The lost call for international financial architecture reform in the G20

At Issue

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On the 50th anniversary of the UN General Assembly Resolution on the establishment of the New International Economic Order and amid escalating global crises and threats to the multilateral order, civil society must galvanise to pressure the G20 to support substantive reform to the international financial architecture at the Fourth Financing for Development Conference in 2025.

The International Monetary Fund (IMF) and World Bank – the Bretton Woods Institutions (BWIs) – celebrated their 80th anniversary in July. In 1944, still in the midst of WWII and during a period of empire and colonies, economists and government representatives met in Bretton Woods, New Hampshire, to create the institutions that would establish an international financial architecture for the post-war era. The standard narrative is that they were founded and originally funded by 43 countries with an agreement to "pursue global economic stability, growth and inflation control." To achieve these goals, the IMF became the global monetary policy supervisor, the world's central bank and lender of last resort to sovereign states with problems in their balance of payments.

The post-colonial struggles were costly for the Global South, creating a large geopolitical asymmetry intermediated by the BWIs. The developed countries, their main funders, were formally established as the rule-setting States based on their voting power at both institutions, biasing the decision-making process toward their perspectives (see Inside the Institutions, *IMF and World Bank decision-making and governance*). The eventual result was the establishment of the neoliberal Washington Consensus (which *inter alia* promoted deregulation, privatisation and trade liberalisation), that has endured for almost four decades, chiefly benefiting large transnational outfits, and producing several financial crises, the opposite of the stability the Fund is mandated to safeguard by its Articles of Agreement.

The rise of the G20 in global economic agenda setting

In 1999, as a response to the 1997 Asian financial crisis, the Ministers of Finance of the world's 19 largest economies and the European Union met for the first time in Berlin, Germany, to "respond to the G7 Finance Ministers' Report to Heads of States on Strengthening the International Financial Architecture." In fact, it was a call from Canada and Germany in recognition of the expanding importance of emerging economies to global economic stability. According to official documents, reforming the international financial architecture (IFA) has been discussed since the second year of G20 finance ministers' meetings in 2000. In 2008, the group was elevated to heads of state level by the US presidency, upgrading it from meeting to summit in response to the the financial crisis catalysed by sub-prime mortgages. Since then, a few progressive proposals

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have been discussed, including establishing an international levy on financial transactions during France's presidency in 2011 and Japan's in 2019, but twice this met resistance from IMF and US Treasury economists.

Most G20 governments recognise the need for IFA reform, but there is an overpowering domination of developed countries at the boards of the BWIs that blocks fundamental changes. A large barrier to change is the hegemonic hold of orthodox perspectives in economics, which narrows the range of actionable solutions the BWIs can provide to the countries they engage with, including the draconian conditionalities imposed on borrowing countries that have resulted in long-lasting social, environmental and economic catastrophes for more than half a century (see *Observer* Autumn 2020, Winter 2019; *Dispatch* Annuals 2023).

The UN as the proper normative setting body

It must be noted that the BWIs are part of the UN system, but they act independently. The Financing for Development (FfD) process, initiated by the UN General Assembly in 1999, convened the first conference in Monterrey, Mexico, in 2002. It was the first time member-states discussed hard economic topics at the UN level. IFA reform was seen, then, as an opportunity to "enhance financing for development and poverty eradication." In 2015, in paragraph 106 of the Addis Ababa Action Agenda, the language was upgraded to "(t)he implementation of the 2010 reforms for IMF [including to redistribute IMF quotas] remains the highest priority and we strongly urge the earliest ratification of those reforms. We reiterate our commitment to further governance reform in both IMF and the World Bank to adapt to changes in the global economy." As is quite evident, not much has evolved in this direction since then.

The FfD Forum, the follow up mechanism to the third FfD Conference in 2015 that meets yearly under the auspices of the UN Economic and Social Council (ECOSOC), has called for substantial IFA reforms for the past four years. The UN Secretary General himself has pleaded for it in several speeches, as well as holding the Summit of the Future in September 2024 to discuss *inter alia* IFA reform. Notwithstanding, the last G20 Ministers of Finance communiqué, published on 26 July, talked about strengthening the financial architecture, not reform. Even the well-received proposal from Brazil on international taxation of high net-worth individuals was postponed to be discussed in an appropriate forum, hopefully at the UN Framework Convention on Tax Cooperation that is under negotiations until 2026.

Next steps: amplify the call for reform

Next year, South Africa will preside over the G20, marking the last in the long cycle of four Global South countries holding its presidency. However, the G20's reach is quite limited as it is an informal group with no guarantees in continuity. It doesn't even have a secretariat for the sake of consistency. Therefore, as it has been repeated several times in the FfD Forum BWIs Dialogue Session, only through concerted efforts by G77 countries will the IMF executive board and World Bank board of governors agree to reforms.

The negotiations for the UN Fourth FfD International Conference (taking place in Seville, Spain, in late June 2025) are under way. In the Preparatory Committee (PrepComm) meeting in Addis Ababa in late July of this year, the IMF representative repeated the familiar formula that the Fund supports macro-stability in countries (via loans) so they can transition to a green economy by mobilising more resources with broad tax reforms, good policy frameworks and reduced corruption. It sounds plausible, but it falls into the *ceteris paribus* way of thinking. The second PrepComm meeting in New York in December should bring more opportunities to influence the Fourth Conference outcome and a path to reform, as long as there is a concerted effort from both civil society and the Global South countries non-aligned with economic orthodoxy on common recommendations for the reform.

After decades of perceived failures in handling financial crises or making them worse, if the BWIs are to regain credibility for the financing challenges of current the moment, including SDGs implementation, addressing the climate emergency, poverty eradication and sovereign debt resolution, they need to be reformed and transformed. The IMF executive board must change the quota system, rethink its austerity prescriptions, and design a progressive and agile disbursement of Special Drawing Rights to help finance the 2030 Agenda implementation, which could be the solution for the current and future global economic instabilities. The World Bank must shift its focus to supporting national priorities, but also to calculating financed projects' externalities to local populations. The next G20 presidency has the task of continuing the push for broad reform. The call will also be part of the Fourth FfD Conference, acknowledging that, after 80 years, the time has come for substancial changes to the financial architecture, starting with the BWIs.

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