What are the main criticisms of the World Bank and IMF?

Inside the Institutions

There is no question that the IMF and World Bank continue to be amongst the most relevant and significant powerful norm-setters, convenors, knowledge-holders and influencers of the international development and financial landscape. This *Inside the Institutions* sets-out some of the most common criticisms of the World Bank and IMF under three broad lenses: democratic governance, human rights and the environment.

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1. Historical context of IMF and World Bank critiques

Founded in 1944, the World Bank Group (WBG, or Bank) and the International Monetary Fund (IMF, or Fund) are twin intergovernmental institutions that are influential in shaping the structure of the world's development and financial order. Also known as the Bretton Woods Institutions (BWIs), they were initially created with the intention of rebuilding the international economic system following World War II (WWII). The key decisions leading to the establishment of both institutions were largely steered by the US, and to a lesser extent the UK, and during the post-war period the BWIs were significantly influenced by the US's geopolitical strength. Their mandates, focus and programmes have evolved greatly over time, as seen, for example, by the shift of their pivotal role as designers of the fixed exchange rate regime created by the Bretton Woods System, to their active promotion of a fluctuating exchange rate system after its collapse in 1973. Their functions are detailed in the World Bank's and IMF's respective Articles of Agreement (see also BWP, *What are the Bretton Woods Institutions?*)

While the establishment of the Bank and Fund was presented as an apolitical effort to rebuild the world economy in the aftermath of WWII, some interpretations also view them as an effort to defend or expand the reach of western capitalism in the face of a potential challenge from the Soviet Union, and to promote US interests in particular. Under President Robert McNamara (1968-1981), the World Bank's mission began to shift, as it developed a focus on income inequality and poverty for the first time.

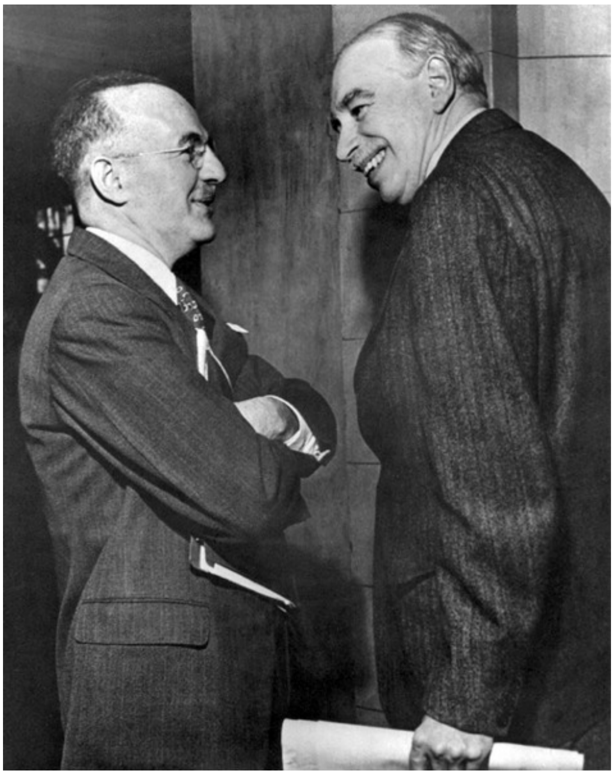

Photo: John Maynard Keynes and Harry Dexter White at the inaugural meeting of the IMF's Board of Governors in Savannah, Georgia, U.S., March 8, 1946

In the 1980s and 1990s, the policies championed by the BWIs were inspired in principle by the so-called 'Washington Consensus', which focused ideologically on promoting free-market economic policies such as deregulation, privatisation and trade liberalisation, as well as targeting unlimited economic growth, and were implemented primarily through Structural Adjustment Programmes (SAPs). As many authors have argued – including, for example, by demonstrating the links between the decimation of African health systems by SAPS and the response to the 2014 Ebola crisis (see *Observer* Winter 2015) – the devastating impacts of SAPs have been enduring and persist to this day.

While the BWIs have historically been seen as an instrument of United States and other Western countries' political and economic power, their role and relevance has been continually debated. This debate has regained momentum in the decade since the 2008 global financial crisis, where the rise of China, often presented as the coming of a more multipolar world, is seen by some as a challenge to the perceived hegemony of the BWIs. However, others have noted that this analytical framework is flawed, as the private interests promoted by the Bank and Fund cannot always be understood in this light and there is a high degree of cooperation between the Bank and Fund and other multilateral institutions, including those established by China and other developing countries.

The more frequent financial crises since the 1970s – and the 2008 crisis in particular – have had an impact on the work of the Fund, which has been forced to move beyond essentially national interventions to a greater focus on the global economy, and from scanning the horizon for potential crises to dealing with them in order to avoid regional or global contagion. The role of the Bank has also changed dramatically, from an initial focus on infrastructure lending in its incarnation as the poster child for the Washington Consensus and Post-Washington Consensus, to the "Knowledge Bank" where it tried to position itself as the repository of 'development expertise'.

Today, the work of the Bank is currently framed by its twin goals, established in 2013: "eliminating extreme poverty by 2030 and boosting shared prosperity." These are primarily targeted in principle through: direct lending for development projects; direct budget support to governments (also known as Development Policy Financing [DPF]); financial support to the private sector, including financial intermediaries (FI); and via guarantees for large-scale development. The current stated aims of the Fund are promoting international fiscal and monetary cooperation, securing international financial stability, facilitating international trade, and promoting high employment and sustainable economic growth. It aims to do so by providing loan programmes to states with balance of payments problems, as well as policy advice through either technical assistance or bilateral and multilateral macroeconomic surveillance.

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2. Democratic governance

2.1 Structural under-representation of the Global South

One of the central criticisms of the World Bank and IMF relates to the political power imbalances in their governance structures where, as a result of voting shares being based principally on the size and 'openness' of countries' economies, poorer countries – often those receiving loans from the BWIs – are structurally under-represented in decision-making processes.

Despite the 2016 voting reforms at the Fund, which shifted voting powers somewhat (to the particular advantage of China), the distribution of voting power remains severely imbalanced in favour of the US, European countries and Japan, in particular. Importantly, the *US* still *has veto* power over an array of major decisions (see *Observer* Winter 2018). In the case of the World Bank, in addition to calls for greater representation of low-income countries on the Executive Board, civil society organisations (CSOs) have historically demanded reforms of decision-making through the introduction of double-majority voting, where an agreement would require both shareholder and member state majorities, thus giving developing countries a larger role in these processes.

The under-representation of low- and middle-income countries on the BWIs' Executive Boards is exacerbated by the historic 'gentleman's agreement' between the United States and European countries, which has seen the Fund and Bank led by a European and US national, respectively, since their inception. Civil society has long called for this opaque system to be replaced with a merit-based, transparent process. However, the April 2019 appointment of World Bank President David Malpass – a US national who ran unopposed for the Bank's top job – demonstrated that the gentleman's agreement remains alive and well despite civil society opposition (see *Observer* Spring 2019).

2.2 Undermining democratic ownership

The issue of political power imbalances is exacerbated by another long-standing critique of the Bank and Fund: that the economic policy conditions they promote – often attached or 'recommended' as part of loans, projects, technical assistance, or financial surveillance – undermine the sovereignty of borrower nations, limiting their ability to make policy decisions and eroding their ownership of national development strategies. This is particularly the case for the IMF as 'a lender of last resort' for governments experiencing balance of payment problems.

While historically the IMF and Bank enforced conditionality primarily through SAPs, today, the IMF requires a 'letter of intent' from governments requesting a loan. To be approved by the IMF for a loan, the letter requires prior actions, quantitative performance criteria and structural benchmarks – the latter of which continues to contain structural macroeconomic policy reforms. Despite efforts to 'streamline' the number of conditions in the face of severe criticism, the IMF's *2018 Review of Program Design and Conditionality* found that the number of structural conditions is on the rise. Once again, this raises concerns about the restriction of policy space for developing countries. For the World Bank, conditionality is now most directly issued through its DPF, where loans and grants for development projects are provided to countries which adopt the required 'prior actions' to receive this fungible finance. In 2017, the Bank issued 434 prior actions, according to research by Belgium-based CSO Eurodad.

In addition to the formal conditions introduced through lending programmes, both institutions play a more nuanced role in restricting policy space through their research, publications, policy advice and training. Particularly for low-income countries that find it difficult to attract capital at affordable rates, IMF and Bank pronouncements on domestic policies can lead to important reactions by 'the market' (including potential lenders or investors), therefore potentially limiting (or increasing) countries' financing options. The Bank and Fund's bias towards fiscal consolidation, the private sector and debt servicing also restricts public policy space and the ability of governments to finance infrastructure and social services (see the 'Human Rights' section below). The Bank and Fund have established substantial normative power through their research, publications, pronouncements and support of 'independent' academic work. Their ability to position their policy prescriptions as 'best practice', supported by 'robust' theoretical and empirical work, oftentimes results in the internalisation of Bank and Fund positions by scholars, development practitioners and finance ministers.

2.3 Biased and inconsistent decision-making

The Bank and Fund have also been heavily criticised for the role played by the political expediency of important shareholders in its decision-making and choice of interventions, including its support to dictatorships. The IMF's decision to break its own rules and support the highly controversial Greek loan programme, agreed in 2010, prompted Brazil's Executive Director to the IMF to protest that, "… the program … may be seen not as a rescue of Greece, which will have to undergo a wrenching adjustment, but as a bail-out of Greece's private debt holders, mainly European financial institutions."

In general, the transition from the Washington Consensus, underpinned by the trust in the efficiency of markets and consequently a drastically reduced role for the state, to its 'more progressive' post-Washington Consensus successor – which acknowledges market failures and re-inserts the state's relevance, is often presented as a significant change in Bank and IMF thinking and their principles. However, the Bank's emphasis on using public resources to leverage (subsidise) private investment through its Maximising Finance for Development (MFD) approach demonstrates the state's role has merely been reframed essentially to 'create an enabling' environment to allow the private sector to pursue its objectives.

2.4 Weak ability to learn from past mistakes

The IMF's Independent Evaluation Office (IEO) was set up in 2001 to conduct evaluations of the policies and functionalities of the institution with the aim of enhancing the learning culture, strengthening credibility, and supporting institutional governance and oversight. On the World Bank side, the Independent Evaluation Group (IEG) was created in 2006, integrating several individual accountability mechanisms, and is charged with evaluating the activities of the entire World Bank Group and determining what works, what doesn't and why.

However, the Bank and Fund have been criticised for failing to implement the recommendations of the IEG and IEO, respectively. In the case of the Bank, this reflects larger criticisms of staff incentives being misaligned with its twin goals, and the Bank having an insular, self-referential approach to knowledge production, which – according to the landmark Deaton Report published in 2006 – sometimes borders on 'parody' (see *Observer* Summer 2018). Meanwhile, a third independent evaluation of the IEO itself, published in 2018, found that the IEO's recommendations continue to "lack traction" within the Fund (see *Observer* Autumn 2018). This echoes the findings of previous evaluations of the IEO, amidst accusations of 'groupthink' at the IMF, which the IEO deemed partially the cause of the Fund not foreseeing the 2008 global financial crisis, arguably its most important job and clearest recent failure (see *Update* Issue 74).

2.5 Effective impunity for harms caused

In the 1980s, the Bank was beset by a string of controversies related to environmental and social impacts of Bank-financed projects (see Human Rights and Environment section below), with the Sardar Sarovar dam project in India – which sparked a global opposition campaign – leading to the establishment of the Bank's Inspection Panel (its independent accountability mechanism [IAM]) in 1993 (see *Observer* Autumn 2017). A separate IAM for the International Finance Corporation (IFC) – the private sector arm of the World Bank – the Compliance Advisor Ombudsman (CAO), was created in 1999. These accountability mechanisms were set up to hear complaints of people and communities affected by Bank and IFC-funded projects, and to foster redress where relevant. While the Bank's IAMs are generally considered to be 'best of class' among IFIs, their mandates are limited, their remedy mechanisms for those negatively impacted by Bank projects continue to lack, and management responses to their findings are often inadequate.

Relatedly, a 2019 US Supreme Court decision found in favour of Indian fisherfolk, and against the IFC, rejecting its claim to 'absolute immunity' from prosecution in US courts; the plaintiffs took the IFC to court in the US after failing to receive adequate compensation following a CAO investigation ruling that IFC's investment in the Tata Mundra power plant in India had resulted in substantial damage to their livelihoods. Despite the Supreme Court decision, the vast proportion of the Bank's lending and other programme portfolios remain immune from legal action, as does the IMF.

Finally, critics also argue that the opaque nature of investments in FI (i.e. commercial banks and asset funds) by the IFC – which constitutes a growing part of its portfolio – and its inability to screen and monitor FI sub-projects adequately, undermines accountability. The lack of public disclosure of FI investments makes it difficult for communities and civil society to bring cases to the CAO and hold the IFC accountable for its actions (see *Observer* Winter 2017).

3. Human rights

A second stream of longstanding critiques has focused on the content of the policies, programmes and projects that the BWIs promote and enforce and how they have undermined a broad spectrum of human rights, with the Bank even being labelled a "human rights-free zone" in 2015 by the UN Special Rapporteur on extreme poverty and human rights.

3.1 Restricting the macroeconomic environment for human rights

At the macroeconomic level, following on from the original Washington Consensus, the Bank and IMF continue to push a particular set of macroeconomic policy prescriptions across almost all their member countries. Most typically, these are fiscal consolidation measures (or austerity), and include reducing the public wage bill, introducing or increasing VAT and other indirect regressive taxes in particular, labour flexibilisation, rationalising (cutting) and privatising social services, and targeting social protections and subsidies, while maintaining low levels of inflation, corporate taxation rates and trade tariffs.

Photo: Danger: Violations Ahead. International Accountability Project

In particular, in the aftermath of the 2008 financial crisis, this 'pro-cyclical' approach was criticised for leading to a decline in economic activity, leading to lower consumption, lower public revenues, lower investment in vital public services, and higher levels of inequality, which in turn also lowers growth. Critics have also repeatedly pointed out this approach does not address the root causes of the government's balance of payments distress (see *Observer* Winter 2017-18). While the IMF has softened its position on some important issues, such as the recognition that capital controls may be necessary in certain (limited) circumstances, and the increased acknowledgement of the potential benefits of anti-cyclical policies (also in very limited circumstances), the general direction of travel remains largely unchanged.

Labour unions, for instance, have long opposed the BWIs' systematic weakening of labour rights either directly through conditionality or indirectly through policy advice in flagship reports and surveillance, such as the IMF's 2017 loan programme to Greece (see *Observer* Autumn 2017), or the World Bank's 2018 *World Development Report* (see *Observer* Winter 2018), respectively. Other economic and social rights, such as the right to social security, health and education, as well as the broader right to an adequate standard of living, including adequate food, clothing and housing, are all undermined by the BWIs' promotion of excessively constrained fiscal policies and aggressive privatisation that preclude states from delivering core public services and meeting their international human rights obligations.

A related and intersectional thread of human rights critiques focuses on how these policies supported, proposed or required by the BWIs are designed unevenly in favour of those already at the top of the economy and society, further exacerbating inequalities within and between countries and disproportionately harming the marginalised, who already are most vulnerable to human rights violations. Groups that are often disproportionately and cumulatively disadvantaged by the types of macroeconomic policies the BWIs promote include the poor, women, immigrants, the elderly, children and youth, ethnic and religious minorities, people with disabilities, and LGBTQI communities.

3.2 Causing major harms through development projects

World Bank-funded projects have also continually been found to be in direct, serious violation of international human rights standards. Major recurring issues include mass evictions and the forced displacement of peoples and communities for major infrastructure and agricultural projects (see *Observer* Spring 2015), violations of the rights of indigenous and forest peoples, targeting of human rights defenders, triggering local food insecurity, and serious labour rights violations, such as child and forced labour reportedly being used in Bank-funded projects (see *Observer* Winter 2016). The IFC has also been shown on several occasions to have invested in companies that avoid or evade taxes (see *Observer* Autumn 2016). More recently, the Bank has also acknowledged that its projects can create an environment that can foster gender-based violence, including sexual abuse and the spread of HIV/AIDS (see *Observer* Spring 2017).

To safeguard against risks like these, the World Bank launched its revised Environmental and Social Framework in 2018, although it applies only to its project lending and not to its DPF. Many in civil society remain unconvinced that the safeguards are fit for purpose if the Bank is to deliver on its mandate to implement policies that benefit the poorest, especially as the Bank is set to focus on more complex and difficult environments from 2018.

3.3 Lacking evidence for positive impacts…

While maintaining they have no obligations under international human rights law, despite objections of myriad human rights experts and the opinion of one of the Bank's former General Counsels, both the Bank and Fund claim their work to eradicate poverty and increase economic growth and stability ultimately contributes to global welfare and the fulfilment of human rights, without clear evidence. First, this 'win-win' scenario has been the subject of countless critiques pointing to obvious trade-offs and conflicts between 'pro-growth' and 'pro-equity' policies, including in a paper by the IMF's own research department in 2014.

Second, according to data on poverty rates, the vast majority of the poverty eradication achieved during the last 40 years is actually largely attributed to China, which has certainly not followed the policy prescriptions of the BWIs (see *Observer* Winter 2017-2018), while the IMF's 2018 conditionality review found several IMF programmes where "debt overshot projections by significant margins, reflecting disappointing growth and higher fiscal deficits", with lower programme completion rates. Additionally, the pace of poverty reduction is reportedly slowing, while the number of people living in extreme poverty in Africa is increasing, and even the way the Bank measures poverty levels remains highly disputed. These and other critiques call into question the efficacy of the BWIs' policy prescriptions more generally and their theoretical ability to effectively contribute to the fulfilment of human rights in the first place.

3.4 …while not measuring harmful impacts

At the same time, repeated calls to measure the *harmful* impacts Bank and Fund policies have on the enjoyment of human rights, including systematic and comprehensive gender and inequality impact assessments, as well as including human rights considerations in the BWIs' Debt Sustainability Assessments, whether at the macroeconomic policy or project level, remain unanswered (see *Observer* Spring 2019).

4. Environment

Finally, the BWIs' approach to development and economic policy, as well as their financing decisions, have generated long-standing and ever-more pressing criticisms related to the protection of the environment and staving off climate change.

4.1 Growth-based model unsustainable

In general, the growth-based approach to poverty reduction that the World Bank and IMF both promote has immense environmental consequences, as is evidenced by the deepening climate crisis. As noted by former World Bank Chief Economist Sir Nicholas Stern in 2007, "Climate change is a result of the greatest market failure the world has seen." Since their inception, the BWIs have played a formative role in aiding and abetting the global forces that have caused this market failure, through promoting economic growth as the core component of their development model, despite – as noted in the aforementioned Deaton report – mixed evidence that economic growth and poverty reduction are linked. While the Bank, and to a lesser extent, the Fund, have both increasingly tried to account for environmental and climate factors in their work over recent decades, these efforts have largely been limited to attempting to integrate these concerns into a growth-based development model.

4.2 Continued fossil fuel investments

In terms of its direct lending, the Bank's investments in fossil fuels have been criticised for undermining climate goals – with the Bank continuing to fund a considerable number of fossil fuel projects in the years after the Paris Climate Agreement was signed in 2015, which saw countries jointly commit to limit average global temperature rise to "well below 2°C" relative to preindustrial levels. Despite the Bank's recent climate commitments (see *Observer* Spring 2018), CSOs remain concerned that the Bank lacks a comprehensive approach to align its entire lending portfolio with the Paris Agreement. In addition to project finance for oil and gas infrastructure, there are other remaining types of Bank investments that are a cause for concern. The IFC now invests nearly 50 per cent of its portfolio in FI, and a lack of sub-project disclosure in these investments makes it difficult to assess the exposure of these investments to fossil fuels, including coal (see *Governance* above). However, CSO research has linked IFC FI investments to the construction of 19 new coal-fired power plants in the Philippines, while another report found IFC FI investments linked to 41 new coal plants between 2013 and 2016. While the IFC announced a new Green Equity Strategy in October 2018 that will require new FI clients to divest from coal over time, this policy will not affect past FI investments (see *Observer* Winter 2018).

CSOs are also concerned that the World Bank has thus far not developed a framework to assess the climate impacts of its Development Policy Finance. CSO research has found that in some cases, these contain 'prior actions' that benefit the fossil fuel and extractive industries. Finally, the Bank's Multilateral Investment Guarantee Agency (MIGA) has in recent years provided a number of guarantees that have backed fossil-fuel projects. According to CSO research, in FY16, MIGA did not support a single renewable energy project: "[its] guarantees to energy were worth $1.9 billion … of which $0.9 billion went to fossil fuel projects", with the rest going to projects such as hydropower dams, often with detrimental environmental and human rights impacts.

4.3 Focus on mega-projects

Photo: A woman washes dishes at Kutadi Bandar, a seasonal fishing community located next to the Tata Mundra Ultra Mega Power Project. 2014. Photo: Sami Siva / ICIJ

The Bank's shift towards leveraging private sector finance for development (see *Governance* above), which has gained momentum since 2015, includes a particular emphasis on promoting 'infrastructure as an asset class', in order to crowd in institutional investors. This policy initiative is highly dependent on mega-infrastructure projects – and, as noted by a letter sent by concerned economists in October 2018, currently lacks a framework for aligning such mega-projects with the Paris Climate Agreement or the Sustainable Development Goals (SDGs). This is of major concern, given that many planned 'mega-corridors' in developing regions are predicated on building a new generation of carbon-intensive infrastructure. In many cases, the Bank continues to support such projects that, while not 'fossil fuel investments' per se, are part of such carbon-intensive mega-corridors (see *Observer* Autumn 2018).

4.4 Forests

Finally, the Bank's forest policy and weak safeguards on forest protection have also been observed to infringe the rights of local communities and have failed to protect one of the planet's most important 'carbon sinks' (see *Observer* Spring 2017). CSOs have called for the Bank to open up its Forest Notes – which are meant to guide the interface between its lending and forests – to consultation (see *Observer* Winter 2017-2018). CSOs have also been highly critical of one of the forest initiatives the Bank manages, the Forest Carbon Partnership Facility (FCPF), a climate investment fund that supports Reducing Emissions from Deforestation and Forest Degradation (REDD) projects. A March 2017 post in REDD Monitor called the FCPF, "the most cost-inefficient tree-saving scheme ever," owing to high administrative costs between fiscal years 2009-2015 absorbing 64 per cent of FCFP's $55 million expenditure. More generally, the Bank's overall approach to lending has undermined the protection of vital natural ecosystems in borrower countries. As noted by Bruce Rich in his influential 2013 book, *Foreclosing the Future: The World Bank and the Politics of Environmental Destruction*, "When one examines the failures to conserve ecosystems, or to mitigate environmental impacts of development, one finds that failed governance at all levels is almost invariably at the root. …Many of [the Bank's] problems are associated with a dysfunctional institutional culture in which the relentless pressure to move money out the door, even in violation of the Bank's own policies and rules, often overrides all other considerations."

5. Conclusion

Seventy-five years on the Bretton Woods Conference, and despite the Bank and Fund's efforts to portray themselves as beacons of knowledge and expertise on development and macroeconomic issues, both institutions have been and continue to be the subject of robust academic, UN and civil society criticism. Indeed, both have faced and continue to face resistance and mobilisations from civil society and social movements, from the global 1994 "50 years is enough" campaign to the 2018 Peoples Global Conference Against IMF-World Bank.

An extensive academic literature, with which the Bank and Fund rarely engage, challenges the robustness of the theoretical and evidence bases for Bank and Fund's principles and policies. Volumes of documents testify to the experiences of millions of people negatively impacted by Bank and Fund policies and programmes. Together they suggest that Bank and Fund's policies have failed to achieve their stated objectives and instead support an economic order that benefits elites and private sector interests at the expense of poor and marginalised communities.

As the Bank and Fund – and others – now face a challenge from 'populists' and far-right groups about the continued relevance of multilateralism amidst a changing global order, the BWIs continue to deny their role in creating the social, political and economic conditions that have led to the frustration and disenfranchisement that brought us here.

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The Bretton Woods Project is an ActionAid-hosted project, UK registered charity no. 274467, England and Wales charity no. 274467, Scottish charity no. SC045476. This publication is supported by a network of UK NGOs, the C.S. Mott Foundation, the William and Flora Hewlett Foundation and the Rockefeller Brothers Fund.

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This publication has been produced with financial assistance of the European Union (EU). The contents of this publication are the sole responsibility of the Project and can in no way be taken to reflect the views of the EU.

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