Aggiornamento or planned (destructive) obsolescence? The Bretton Woods Institutions at crossroads By Ndongo Samba Sylla

The world is going through a set of overlapping crises on top of a climate crisis that is hitting those who did not cause it hardest. Nearly 80 years after their birth, it is clear that the World Bank and the IMF have disappointed: They have failed to bring about significant qualitative change in the world's poorest countries, nor have they protected the global economic and financial system from recurring crises. In October 2023 and for the first time in 50 years, the World Bank and IMF Annual Meetings are taking place in the African continent, a region that undoubtedly has suffered a lot from BWIs policies.

This article introduces the role of the IMF and World Bank in the global economy, with a focus on the MENA region and Sub Saharan Africa, from their inception after World War II to their failed neoliberal model, the climate crisis and the way forward.

The Covid-19 pandemic and the developments triggered by the Russian invasion of Ukraine have highlighted a set of multifaceted and overlapping crises. The initial health crisis has been compounded by a global economic crisis (rising cost of living, worsening working conditions, debt crises across the Global South, etc.) against the backdrop of a climate crisis that is having dangerous impacts on countries with limited resources that cannot be held responsible for what is happening to them.

Finding solutions to these global problems requires a multilateral framework for coordination and action. The Bretton Woods Institutions (BWIs) – the International Monetary Fund (IMF) and the World Bank – in particular, were created in this spirit at the end of the Second World War. At the time, their purpose was to work towards the orderly reconstruction of a global economy devastated by war. Nearly 80 years after their birth, it is clear that these institutions of global governance have disappointed. Their policies have failed to bring about significant qualitative change in the world's poorest countries, nor have they protected the global economic and financial system from recurring crises.

Africa, a region that undoubtedly suffered a lot from BWIs policies, will have the opportunity to host the joint World Bank and IMF Annual Meetings from October 9 to 15, 2023, in Marrakech, Morocco. The choice of the African continent for this year's edition has a symbolic dimension that will not be missed by some. Indeed, the last and only time these Meetings were held on the continent was in 1973, in Nairobi, Kenya. Exactly fifty years ago. To move in the direction indicated by this year's theme – "Global Action, Global Impact" – it is certainly important to diagnose what went wrong and to suggest avenues for reform.

Hegemonic politics rather than democracy

The "original sin" of the BWIs is that, from the outset, they were conceived not as democratic multilateral platforms with a mandate to deliver a global public good but rather, *de facto*, as instruments at the service of the hegemony and interests of the "victorious nations", the USA above all. Eugene Black, a former President of the World Bank, wrote in 1965 that the purpose of foreign aid is to create markets for American goods and services, investment opportunities for American companies and to foster the emergence of a global system of free enterprise beneficial to the latter.[1]

Since the beginning, a "historic pact" made the management of the World Bank and the IMF a Euro-American affair: The President of the World Bank would be an American, while the Vice-President an European; vice-versa for the IMF. Although they have been revised, the quotas and voting rights of the member countries of these two institutions still enshrine the implicit veto power of the United States as well as the countries of the European Union taken together. They reflect neither the demographic weight of the member countries, nor the evolution of their respective economic weight over the last eight decades. The same could be said of the IMF's Special Drawing Rights (SDRs).[2] Since its creation in 1969, this international reserve asset has been allocated among its members based on hegemonic considerations. The unfortunate consequence of this situation could be seen with the last SDRs issuance, which took place in the midst of the Covid-19 pandemic. The low-income countries that needed them most received a very low share (9 out of $650 billion), while the rich countries, which do not need them because of their greater degree of monetary sovereignty, received the bulk of it.[3] With its 5 per cent quota, the African continent, home of nearly 1.5 billion people, received less new SDRs than Germany with its 83 million population.[4] As rich countries do not really know what to do with their SDRs, they try to recycle them in the countries of the South for the benefit of their companies.[5]

The devastating neoliberal bias

In addition to the glaring democratic deficit in the internal governance of these institutions and the often politically biased use of their instruments – as witnessed with the scandal surrounding the *Doing Business* ranking[6] – there is the more worrying question of their adherence to neoliberal dogmas. Here are institutions with sprawling research capacities, they churn out impressive quantities of economic information, enjoy a relative monopoly in the production of global economic data and yet persist in recommending policies that are often counterproductive and, at times, in contradiction with the work they themselves have published. Economist Peter Doyle has denounced the "macroeconomic malpractice" of the IMF,[7] from which he resigned in 2012 after observing how his former employer shockingly dealt with the Eurozone crisis.[8]

Such a bias explains why the policies favored by the Bank and Fund, revolving around financial and trade liberalisation, privatisation and macroeconomic stabilisation, in most cases add to the evil they are supposed to cure. It is thus easy to see why the countries of the South that have managed to come out on top are those that have not followed their precepts, such as China and a number of countries in Southeast Asia. The implementation of structural adjustment programmes in Latin America and Africa between 1980 and 2000 often led to "lost decades", impoverished populations, deindustrialisation and the privatisation of their strategic sectors to the benefit of private capital from Northern countries. As a result, these countries benefited little from the boom in primary products between the mid-2000s and the mid-2010s. Their higher economic growth rates went hand in hand with an increase in profit and dividend transfers, illicit financial flows and the stock of foreign currency denominated debt.[9] Alternative policies focusing on structural transformation and the mobilisation of domestic resources would certainly have produced different results, had they been encouraged by the International Financial Institutions (IFIs).

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City residents drawing water from an old well competitively due to scarcity blamed on climate change and World Bank project failure in Ibadan, Oyo/Nigeria, 27th April 2019.

When the Covid-19 pandemic, a black swan-type event, put the brakes on this pattern of accumulation, driven first by the boom in primary products and then by sovereign indebtedness to private bondholders and new bilateral creditors such as China – all against a backdrop of unconventional monetary policies in the countries of the North – the response of the BWIs was woefully inadequate. In exchange for its assistance, the IMF imposed austerity policies on governments that needed to spend more to cope with the health and economic consequences of the pandemic.[10] Faced with the imperative task of restructuring sovereign debts that had become unpayable, in a context made all the more complicated by the changing composition of the creditors to Global South countries, the G20 initiatives under the responsibility of the IMF and the World Bank, such as the Debt Service Suspension Initiative and the Common Framework, had mixed results at best. In exchange for IMF's support, countries such as Zambia and Ghana – who each defaulted on their external debt service – and Chad, have been imposed extremely punitive spending cuts. For example, according to IMF projections, Chad is supposed to achieve primary surpluses (budget surpluses before interest payments) of the order of 5-8 per cent of GDP between now and 2028.[11] This socially regressive pattern of "adjustment" is probably the best way to cement further the least-developed country status of a nation diverting its few resources to face jihadist threat. In most parts of the continent, government budget cuts recommended by the IMF – especially regarding food and energy subsidies – are economically nonsensical and socially disruptive. In such circumstances, one might wonder whether IMF works for global stability or whether its mandate is to promote social uprisings in top of the privatisation of public assets, as can be observed in Egypt.[12]

A risky and dangerous gamble: Positing global private finance as climate savior

Given the IFIs' unflattering record in promoting economic development worldwide and the stability of the global financial system, sustained success on the climate front seems doubtful. While the World Bank has gradually positioned itself as the world's largest provider of climate finance to developing countries,[13] its approach is widely criticised. It continues to support fossil fuel projects[14] and tends to exaggerate[15] the amount of its climate financing.[16] Apparently, a significant proportion of the latter is channeled to projects that have nothing to do with the climate or whose climate impact is unclear.[17]

More disquieting than greenwashing is the gamble to make global private finance the main actor in charge of solving the climate crisis and facilitating the energy transition. As part of the Maximizing Finance for Development agenda, the World Bank has set itself the role of escorting global private finance into "investible" projects, i.e. those that meet the risk-return profiles desirable from the point of view of institutional investors such as asset management companies,

pension funds, insurance companies, etc. This development paradigm, which Professor Daniela Gabor has dubbed the "Wall Street Consensus", requires governments to adapt their macro-financial and regulatory frameworks to the investibility requirements of global private finance, by protecting them from contractual, political, currency and demand risks.[18] While promoting an active derisking state at the service of global private finance, the Wall Street Consensus paradoxically locks it into a fiscally and monetarily conservative macro-financial framework. If we take the case of public-private partnerships in energy projects encouraged by the World Bank, experience shows that this type of approach entails significant budgetary risks[19] – sometimes highlighted by the IMF[20] – and does not necessarily deliver better results than projects financed and implemented by governments themselves. Ominously, in partnership with the World Bank and other development finance institutions, Morocco, the host of the 2023 Annual Meetings, and its other North African neighbours have become privileged grounds for "green (land) grabbing", "green extractivism", "energy colonialism", etc.[21]

The way forward

At a time when the emerging global powers that make up the BRICS intend to propose a multipolar economic and financial order,[22] the BWIs have an obligation to make their *aggiornamento*. In addition to the need for more democratic internal governance, they must: i) break out of their neoliberal dogmatism when it comes to formulating economic policies; ii) adapt their instruments with a view to preventing sovereign debt crises, facilitating the restructuring of the debts of governments that have become insolvent, and supporting the structural transformation efforts of its members; and iii) promote a macro-financial framework that enables climate objectives to be achieved in a way that takes into account the unequal responsibilities of its members and their differing needs. Without these changes, the BWIs risk becoming irrelevant, or even worse falling into a potentially destructive obsolescence. More than ever, the ball is in the court of the G7 countries, in particular the United States and Europe. It is up to them to realise that the "Bretton Woods" paradigm has outlived its usefulness and is no longer in phase with contemporary requirements.

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