangerous existential challenges have emerged, that threaten the globe. The most serious of these is the threat of climate change along with rising temperatures, greater frequency of natural disasters (Figure 2) , rising threats from pandemics and cyber threats with a space arms race lurking over the horizon. As the Singapore diplomat Kishore Mahbubani said," In the past, when the seven billion people of planet Earth lived in 193 countries, it was akin to living in 193 separate boats. Each boat had a captain and crew to manage it, and there were rules to make sure that the boats did not collide. That was the old global order. Today, with the rapid shrinkage and growing interdependence of our world,

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3 Average global temperatures are now more than 1 degree higher than the 1951-80 average.
4 Cyber-attacks have risen over 7 times in this century as documented by the Identity Theft Resources Center.
when seven billion people live in 193 separate countries, it is akin to living in 193 separate cabins on the same global boat. But there is one major problem with this global boat. We have captains and crews taking care of each cabin but no captain or crew taking care of the boat. None of us would sail an ocean on a boat without a captain or crew. Yet this is how we are steering planet Earth in the 21st century. While the consensus around Bretton Woods 1.0 was built due to American dominance, in today’s fractured and multi-polar work no such consensus exists. We cannot agree on a captain, but we must at least have some ground rules and a set of institutions to monitor the movement of the ship and warn us of the dangers ahead and suggest necessary course corrections.

Figure 1: Global Trends in Income, Poverty, and Inequality

Source: The World in Data - Global Income Inequality, 1820-2020 - WID - World Inequality Database

The institutions that were created at the Bretton Woods conference and subsequently, the IMF, The World Bank Group, and the GATT managed to adapt to a

5 The Bretton Woods Conference created three main institutions: The IMF which was meant to govern an financial system with the following features: An adjustably pegged foreign exchange market rate system: Exchange rates were pegged to gold. Governments were only supposed to alter exchange rates to correct a “fundamental disequilibrium.” Member countries pledged to make their currencies convertible for trade-related and other current account transactions. There were, however, transitional provisions that allowed for indefinite delay in accepting that obligation, and the IMF agreement explicitly allowed member countries to regulate capital flows. In 1971, the dollar peg was broken by the Nixon administration but a system of floating rates among major currencies prevailed.

The (WB) was set up as the International Bank for Reconstruction and Development (IBRD) in 1946–as a sister institution to the International Monetary Fund (IMF), to help fund reconstruction after World War II. The International Finance Corporation (IFC) and the International Development Association (IDA) were added in the 1960’s to promote private enterprise and provide concessional finance to low-income countries, respectively. In 1988, the Multilateral Investment Guarantee Agency (MIGA) was established to provide political risk guarantees. Regional MDB’s – the Asian Development Bank (ADB), Inter-American Development
changing world to try and remain relevant. They were broadly successful in contributing to reduced poverty and faster growth in large parts of the developing world. They helped many low and middle-income countries deal with global shocks through finance and improved domestic policies. Those emerging economies that liberalized and participated in the global trading system converged towards the advanced economies especially after 1990 and in the years before the GFC. In addition to providing financial support, the IMF, and the World Bank also provided valuable advice on a range of macro-economic, financial and development issues which has often been criticized, but nevertheless has provided a body of knowledge which has helped countries move up the development ladder.

Figure 2: Global trends in CO2 emissions, warming, natural disasters and cyber-terrorism

But while the BW institutions have adapted and reformed their workings to a changing world to some extent today, they are no longer fit-for-purpose to meet today’s global challenges. Because a) their governance structures remain more-or-less what was created at the end of World War II and b) their size and mandate has made them less able to address today’s challenges. They are now seen as mainly institutions to help deal with problems in the developing world, and they are struggling to even do that. But what is needed today is genuinely global institutions which address global problems. This paper will focus on b) but without fixing a) their governance structure - no new set of institutional arrangements will have legitimacy and therefore acceptability.

II. What Ails the Bretton Woods System?

The problems can be put into three categories a) size and leverage b) their effectiveness and c) their mandates and financing mechanisms.

a): Size and Leverage: The re-emergence of global crisis with the GFC in 2008-09 and now with the pandemic in 2020, it has become clear that the IMF remains too small and its resources too constrained by its articles to help the world address these

Bank (IADB), African Development Bank (AfDB) and the European Bank for Regional Development (EBRD) were created subsequently as were European Investment Bank (EIB) and Asian Infrastructure and Investment Bank (AIIB) and many sub-regional banks totaling around 27 today.

The General Agreement on Tariffs and Trade (GATT) was a legal agreement between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas. The GATT was the outcome, in 1947 of the failure of negotiating governments to create the International Trade Organization (ITO). It remained in effect until January 1st, 1995, when the World Trade Organization (WTO) was established as part of the Uruguay Round Agreements. The GATT, and its successor the WTO, have succeeded in reducing tariffs. The average tariff levels for the major GATT participants were about 22% in 1947 but were 5% after the Uruguay Round in 1999.

6 The issue of Governance structure and voting shares, leadership selection process is taken up in a separate paper.
Bilateral swap lines and regional safety nets are today twice as large as the resources of the IMF. Along with unused SDR issues, IMF resources are now about US $1 Trillion – only about 1.1% of Global GDP, barely enough to deal with crises in a few countries but certainly not enough to manage a global crisis. Of these about half are from quota resources and the remaining are from borrowing arrangements which are available on a discretionary basis. The IMF’s original role was supervising exchange rate arrangements agreed at Bretton Woods. But once the US abandoned the dollar-gold peg and the oil price shock of the 1970’s led to a series of financial and balance of payments and subsequent debt crisis in the 1980’s and 1990’s – especially in Latin America, it began to change its role. While it continued to provide surveillance to the advanced economies it began to shift its lending operations largely to the developing world. In the 1990’s it also adapted to address fiscal and financial crises in Asia and Turkey and structural adjustment programs, especially in Africa. Subsequently with the collapse of the Soviet Union, it re-adapted its role towards transition from planned to market economies. But after the GFC it was forced to return to support advanced economies in Southern Europe. It also adapted its role for low-income countries with concessional lending to a swathe of countries in Sub-Saharan Africa (SSA). In all such cases it developed new lending facilities to suit the nature of the problems and is now shifting focus as well to climate change issues (see Appendix 1 for the IMF’s multiple and evolving lending facilities). The size of IMF programs needed in recent years has reached as high as 32 times its quota for Greece and 25 times its quota for Portugal and many countries have become serial IMF borrowers. There is considerable debate on how well the IMF addressed these issues which we will come to in the next section.

The same problem of size applies, as well, to the World Bank and the Multi-lateral Development Banks (MDB’s) whose combined lending is now smaller than that of bilateral Development Finance Institutions (DFI’s) and Sovereign Wealth Funds (SWF’s) and now form a small share of resources flowing to the developing world. The World Bank – initially set up as the International Bank for Reconstruction and Development (IBRD) to help reconstruction after World War II shifted its attention in the 1960’s towards the infrastructure needs of former colonies. In the 1970s, WB president Robert McNamara, expanded the World Bank hugely and shifted the Bank’s focus to fighting poverty in developing countries. With a huge decline in poverty in many parts of the world, especially in Asia, that battle is not fully completed but should now be focused on a smaller group of fragile states – in SSA. Poverty remains substantial in middle income countries like India but is on track to decline. The International Development Association (IDA) – concessional arm of the World Bank grew hugely during this period, partly also through re-invested profits from IBRD loans to middle income countries.

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7 Between the start of the pandemic in March 2020 and March 2022, IMF granted funding equivalent to US$ 171 billion to 90 developing economies. This drops to a mere US$ 75.4 billion—a figure similar to the US$ 75 billion in IMF funding commitments between January and September 2009, during the global financial crisis— when the amount for flexible credit lines is excluded (table 2). However, the overall financing needs of developing countries were estimated at US$ 2.5 trillion as of March 2020. Current needs may be higher when the additional financing needs imposed by the pandemic are taken into account. Nevertheless, even the conservative estimate exceeds the IMF lending capacity, estimated at a total of US$ 1 trillion. Special Drawing Rights (SDRs) and the COVID-19 crisis (cepal.org).

8 But these are largely restricted among the advanced economies

9 The Chiang Mai initiative and the BRICS Contingent Facility

10 The international monetary and financial system: How to fit it for purpose? (brookings.edu) by Coulibaly and Prasad. Data also from Shammugaratnam – Brookings Project.

11 According to Reinhart and Trebesch (2016) the number of exchange rate crisis doubled in the developing world after 1980 and their nature changed from just balance of payments crisis to banking and fiscal crisis. See The International Monetary Fund: 70 Years of Reinvention, Carmen M. Reinhart, and Christoph Trebesch Journal of Economic Perspectives—Volume 30, Number 1—Winter 2016—Pages 3-28.

12 The International Monetary Fund: 70 Years of Reinvention (aeaweb.org).
countries. Several regional sub-regional MDB’s were created and produced some variations in their objectives and focus but the basic financial intermediary model remains the same as that of the World Bank. In 2016 the Chinese backed MDB’s – the AIIB and the New Development Bank (BRICS Bank) were created, but they too follow the same banking model.

The World Bank and the MDB’s more generally are also not able to meet the growing financial intermediation needs for addressing the challenges of economic development and growing global needs. The World Bank and the MDB’s in 2019 – just before the pandemic provided less than 10% of all financial flows to the public finances of the developing world according to World Bank and OECD data. They have all now made climate related financing a key part of their objectives. But in 2019 and 2020 they provided only about $40 Billion in climate finance – a small share of what is needed. The World Bank provided less support to offset the effects of COVID-19 (US$13 billion) than that granted during the 2008–2009 global financial crisis (US$28 billion). They form an exceedingly small part of the official financing needs of the developing world and their contribution to climate finance remains exceedingly small relative to the needs. Remittances at $630 billion now form the largest flow of funds to developing economies with ODA at about $ 200 billion in 2022, according to the World Bank. When the Addis Ababa Action Agenda – the financing plan for the SDG’s was announced in 2015, the MDB’s had promised to turn the billions they provided into trillions by leveraging in private finance – but that promise remains unfulfilled. They are Missing in Action “MIA” on the biggest challenge our planet faces today – climate change.

Let us now turn to how effective have these institutions been and what role they have played in the progress made so far. The issue of size is not relevant for the WTO, but its effectiveness is a critical issue to which we turn next.

b) Effectiveness:

The global trading system envisaged in 1944 certainly expanded hugely for much of the period since WWII leading right up to the GFC. Trade in goods and services combined as a share of global GDP peaked at 61% in 2008 and has declined since then. Trade in services, which was around 12.4% of global GDP in 2008 rose further to 13.6% of global GDP in 2019 and then fell. According to the IMF the same is true of capital flows with Gross Foreign Assets peaking at around 200% of global GDP and FDI flows peaking at 5.3% of global GDP in 2007. According to Baldwin (2019) the decline of the G7 in world trade and in manufacturing started in 1991 and about ten developing nations China, but also South Korea, India, Indonesia, Thailand, Poland, Mexico and more recently Bangladesh and Vietnam have been the main beneficiaries.

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13 To date about 27 such banks exist.
14 See Eugénia C. Heldt & Henning Schmidtke (2019): Explaining coherence in international regime complexes: How the World Bank shapes the field of multilateral development finance, Review of International Political Economy,
16 A WAR IN A PANDEMIC Migration and Development Brief 36 May 2022.
18 Changing patterns of capital flows (bis.org) and Globalization and Inequality: Capital Flows as a Two-Edged Sword, IMF Working Paper WP/21/4.
19 Globalization 1.0 and 2.0 helped the G7. Globalization 3.0 helped India and China instead. What will Globalization 4.0 do? | VOX, CEPR Policy Portal (voxeu.org)
As predicted by theory\(^{20}\), trade liberalization would lead to rising inequality in the developed world and lowered inequality in the labor abundant developing world, broadly speaking. The first part has surely come true with rising inequality in the advanced economies but all of it cannot be attributed to trade liberalization\(^{21}\) and in any case domestic social safety nets and tax policies could have been used to help mitigate some of it. Inadequate attention to social safety nets and re-training opportunities has also meant that labor in more labor-intensive sectors whose jobs moved offshore have not been able to transition to skill intensive jobs in more capital-intensive sectors. As a result, protectionism and nationalism are on the rise in many advanced economies. There is also a keen sense that China and some others have not followed fair-trade practices and as a result it has also led to de-industrialization in other emerging economies. This has led to growing protection not only in the developed world but also in some of the EME’s and some low-income countries which are now facing huge trade deficits.

**WTO:**

Since the WTO’s creation on 1 January 1995 global trade volumes have more than doubled and global tariffs have fallen to 9%, but despite that the failure to reach agreement on the Doha Round is seen as a major setback to the WTO. Whereas the GATT dealt with trade in goods, the WTO and its agreements expanded to cover trade in services and intellectual property. They introduced more formal mechanisms for dispute settlement including an Appellate Body of experts to adjudicate disputes, but that system is now in disarray.\(^{22}\) It also allowed a self-designated status of "developing" country which provided various exemptions from WTO agreements for specified periods. Despite a lack of agreement on the Doha Round, trade grew rapidly, and the WTO system worked reasonably well. But lately problems have arisen. First, the continuing self-attribution of some countries such as China, now the world’s largest trader as a "developing economy" which continue to give its special exemptions is being criticized. The use of state-owned enterprises with special subsidies is also an issue—specially with but not only with China that give it an unfair advantage (Gao, 2021) is another major issue of contention. Second, the US has been unhappy with the way the appellate body was functioning and has held up appointment of new Appellate Body members (Schneider-Petsinger 2020). It has also unilaterally increased tariffs in recent years which has damaged the WTO system considerably. Other countries have retaliated and used it as an excuse to raise tariffs. Regional trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) have gone forward – but there are obvious signs that the USA and China are now engaged in creating parallel and competing trade spheres while continuing to trade with one another.

More broadly, the consensual system of reaching agreements that underline the WTO is fair but has also made it difficult to reach agreements as any one country can veto an agreement. Frustration with lack of progress on multi-lateral agreements has created the demand for allowing plurilateral agreements at the WTO and calls for a change from

\(^{20}\) Stolper-Samuelson theorem.

\(^{21}\) The Big Mistakes of the anti-globalizers, Martin Wolf in the Financial Times, June22, 2022.

\(^{22}\) The dispute settlement crisis in the World Trade Organization: Issues, challenges, and directions - Research Outreach
consensus to other voting arrangements for reaching agreements at the WTO. Many issues related to tariffs on e-commerce, investment protection, environmental and labor standards also remain unresolved, so far. A major reform of the WTO is clearly needed. The agreements reached at the 12th Ministerial Conference on a limited number of issues such as fisheries subsidies, pandemic response, food insecurity and e-commerce were important because they were multilateral and gives hope and vigor to address the more difficult issues going forward.

The IMF:

The IMF is accused of having missed its major function – to warn the world of impending global crises and do adequate surveillance of the global monetary and financial system. It has spent much of its energy trying to develop new instruments (see Appendix for a list of IMF lending instruments) to help emerging market economies, deal with crises and low-income countries reduce poverty and raise growth and focus on issues such as gender and human development that many other agencies are better suited for that it is accused of having missed its main function. While it must do analysis to better understand factors affecting growth and sustainability it is not an aid agency. But the IMF is also criticized in other aspects of its programs. We discuss all of them here.

1. Pre-mature Capital Account Liberalization: The IMF is accused of going overboard on its mandate of promoting more open capital markets. Unlike the effects of trade openness, the effects of financial openness are more dependent on the nature of flows. FDI tends to reduce inequality in the recipient country – but will increase it in the country from where the plants and jobs are being displaced. FPI flows will tend to widen inequality unless they help deepen financial markets and short-term flows have increased volatility and crisis ending up in creating greater economic pain for the poorer sections of society. A major criticism of the IMF is that in addition to trade liberalization, it has also until recently aggressively pushed often prematurely capital account liberalization – despite provisions in the original Bretton Woods agreements that allowed for controls. But strong criticism of its policies especially after the Asian Financial Crisis and other crises has forced it to temper its advice on this issue.

2. Excessive Austerity and Pro-cyclical programs: A second critique of the IMF is that it is standard advice to emerging economies is pro-cyclical – which ends up increasing the depth of the crisis. But when it comes to advanced economies a completely different recipe is used to lower the immediate pain but with the resulting debt overhang reducing future growth. As Reinhart and Rogoff argue “Even after one of the most severe multi-year crises on record in the advanced economies, the received wisdom in policy circles clings to the notion that high-income countries are completely different from their emerging market counterparts. The current phase of the

23 Why Is the IMF Trying to Be an Aid Agency? by Kenneth Rogoff - Project Syndicate (project-syndicate.org)


25 In November 2012, the IMF issued a revised position on capital market liberalization but how much of this led to change in actual IMF advice remains to be assessed. THE LIBERALIZATION AND MANAGEMENT OF CAPITAL FLOWS: AN INSTITUTIONAL VIEW, Nov 2012, IMF

26 Financial and Sovereign Debt Crises: Some Lessons Learned and Those Forgotten; by Carmen M. Reinhart, Kenneth S. Rogoff; IMF™.
official policy approach is predicated on the assumption that debt sustainability can be achieved through a mix of austerity, forbearance, and growth. The claim is that advanced countries do not need to resort to the standard toolkit of emerging markets, including debt restructurings and conversions, higher inflation, capital controls and other forms of financial repression.” This double standard in the recipe for dealing with debt and financial crisis has left IMF programs in emerging markets with a huge stigma – this can be political or market stigma- and as a result of the stigma and harsh austerity which leaves countries with a larger recession than was warranted, many now approach and consider the IMF as a last resort. Those that can have also built up large (excess and costly reserves as an insurance and often against having to go to the IMF).

3. Weak Surveillance in Advanced Economies: The IMF’s key role in advanced economies remains surveillance- but it is not taken seriously and nor are its analysis of spillover effects of advanced country policies which have global implications and make macro-economic management and financial stability more difficult for the less advanced economies. This may also have added to its inability to predict global financial crises.

4. Arbitrary Program Size: This bias is also found in the size of its programs where arbitrary allocations sometimes as high as over 30 times of quota as in the case of Greece and large programs compared to quota for Portugal and Ireland – two other EU countries have reduced its credibility for even-handedness. These were partly driven by the nature of the Euro arrangements but leave the impression of uneven treatment across borrowers and driven by political expediency and the exposure of major shareholder banks to the program country. Many of the less politically important countries or those without some political support from key G-7 countries struggle with much smaller programs which also then result often in much greater austerity and much less ability to permanently come out of crisis leading to repeat programs.

5. Serial Lending: Another major critique of the IMF is that once it lifted its restriction of not lending into arrears it has become a serial lender and lends not just for illiquidity but also into insolvency. It’s programs also often bail out private creditors whose commercial and sovereign debt is turned into public debt and becomes the responsibility of taxpayers. Over 25% of its member countries (48) have been under IMF programs for more than 50% of their membership years – in a state of perpetual IMF tutelage and almost half of them have been under IMF programs for more than 30% of their years of IMF membership. This has given IMF

27 In the recent cases of Greece and Portugal – the first time IMF programs have been applied with-in the Eurozone; the IMF contained the same type of austerity policies that were applied to developing countries.
28 The IMF Remains the Lender of Last Resort – Literally | Chatham House – International Affairs Think Tank.
29 In some cases, the reserve build-up was due to other factors such as in China due to exchange targeting see also “Here’s the alternative to U.S. dollar dominance — and it’s not a rival currency, gold or bitcoin - MarketWatch
34 Four countries Albania, Armenia, Georgia and Mozambique have been under IMF program for over 80% of their membership years and Haiti, Mali, Malawi and Romania for over 70% of their membership years. Bulgaria and Argentina have been under programs for more than 60% of their membership years.
programs a stigma as they signal insolvency and in many cases new lending helps evergreen official and private credit. Reinhart and Trebesch (2016) show that in the 1990s and 2000s, about 40 percent of all IMF lending programs involve some sort of default, restructuring, or arrears on official debt.

6. **Mission Creep:** A final critique of the IMF is “mission-creep,” that it is getting itself involved in sectoral and social issues which should be best left to the MDB’s and other bilateral and specialized UN organizations. Structural adjustment supported by the IMF through its Enhanced Structural Adjustment Facility (ESAF) programs has a bad reputation and ended up in building up large debt with no growth and decimated social programs and public institutions through austerity and were called the Washington Consensus. This eventually led to the HIPC initiative to reduce debt in low-income countries. The IMF now has included social development and gender-based policies and climate change in its remit. While gender and social issues are important for inclusive growth it is not clear that the IMF is best suited in the international financial architecture – as against the MDB’s, the UN system or bilateral aid agencies and civil society. In the case of climate change where it can be shown that macro-effects are large the IMF may have a role, but it is unlikely that it will be the prime financier of a global clean energy transition that the world needs. By using its new instrument, the Resilience and Sustainability Trust Facility with loaned in funds and lending of 20-year maturity it is beginning to look like the World Bank.

**The World Bank and the MDB’s:**

The World Bank and more broadly the MDB system has also been criticized for its effectiveness, mission creep and orientation. What the world needs today is a global institution tasked with guiding a global transformation towards a sustainable planet for shared prosperity where the WBG is largely missing in action. Instead, what we have is now seen as a development bank which deals with problems and issues of developing countries in country. And even in that role it has issues and problems. Key critiques are:

1. **Failed Structural Adjustment Programs and Doing Business Index:** The World Bank was also equally criticized for the support it gave to Structural Adjustment Programs (SAP’s). There were two problems – first that trade liberalization increased trade deficits as imports surged but exports did not increase as much as the underlying infrastructure needed for exports did not exist. Privatization also meant that sometimes public monopolies became private monopolies – there was inadequate competition - or private players to supply services did not exist. These SAPs ended up with a bad reputation as did the so-called Washington Consensus. Lately the WBG pushed a flawed Ease of Doing Business Index, which was easily gamed, pushed for less regulation, and did not include environmental and labor standards.

2. **Lending vs Non-Lending Services:** Serial lending for which the IMF has been criticized has also been a criticism of the MDB’s. But in addition, they have been accused of focusing too much on lending targets and not on the quality of their advice or analytical support. Some argue that it is the non-lending services of the MDB’s that are more valuable than the lending. The World Bank, for example, spends $200 million every year on non-lending services

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35 The International Monetary Fund: 70 Years of Reinvention Journal of Economic Perspectives—Volume 30, Number 1—Winter 2016—Pages 3–28 Carmen M. Reinhart and Christoph Trebesch.

36 These came to be called the by John Williamson -the Washington Consensus policies which include maintaining fiscal discipline, reordering public spending priorities, reforming tax policy, allowing the market to determine interest rates, maintaining a competitive exchange rate, liberalizing trade, permitting inward foreign investment, privatizing state enterprises, deregulating barriers to entry and exit, and securing property rights.

37 see Why the World Bank Torched its ‘Ease of Doing Business’ Ranking – The Diplomat.
but about $30 billion per year on lending but surveys of recipient countries shows that they consistently find the policy advice and analytical work to be far more useful.38

3. Laggards not Leaders in Development Thinking: Other major critiques of the World Bank and the MDB’s is that they are behind-the-curve. Instead of being the leaders in development they have especially since the 1990’s fallen behind others in both prioritizing and acting on key development issues. Human development -with greater focus on health and education was first pioneered at UNDP, water and sanitation as a key development priority was ignored for too long and the MDB’s have focused on environment and climate change much too slowly and their lending practices still include carbon-intensive projects. They were also slow to address the social and environmental costs of their infrastructure projects. 39

4. Insufficient Attention to Governance and Institution-Building: While the World Bank was the first to bring the “C” word Corruption out of the closet, 40 it had been criticized for lending, sometimes heavily, into corruption ridden countries with the result that much of its resources have not led to development but have helped build up debt which future generations have to pay back. The focus on institution building – which takes great patience and effort and ownership – also came slowly to the World Bank and the MDB’s. They were happy to lend for roads, ports, schools, and hospitals but did not pay enough attention to help build the road, rail, airport authority, the energy and telecom regulator, the judicial and governance systems that are needed to run these systems and help the country attract private capital.

5. Insufficient Focus on Catalyzing Private Flows: Insufficient attention to view their role as catalysts for private capital is another broader criticism of the MDB’s despite efforts. The World Bank Group has IFC – a private sector arm and MIGA to provide political risk guarantee and newer institutions like the EBRD and the ADB provide blended finance as does the AIIB. The World Bank’s famous Ease of Doing Business project which was used extensively all over the world to help improve the institutional environment for business was also criticized for ignoring labor and environmental standard and withdrawn for being gamed under political pressure. 41

Today the world has large financial savings looking for return and many low and middle-income countries starved of capital – especially for infrastructure.42 But this could change. WB’s instruments allow it to not just provide loans but also guarantees – both project and policy – to leverage in private capital. But this IBRD instrument and MIGA’s political risk guarantee has seen surprisingly, limited use.43 By shifting to greater use of guarantees, the Bank could leverage its limited capital to increase private flows, and unlike the Chinese Belt and Road Initiative (BRI), show how to do this without it becoming a huge debt burden on poor countries. In the same vein, WB and MDB’s could become a major financier of insurance systems. It has financed a few insurance programs but could do a lot more. Better insurance systems also help improve standards; help build more resilient infrastructure. The World Bank and MDB’s could provide back-stop financing to crowd in much larger funds through re-insurance for disasters, health, crop, and broader infrastructure insurance. Its private sector arm has also been accused of not doing enough to help move private capital to under-served

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38 What makes the World Bank so influential—it's money or its ideas? (ampproject.org)
39 What are the main criticisms of the World Bank and the IMF? - Bretton Woods Project
40 Its 1997 World Development Report on the Role of the State had a clear analysis of corruption and economic development.
41 Doing Business: how countries gamed the World Bank's business rankings | British Politics and Policy at LSE
42 In FY21 the WBG could only claim to have leverage in $23.4 billion of private finance in all its operations.
43 As of 2019, 48 guarantee transactions utilizing $7.4 billion in IBRD/IDA commitments supported the mobilization of $30.2 billion of commercial financing plus $20 billion of public financing. Since its inception, MIGA has provided more than $27 billion in guarantees (PRI) for more than 700 projects in over 100 developing countries. MIGA currently has an outstanding guarantees portfolio of over $10 billion.
sectors and SME’s but have gone for less risky projects with larger corporates and in safer investments. MIGA’s political risk guarantee has also not seen huge demand.

**6. Overly Conservative and Too Risk-Averse:** While a case can be made for an increase in the capital base for the WB and MDB’s they could certainly make better use of their existing capital base. They are much too focused on the credit ratings and preferred creditor status which has lowered their ability to leverage private capital.44 Part of the problem lies with credit rating agencies which book loans and guarantees in the same way 1:1 against paid-in capital and unimpared reserves which makes leverage much smaller than if it also used part of callable capital.45 In addition, bureaucratic procedures and excessively cumbersome safeguards have made the World Bank and many of the MDB’s terribly slow and costly. There is also too much time spent on project preparation and Board approvals and not enough on project implementation and adjustments to ensure success.46 And the overall success rate of country programs is much less than successful ratings on individual projects, suggesting that the MDB’s choose and pick easier projects to finance while overall country progress remains underwhelming.47

**7. Country Focus Neglects Global and Regional Financing Needs:** Finally, the MDB system is very country focused which has improved its programs but at a cost. It means that regional programs and global programs which are needed to address global public goods are given short shrift. Some regional banks do focus on regional programs but in general there appears to be in many cases unnecessary competition between the World Bank and regional banks on country programs to meet lending targets. At the same time in terms of overall aid flows there appears to be extraordinarily little additionality in funding for global programs – coming at the expense of country assistance- while they were expected to be additional. Global program funding comes often from the same sources as ODA.48 If we are going to mix ODA and climate financing because as some argue that the two are highly inter-related then we must increase from the current level of just over 0.2 % of GNI.49 And if climate financing suffers the same fate as ODA – which remained well below its target of 0.7% of GNI- then we may need to consider more automatic mechanisms to finance it – such as polluter fees on airflights and shipping or globally coordinated CO2 emissions fees or issuance of green SDR’s every year.50

The WBG continues to remain in the words of former VP and Nobel Prize winner Al Gore “missing in action” as it reluctantly gives up on financing fossil fuel projects – despite all its rhetoric on sustainability. Green financing programs – such as the Green Climate Fund remain grossly underfunded. The pandemic saw advanced economies able to manage it with some success as they poured in exceptionally large fiscal and monetary stimuli, developed vaccines, and prioritized their citizens for vaccination and booster programs. But many middle-income and low-income countries were unable to get access to vaccines and

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45 Rising Role of Preferred Creditor Status in Ratings of Multilateral Development Banks Mahesh K. Kotecha in Bretton Woods@75 Compendium 2019.
46 Emergency projects in response to disasters were found to be as successful as projects which took much longer to prepare according to IEG the evaluation department of the WBG.
47 Hans Singer pointed out in 1956 that because of fungibility external aid only finances the marginal project. Therefore, it is better to assess overall country outcomes rather than individual projects – but this is not easy to attribute to MDB’s especially as their role in overall financing has diminished over time.
48 Separating climate finance and ODA - World | ReliefWeb
49 If We Are Going to Fund Climate Mitigation from ODA, We Need to Double It. | Center for Global Development | Ideas to Action (cgdev.org)
50 Festering global problems require more globalized financing (brookings.edu)
provide the same level of income support to their citizens. Even the US$50 billion proposal prepared by the IMF was not fully financed and developed countries were unable to agree to emergency removal of IPR’s to help produce vaccines in developing countries for their needs.51

III. What should the New Bretton Woods Institutions Look Like?

The 21st century for which we propose a New Bretton Woods will be quite different from the one exist today and certainly quite different from the one that existed in 1944. According to projections made by PwC52 based on PPP GDP, Germany and the UK will be the only European countries in the top ten economies in the world and China and India will emerge as the top two economies in the world. Other studies have some slight differences but confirm these trends.53 The global population is projected to reach ten billion by 2050, with almost a quarter of those in Sub-Saharan Africa and 70% will be living in urban areas. The need for climate resilient infrastructure will rise hugely as natural disasters keep rising and climate change refugees may rise to 200 million. The needs for education and health will rise sharply as well as for water and sanitation. There are calls for a Big Push for financing – akin to a new Marshall Plan for the emerging and low-income economies.54 Whether these exact projections of the PwC materialize may not matter but surely the world of 2050 will be different from the world of 2022 and substantially different from the world of 1950 for which the current BW institutions were designed. What form should the new Bretton Woods institutions take given the scale of change that is needed. Should it simply be a revamp of the existing institutions, or should we start from scratch and build new institutions, as some have called for.55 While it may seem that starting from a fresh cloth is ideal getting today’s fragmented world to do that will not be easy – it was only the victors and their allied countries that created Bretton Woods 1.0.56 It is therefore more practical to try and reshape and bolster the existing institutions to be able to address the challenges the global system faces today and will face in the future.

A more flexible international financial architecture with strengthened Bretton Woods institutions but woven together with regional and issue specific institutions and non-state actors to build a more resilient and responsive system of cascading and interconnected institutional structure that can adapt to future uncertainties maybe the right way forward.57 Two recent global crises the GFC and the Global pandemic have revealed that the resources of the Bretton Woods are insufficient even to address the needs of the middle-income and low-income economies, let alone help address global challenges. Their resources need enhancement, and their procedures must give them the flexibility to draw-in and catalyze private capital on a large scale. Suitably strengthened they can also be arbiters and monitors of global rules and standards were there to be agreement on them. As we foresee a multi-polar world the G-20 (modified) can become the forum for providing overall guidance in setting priorities to the new Bretton Woods Institutions along with their existing governance structure –

52 The World in 2050: PwC
53 wp2010-27.pdf (cepii.fr); The World Order in 2050 - Carnegie Endowment for International Peace
54 The latest estimates of financing needs for a Big Push are contained in Financing-the-big-investment-push-in-emerging-markets-and-developing-economies-for-sustainable-resilient-and-inclusive-recovery-and-growth-1.pdf (lse.ac.uk)
55 Governance Reform after Ukraine: Five Lessons from Bretton Woods - Centre for International Governance Innovation (cigionline.org)
56 The USSR and its allies opted out and the Russian Federation only came in later.
57 Bretton Woods at 75 by Arminio Fraga - Project Syndicate (project-syndicate.org)
At its core will sit three genuinely global institutions – the IMF tasked with global financial and monetary stability, the WBG which will be tasked with shared prosperity and planetary sustainability and the WTO\textsuperscript{59} which will be charged with orderly trade and cross border transactions (Figure 3). Parallel to these and working together will be a series of regional and specialized organizations, with well-defined mandates and mechanisms for collaboration which will enhance and strengthen the international financial architecture. Where needed these institutions will work with specialized agencies such as the IMF with the FSB and OECD, the WBG with relevant UN agencies\textsuperscript{60}, private philanthropic institutions and bi-lateral aid agencies and the WTO with regional customs and trade and investment facilitation.

\textsuperscript{58} Global Funds include pension funds and Bi-lateral Aid includes sovereign wealth funds.

\textsuperscript{59} There is a view that the WTO remains an organization but needs to become an institution.

\textsuperscript{60} The new Financial Intermediary Fund (FIF) for pandemic response agreed to at the Bali meeting of finance ministers of the G20 with the World Bank and the WHO in charge is an example of this, see also An Effective Pandemic Response Must Be Truly Global by Mariana Mazzucato & Jayati Ghosh - Project Syndicate (project-syndicate.org).
arrangements and with relevant business and industry chambers. The performance of these institutions in future should not be judged by the size of their financial balance sheets but by clear outcome indicators in their areas of remit. Their financing should ideally be made less discretionary and much more automatic so that geo-economic and domestic political disturbances will not easily derail and constrain their ability to perform their mandates.

The proposals for a new system can be put into three buckets: Rules, Remit and Resources— the 3 Rs, if you like, of Bretton Woods 2.0.

1. **Rules:**

   A new set of rules must guide the new system which apply universally, they are not just meant for less advanced economies. While agreement on these rules may not be easy in our fractured world, without them no international institutional arrangements will work.

   a) **Trade:** The need for an open trading system is of paramount importance with an emphasis on freer but also fair trade. What defines fair trade must come from a strengthened WTO, with new provisions for special status (developing country) that reflect new realities. A more differentiated definition of developing country status is needed and behind the border actions that affect fair trade such as hidden subsidies, State Owned Enterprises, and other hidden government support. A strengthened and much speedier dispute resolution mechanism for anti-dumping and other predatory policies must be a central feature of rebuilding credibility at the WTO.

   b) **Monetary and Financial Policies:** In the absence of exchange rate arrangements, rules are also needed for better coordination of monetary and financial sector policies and better understanding of spillovers from country policies. Excessive macro-economic stimuli have within country effects but also have huge spillovers that have global effects and complicate macroeconomic management in emerging and low-income economies – especially when combined with the aversion to capital controls which may be needed temporarily but will have long-term reputational and other costs. The IMF (along with the Financial Stability Board) must be the body that monitors these and provide recommendations. But it will need to upgrade and improve its surveillance in advanced economies as well and become a forum for a discussion and resolution of these issues. It must also provide guidance on development of rules for crypto-currencies and other new financial products whose spread, and risk require regulation.

   c) **Debt and debt sustainability:** With debt sustainability again emerging as a huge drag on future development (Figure 12 and 13) and the world may need a new debt restructuring framework rather than the current case-by-case approach which drag on and delay development, as seen by the debt restructuring talks underway in Zambia, Ethiopia, and Yemen. The IMF and the World Bank would be best suited to develop such as framework after discussion with the Development Assistance Committee (DAC) of the OECD and key non-DAC players such as China and India two major non-DAC donors and private markets.

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61 It is primarily the rise of China as the largest trading country in the world with a status of “developing country” that has created problems which need to be addressed.

62 Some argue that the advanced economies must do what they need to do and then help repair the damage internationally. But it maybe better to coordinate and reduce spillovers and beggar-thy-neighbor policies. WP-2022-008 Global Shocks and International Policy Coordination Ashima Goyal and Rupayan Pal Indira Gandhi Institute of Development Research, Mumbai, June 2020.

63 Are we ready for the coming spate of debt crises? (worldbank.org). The IMF says at least 38 developing countries are at high risk or already in debt distress.

64 Here we go again: Debt sustainability in low-income countries | Independent Evaluation Group (worldbankgroup.org)
d) **Governance and Taxation**: Governance and anti-corruption rules must be set by the World Bank and relevant UN bodies that apply to business practices as well as to public procurement. Various civil society initiatives such as Transparency International and the Extractive Industries Transparency Initiative must be allowed to set rules and standard which become universally acceptable. Global tax rules to address BEPS and improvement in tax systems must be rules agreed at the G20 but monitored by the IMF, along with other knowledgeable bodies like the OECD.

e) **SDG’s**: The SDGs provide an agreed framework for reaching goals in 17 areas with 169 indicators and the SDG Index tracks progress across the world. The UN provides the secretariat to monitor their progress – but the Bretton Woods institutions (especially the World Bank and the MDB’s) which came reluctantly to accepting the MDG’s must now step up to the SDG’s and help countries meet those goals until 2030. The Bretton Woods institutions must help countries design strategies to achieve these agreed goals for an inclusive and sustainable future.

f) **ESG**: ESG standards require further work as businesses are accused of green washing. It may be time to establish standards and rules here to help the green transition that cannot be left to the private sector alone. The World Bank Group’s IFC along with private sector arms of the MDB’s may be tasked with producing universal standards and monitor progress along with the rating agencies and International Chambers of Commerce and Industry.65

g) **Climate Resilient Infrastructure and Regulatory Standards**: Climate resilient infrastructure standards may be needed to help bundle finance for them – and the World Bank Group together with MDB’s best suited to provide them. Climate regulation and more broadly utility regulation is another area where some basic rules and standards are needed to attract private capital and the World Bank and MDB’s could set standards and provide assistance.

This is not an exhaustive list but gives a flavor of a new rule-based order that must emerge. Transitional progress maybe needed to work towards broader agreements. For example, progress on fisheries subsidies, agriculture, IPR’s and government procurement may help build trust to reach broader agreements at the WTO.

2. **Remit**:

The Remit of the new BW institutions must be global in specified areas – the IMF for macro-economic policy and financial stability, the WBG for planetary sustainability and shared prosperity and the WTO for fair trade and cross border transactions. What we have now is lack of coordination, over-lapping and sometimes counterproductive actions and often lack of clarity of who should do what. In a revitalized Bretton Woods system, we therefore need to create a system which is rule-based and adequately resourced but must also address the challenges effectively. This means in some areas there will be a primus inter pares – a primary institution with the main responsibility and in some areas, there will joint or shared responsibility with a clear mandate on how to work together. We also need a system where global challenges are addressed by global institutions and regional issues addressed by regional institutions – a cascading system which supports each other. Let us suggest a new remit for the Bretton Woods institutions.

65 The Economist July 21, 2022, edition suggests “Drop the S and the G, we argue, and shift the E from “environment” to emissions”. If the measurement of firms’ carbon footprints were standardised, they would be easier to shrink.”
Shift Primary Role to Arbiter and Rule-Setter: A strengthened IMF must be a core pillar of the system, but it should see its primary role as a monitor and arbiter of the rules. Its success should not be judged by the size of its programs or how much it has lent. Instead, it should see its success by how little it must lend to keep the global financial system more stable. It should be seen as the lender of last resort, and it should not try to invent new facilities to keep itself relevant and to keep lending. A good fire-fighter should judge its success by how well it prevented fires rather than by how many fires it had to respond to. In this regard it should be working to encourage central bank swap arrangements and regional support mechanisms and not resisting them as it has often done in the past, by insisting that such arrangements must be activated only if there is an IMF program in place. It should be working towards helping create a stronger, multi-instrument financial resilience compact rather than be the sole provider of support to countries in balance of payments and financial distress. Other issues at the IMF that need addressing are:

1. Have A Stricter Rule-Based System to Size and Number of Programs: IMF program size has varied hugely reaching over 30 times its quota in the case of Greece. This arbitrariness has led to loss of IMF credibility and legitimacy as a rule-based international organization. IMF resources must be increased but used in a less arbitrary manner to help restore its credibility. With serial lending and some countries in perpetual programs the IMF is beginning to look like a development agency instead of a lender of last resort and has inserted itself into development advice best suited to the World Bank and the MDB’s and relevant UN agencies or bilateral aid agencies. Some limits must be set for how often a country can get IMF assistance – under normal circumstances when there is not external emergency.

2. Focus on Debt and Help Prepare Debt-Restructuring Framework: Given the likelihood that many countries are likely to enter debt crises in the coming years the IMF working
closely with the World Bank and the FSB should be tasked with establishing a debt restructuring framework that can be acceptable to DAC and non-DAC countries.  

3. **Reduce Mission Creep:** The IMF should of course work on social, gender and climate change issues to better understand their macro-economic and financial impacts, but it should avoid any programs and lending on these issues and leave that function to other aid agencies of the international financial system.

b) **World Bank Group:**

The World Bank Group must be tasked to become the apex global institution for the greening of the world economy – with a world class leadership to guide it. Just as we needed a Marshall Plan to help the world recover from the ravages of World War II, we now need actions on a similar scale internationally to engineer the energy and ecological transformation for a more sustainable planet. Its success must be judged not just by how much it lends – but by how much resources it can catalyze to address global climate change challenges. Its new role should be the global institution for climate change and sustainability – not just a development bank for developing countries. It must be able also to provide monitoring and advice on climate action in the entire world – not just to developing countries – on a range of issues such as carbon pricing, ESG and net-zero transformation to catalyze capital, it must change its processes and instruments and make greater use of guarantees and insurance related financing. In addition, it will help build the institutions for well-functioning market economies and the human capital advancement to improve human development, reduce disparity and build a work force that can operate in a world of rapid technological change. It must be able to help in country and globally as well. Climate change cannot be yet another add-on activity like agriculture, industry, and infrastructure. It is not another department which allows all others to continue business-as-usual with sustainability being handled by a new department. Key reforms needed to make the WBG more effective are:

1. **Refocus and restructure the WBG into Human Development and Sustainability:** Instead of competing focus and attention it should have two broad objectives – human development and sustainability and restructured accordingly. This will allow issues related to education, health, gender, sanitation to come under human development and all other sectors-agriculture, industry, energy, transport, urban development to be under the sustainability umbrella to ensure that every activity there gets a much stronger and badly needed sustainability lens.

2. **Shift the focus from lending to catalyzing resource flows:** The World Bank group measures its usefulness from the size of its lending. But the MDB lending is now a fraction of overall resource flows. WB should focus its loans not on financing infrastructure but on helping build the institutions and regulatory systems to crowd-in private capital. Financing yet another school, health center, road, dam, irrigation system, power plant or rail line is not what it should use its limited capital for. Instead, it should help build the road, rail, airport authority, the energy and telecom regulator, the judicial and governance systems that will help the country attract

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66 How the G7 Could Help the Debt-Distressed by Mariana Mazzucato & Alan Donnelly - Project Syndicate (project-syndicate.org)

67 Some suggest the regional MDB’s focus more on country and regional issues and the World Bank on global issues see Nancy Birdsall “MDB’s Why Governance Matters in the Bretton Woods @75 Compendium, see also World Bank. 2022. Enhancing the Effectiveness of the World Bank’s Global Footprint. Independent Evaluation Group. Washington, DC: World Bank for the need to enhance global knowledge and global footprint.

68 One might even consider changing its name to a Global Green Bank or The International Bank for Sustainability and Development (IBSD). The European Investment Bank (EIB) already calls itself informally as the Carbon Bank.
private capital. More innovative financing of the MDB’s is needed and should include ways in which guarantees, and loans are treated on the books of the MDB’s. A guarantee or an insurance back-stop facility has only a probability of being called and must be booked differently from a loan as otherwise it creates a huge disincentive to its use.

3. **Measure Success in Low-Income Countries by Speed of Graduation**: In many low income and fragile states, the need for low-cost IDA financing will remain for some time as this is where the path to end extreme poverty by 2030 seems most challenging. WB should help these countries set much clearer timelines to graduate and be rewarded for doing so. At present the incentives are to hang on to soft financing and it remains in the WB’s interest to perpetuate such dependency. And IFC should shift its concentration from support to large corporates who have access to capital to micro, small, and medium enterprises (MSMEs) and do more to help financial inclusion.

4. **Focus more on global “goods”’ and ‘bads’** -- climate change, diseases, and migration -- need huge attention and help for which no other institution has better financing and convening power than WBG – working in partnership with specialized agencies. The WBG should work closely with UN agencies – WHO on COVID response and health, UNICEF on education, UNEP on climate change and regional MDB’s who should focus on regional cooperation and regional goods and infrastructure – much more than they have so far.

5. **Focus more on Inequality and Social Inequity**: WB must make gender and other social inequalities a central focus of its activities, and not just an add-on. This would require systemic change in the way advice and conditionalities are set – gender budgeting, targeted social programs, and quotas to political systems – parliaments, local bodies – as well as special programs for women’s economic empowerment. But it should avoid behaving like a global NGO and leave community level projects to UN agencies and civil society. It should be a wholesaler not a retailer of global finance.

6. **Governance and Corruption**: Pay far more attention to governance and anti-corruption, by helping build institutions and fostering greater competition and contestability in service deliver. Lending into corruption ridden countries is fraught with problems even under the best safeguards as the last 70 years of experience has shown. Helping countries modernize their financial systems, procurement practices and expenditure management should remain a key focus.

7. **Expand Non-Lending Services**: WBG non-lending services are highly respected and may have longer term impact especially if they also help build local capacity. Linking lending to good analytical work also improved development effectiveness. On new and emerging issues providing review of policies in advanced economies on climate policies may also be useful and may provide balance and greater legitimacy of even handedness to the Bank Group.

**c) WTO:**

The WTO is struggling and needs a major reform - some say it needs to shift from being an organization to an institution- with a stronger secretariat. The WTO must emphasize that it is not just about “free trade” which is applied selectively but also about “fair trade.” Fair trade was part of its mandate – but trade has been less than fair. This will help

69 MIGA provides political risk guarantee but once a project in a country takes a political risk guarantee it could become a stigma and require political risk guarantees on all future projects with market financing.

70 Both the borrower and the lender have a disincentive to use a guarantee instead of a loan as the borrower who takes the guarantee is precluding a loan of the same amount and the lender makes money on the loan.

71 And even the free trade push is applied selectively. For example, the lack of free trade in agriculture, including heavy subsidies by advanced economies is not addressed, see Michigan Law Review Volume 104 Issue 6 2006 The High Stakes of WTO Reform James Thuo Gathii Albany Law School.
improve the global trading system and may help reduce the rising political backlash – especially in the developed world against “free trade.”

With the shift from GATT to WTO trade in services and data issues came under the purview of the WTO but progress on agreement in customs duties on services has been slow. Nevertheless, this lack of agreement has not hampered trade in services which grew rapidly as there was a moratorium on tariffs on e-commerce. There are no WTO rules on e-commerce or internet enabled transactions, but a 25-year moratorium on custom duties for e-commerce which was to expire in June 2022, has just been extended at the WTO’s 12th Ministerial Conference for two years but will come up for discussion again at the 13th MC. At its 12th MC in Geneva in June 2022, agreement was reached on issues such as pandemic response, TRIPS (Trade-Related Aspects of Intellectual Property Rights) waiver related to COVID-19, food security, World Food Programme Food Purchases Exemption, fishery subsidies, e-commerce, and WTO reforms. This is the first-time progress was made on multi-lateral issues since the Bali meeting of 2013 which made progress on food subsidies and food security and hopefully sets the stage for further progress on more contentious issues.

But there remain many contentious Issues where agreement will be more difficult such as on WTO reform and especially on labor and environmental standards and how to start unwinding recent tariff increases. In the interim, regional and plurilateral arrangements are likely to make progress and some have hailed these as progress. But in today’s geo-economic fractures these arrangements may harden into trading and supply chain blocs which will be difficult to disentangle into future multi-lateral agreements. But some progress could be made if pluralistic agreements are open-ended and eventually become multi-lateral, this is where the focus should be at the WTO as it builds on success at the MC12. Moving from consensus to a system of majority voting another proposed reform may allow faster progress on trade talks. But the wider distrust of the WTO arising from lack of transparency must also be addressed.

3. Resources

The size of the BW institutions relative to global needs remains exceedingly small, and if these institutions are to play a central global role their resource base must be enhanced and they in turn must reform to leverage in other capital flows and resources to address global challenges. There are three key issues the size of resources, their ability to leverage and their predictability that must be addressed in any reform of the Bretton Woods institutions. The IMF has the capacity to lend up to $1 trillion (about 1% of global GDP) of which less than half, (about $450 billion) is from quotas (callable capital). The rest comes from borrowings – which are discretionary. Its quota size must be at least doubled and adjusted more automatically as Global GDP rises, especially as the world is entering a phase when widespread debt crises are likely. In turn the IMF must help encourage swap arrangements and regional liquidity arrangements to help make the system more secure. The total stock of SDR’s of 660.7 billion is equivalent to around $950 billion just over 1% of global GDP. Each SDR issue is subject to political whims and very uncertain. An agreement for a more automatic SDR issue

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72 European countries and China have reacted to US efforts to neuter the WTO by creating a parallel institution. The MPIA originated as a proposal by the EU for an interim appeal arbitration process. Subsequently, other states joined. As of April 30, 2020, 18 countries and the EU (as well as Hong Kong) had agreed to arbitrate trade disputes using the MPIA, which follows the WTO dispute settlement framework and is intended to exist only as long as the AB is inoperative. Notable participants in the arrangement include Australia, Brazil, Canada, China, and Switzerland. Other WTO members may join at any time.

73 The international monetary and financial system: How to fit it for purpose? (brookings.edu)

74 World Bank warns of debt crisis for developing nations | Business | Economy and finance news from a German perspective | DW | 15.02.2022; Why There’s a Looming Debt Crisis in Emerging Markets: QuickTake - Bloomberg

75 Such an increase will also make it easier to adjust quota shares.
every 5 years to stay at least around 1% of GDP and with mechanisms to assign greater shares
to lower income countries is needed but will be difficult to get agreement on in today’s fractured
world.

The World Bank Group’s capital base must also be increased, but at the same
time there must also be changes to the way they use their funds. The World Bank now
provides an exceedingly small share of net flows to emerging markets but even to the low-
income IDA eligible countries it provides only about a third of their financing needs. Doubling
their capital base should be an easy fix as this is callable capital and then having a formula to
increase their capital base every five years linked to a share of global GDP would make their
financing less political and arbitrary. They have been overly conservative in their equity to loan
ratios despite having preferred creditor treatment and AAA ratings based on their shareholder
ratings. According to Humphrey (2020) their equity to loan ratios has been 30-35% -compared
to 10-15% for commercial banks. They could also be allowed more leeway in the use of capital–
by changing their capital adequacy ratios and use of a share of callable capital – not just their
paid-in capital and by giving them greater flexibility in their AAA ratings which should be an
instrument not a strict objective. The objective is to find ways to raise resources in an
expeditious, prudent manner but not become overly conservative.

There is considerable underfinancing of global public goods (GPGs) as it is
difficult to get countries to pay for activities outside their borders. Official Development
Assistance (ODA) has fallen well short of the agreed target of 0.7 percent of GDP—and in fact
is closer to just 0.2 percent. GPG funding from ODA is only about 10 percent of the total. This
problem even afflicts other sources of financing. MDBs also underfund regional, multi-country
projects for addressing regional public goods as countries are unwilling to use their country
allocations for multi-country projects even if the return on them is higher than the marginal
country project. Global thematic funds to support specific development challenges—Global
Alliance for Vaccination and Inoculation (GAVI), Global Fund to Fight AIDS, Tuberculosis and
Malaria (GFATM), Global Environmental Fund (GEF) and earlier funds like the Consultative
Group for International Agricultural Research (CGIAR)—have been successful in addressing
specific development challenges through projects in specific countries, especially for agriculture,
the environment, and health. They have also drawn in private philanthropic financing in addition
to public resources. But funding for broader global challenges has not had the same success,
and systematic and sustained financing for climate change, natural disasters, biodiversity,
desertification has been difficult. The Green Climate Fund, which devotes 50:50 share of
funding for adaptation and mitigation has extremely limited funding so far – despite the
commitment to provide $ 100 billion per year over and above ODA. Private philanthropic
foundations have played important catalytic roles, such as efforts by the Ford
Foundation and the Rockefeller Foundation to help jump-start the Green Revolution in the 1960’s,
and the eventual creation of the CGIAR. A similar role has been played by the Bill & Melinda Gates Foundation for global public health. But no such foundations

76: DSSIExplanatoryNote.pdf (worldbank.org)
77 Some argue that the MDB’s must make better use of existing capital base and show their willingness to leverage in private capital before giving them a capital increase.
78 200408_mbd_coronavirus_final.pdf (odi.org).
80 A similar argument is made in Regional Development Banks in Comparison (cambridge.org) by Ruth Ben-Artzi.
81 And even the way aid is counted in DAC has been criticized. See FT June 16, Op-ed by Stephen Cutts “Inflated rates means overseas aid statistics are not credible.”
exist for many underfunded issues, such as disaster relief, peacebuilding, and desertification.

The underfunding by the WBG and the MDB system on global challenges must be addressed as their current funding use is very country focused. One way to do this would be to make greater use of blended finance with the commercial finance used to address country needs and the grant part used to address the damage to the global commons or regional commons. Given the multiplicity of financing options and lack of coordination, the use of country/sectoral platforms are proposed as an interim solution for coordinating finance at the country level. But one concern is that such arrangements may work for a few countries but will leave many underfunded and going to a country model also leaves global goods underfunded. With the Addis Ababa Action Agenda (AAAA) the financing plan for the SDG’s agreed to in 2015 pushing for new modes of financing, it is surprising that for GPG financing more global sources of finance are not considered. At least three such options exist and could go a long way towards financing GPG’s.

The first is a carbon tax or auctioning of carbon emissions permits. This is an idea with huge appeal as it will also help dissuade use of fossil fuels and could lower emissions globally but is unfortunately and unsurprisingly opposed by all the major emitters. Carbon taxes have been introduced in a few countries to reduce fossil fuel use without any damage to long-term growth. The EU has a proposal to link carbon taxes to trade and would end up increasing their use – but may also drive the world to greater protectionism. Emission permits have also been tried in some countries to reduce emissions of some harmful chemicals. But they have not been used internationally.

The second is to add a pollution user fee on the use of global commons – the oceans, the atmosphere. This could be done by charging this fee on obvious emitters like shipping and air travel – whose pollutions costs are not fully captured and would be easy to collect. But their CO2 emissions of around 2 billion tonnes of CO2 per year are less than 5% of total CO2 emissions and would require a heavy fee of around $100 per tonne to collect $200 billion per year. A more fair and universal idea would be not to target a particular sector but to put a fee on accumulated CO2 emissions by each country – like a rent on parking space for CO2 provided by the atmosphere. A fee of $1 per ton of CO2 per year would raise close to $800 billion per year. Much of this money could be used in the country that pays the fee for addressing climate change and a fixed share could be passed onto the existing green climate fund or made available to a strengthened WBG to finance action on global actions needed to address climate change.

The third, which we already mentioned under the IMF resource section is to allow issuance of SDRs and use part of it to finance GPG’s. Global funding mechanisms have the connotation of supra-nationality, which rich country legislatures—especially in the U.S.—would oppose. One way around this might be to specify how these resources would be used upfront. Another would be to use them through MDBs where the controlling vote is based on contributions. To some extent the Global programs—GAVI, GFATM, CGIAR, and now the Green Climate Fund—have done that, but their financing remains much too dependent on national budgets and not on automatic revenue-raising mechanisms.

82 Sweden for example
83 The EU’s Carbon Border Tax Could Hurt Developing Countries by Miriam González Durántez & Calli Obern - Project Syndicate (project-syndicate.org)
IV Conclusions:

In a fractured world, some argue that agreement on a new Bretton Woods architecture will be exceedingly difficult. Quite possibly things will have to get a lot worse, before they can get better. The Bretton Woods that emerged after WWII was largely due to the dominant financial position of the USA and the retreat at least for a while of the Soviet Union and its satellite countries behind an Iron Curtain.  

Today we again see a fracturing world which appears to have no clear end in sight. But we must move forward with the hope that the costs and effects of the Russia-Ukraine war not only on the combatants but with wide-spread global consequences will shake everyone back to their senses. And the recent multilateral agreement at the 12th WTO MC makes us hope that further progress on more difficult issues is possible.

The alternatives are a return to a pre-World War II world with beggar-thy-neighbor policies and rising nationalism. If such a fate must be avoided a strong multilateral system is the only answer. Some argue that we need to start from scratch and think of completely new institutions. But such a grand restructuring will be exceedingly difficult, and it may be much easier to start with what we have today. As someone said if the BW institutions did not exist, we would have to invent them – so its better to reshape those that exist and make them fit for purpose. But just tinkering at the edges will not be enough.

This paper has laid out the case for a modernized and reshaped set of Bretton Woods institutions – a Bretton Woods 2.0 - to help address and mitigate these challenges, with three R’s - a revised global “Remit” and the mandate to monitor agreed global “Rules” and enhanced “Resources” not only to help individual countries but also to address global problems. Three key features of these proposals are:

First, at its center will sit three reshaped and revitalized global institutions - the IMF, WBG and the WTO. The IMF which will be tasked with macro-economic policy and financial stability. This will include much stricter and enhanced surveillance of the advanced economies and the spillover effects of their policies to better understand and hopefully predict global crisis and help less advanced economies. It is beginning to drift into areas of support – for poverty, gender and climate change which are better addressed by other agencies. A restructured WBG which will make sustainability and shared prosperity (to address rising inequality) its major goals and which will need to use its capital base to leverage in private capital more effectively. It must also be able to help with-in country but be better able to address global goods and bads working closely with others. It should be a wholesaler not a retailer of finance. For example, with the WHO on better coordinated pandemic response to give an example. Finally, we need a strengthened WTO which stands not just for genuinely fair trade with speedier processes for dispute resolution and flexibility and authority to respond to...
emergencies more expeditiously. Progress made at the 12th MC in Geneva on several issues opens the path towards progress on a strengthened WTO.

Second, the system also needs more automatic and rule-based agreed financing mechanisms. The current system of ex-post and discretionary response has delayed the ability to help and made it more politicized. In the paper we suggest some automatic financing mechanism – more regular calibrated SDR issue, global pollution taxes on air and shipping and even taxes on financial transactions. Once agreed these mechanisms can become less politicized, and less dependent on political changes and whims.

Third, a suitably structured G-20 may be able to provide such an over-arching guidance to the work of the BW system and its interactions with other institutions and agencies. After WWII, US dominance helped create the Bretton Woods system and subsequently the G-7 provided some overall guidance to it. But with the GFC, the G20 has assumed that role. Geo-political fractures now threaten that system. Nevertheless, some supra-political body is needed to set priorities and provide a framework under which this system will operate in addition to the governance structure of these institutions which include the International Monetary and Finance Committee (IMFC) for the IMF, the Development Committee (DC) mainly for the WBG and the Ministerial Conference at the WTO.

This is a very bold agenda and in today’s fractured world maybe a bridge too far. At a minimum under a Bretton Woods 1.5 a focus on resources and remit of the three institutions is necessary even if global rules may not be achievable. On resources even if automatic financing mechanisms maybe difficult to get agreement on especially through domestic legislative bodies the resources of the IMF and the World Bank must see a one-time increase. On remit, the IMF should refocus on its main functions – macro-economic policies and financial stability and help prepare a debt restructuring framework. It must work on understanding the macro-economic implications of climate change but leave financing to the WBG and other bodies. The WBG must be tasked to focus much more on sustainability and be able to use its instruments to leverage private financial flows to a much larger extent than it has so far. The WTO must push ahead on the success of it’s 12th MC to reform its Appellate Body and push ahead on other internal reforms.

The time to act on it has come. The GFC, the global pandemic, Russia-Ukraine war which risks becoming a larger conflict and the looming threat of climate change, where tipping points are being breached and rising natural disasters require a much-enhanced system of organized global cooperation and a reformed Bretton Woods system fit for the 21st century. Archimedes said it best: Give me a lever long enough and a fulcrum to move the world. The new Bretton Woods Institutions must become Archimedes’ lever to change the world into a more prosperous, inclusive, and sustainable planet.

Appendix 1: IMF’s Lending Instruments:

**Stand-By Arrangement (SBA):** the SBA is intended for emerging and advanced market economies to address short-term or potential balance of payments problems. It typically covers a period of 12-24 months, but no more than 36 months, and repayments are due within three-to-five years.

**Standby Credit Facility (SCF):** Similar in purpose to the SBA, this instrument is used to address short-term or potential balance of payments problems but intended for low-income countries under the PRGT. SCF has a repayment grace period of four years and a final maturity of eight years.
Extended Fund Facility (EFF): The EFF is designed for emerging and advanced market economies with longer-term balance of payments problems, where impediments to growth are considered structural. EFFs are typically approved for three years but may be extended. Repayments are due within four-to-five years.

Extended Credit Facility (ECF): The ECF is the equivalent to the EFF for low-income countries and falls under the PRGT. It is designed to address medium-to-long-term structural issues. ECFs are also provided initially for three years but may be extended up to five years and include a five-year grace period, with a maturity of ten years.

Rapid Financing Instrument (RFI): The RFI provides rapid financial assistance to countries with urgent balance of payments needs. RFIs can be used for a range of urgent needs, like natural disasters, conflicts, and commodity price shocks, and should be repaid within three and a quarter to five years.

Rapid Credit Facility (RCF): The RCF, as is the case with the RFI, is designed for rapid financial assistance during crises, but serves low-income countries under the PRGT, and carries a grace period of five years and final maturity of ten years. In response to Covid-19, the IMF doubled how much countries can borrow under the RCF and RFI.

Flexible Credit Line (FCL): The FCL is designed for countries that the IMF deems to have strong policy frameworks and track records in economic performance that are in an immediate cash crunch – but want to avoid the stigma and adverse market reaction associated with regular IMF programs with conditionality. The FCL therefore does not involve ongoing conditions and functions as a one-to-two-year renewable credit line. Five countries have used the FCL so far (Chile, Colombia, Mexico, Peru, and Poland). Repayment is required over a three-to-five-year period.

Precautionary and Liquidity Line (PLL): The PLL is designed to meet the liquidity needs of countries with economic frameworks that the IMF deems sound, but with remaining problems that preclude them from using the FCL. Only the Republic of North Macedonia and Morocco have used the PLL so far.

Catastrophe Containment and Relief Trust (CCRT): The CCRT is different from the instruments above because it allows the IMF to provide grants, rather than loans, to the poorest countries in the form of debt relief. It was designed in 2015 during the Ebola outbreak to provide relief during catastrophic natural or public health disasters and free up resources to meet exceptional balance of payments needs. In 2020, its eligibility criteria were relaxed in response to Covid-19 and the instrument was initially approved for 25 eligible countries.

Policy Support Instrument (PSI): Finally, the IMF offers a facility to low-income countries under the PRGT that involves no financing whatsoever. The PSI was designed to give low-income countries a ‘tool’ that enables them to secure IMF advice without financial assistance, with the intention of signaling confidence to donors, creditors, and the public that they are supported by the IMF. PSIs last between one and five years and cannot be used in conjunction with an ECF.

Resilience and Sustainability Trust (RST): The RST will complement the IMF’s existing lending toolkit by focusing on longer-term structural challenges—including climate change and pandemic preparedness—that entail significant macroeconomic risks and where policy solutions have a strong global public good nature. Access will be based on the countries’ reforms strength and debt sustainability considerations and capped at the lower of 150 percent of quota or SDR 1 billion. The loans will have a 20-year maturity and a 10½-year grace period, with borrowers paying an interest rate with a modest margin over the three-month SDR rate, with the most concessional financing terms provided to the poorest countries.

Enhanced Structural Adjustment Facility (ESAF): was provided for support to structural adjustment programs – mostly in Africa but was abolished after considerable criticism of its outcomes – especially lowered growth and higher poverty due to its tough conditionality. 87 It was replaced by the PRGF – Poverty reduction and Growth Facility.

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87 See External Evaluation of the ESAF: Report by a Group of Independent Experts, IMF, 1998, where many of these criticisms are noted; and The ESAF at Ten Years: Economic Adjustment and Reform in Low-Income Countries, by staff of the IMF, Washington DC, 1997 (the internal review). Both documents can be found at www.imf.org