IMF and World Bank: Institutional Set-up, Criticisms and Challenges

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Abstract
The two Bretton Woods Sisters – International Monetary Fund (IMF) and World Bank – have been key actors in the international political economy since their inception in 1944. While the IMF was established to support national economies during rather short-term, macroeconomic crises, the World Bank has had a more long-term focus on development and economic growth. In pursuit of their goals, both institutions’ instrumental repertoire includes the provision of information, surveillance, technical assistance and training, policy advice, and – arguably most importantly – lending to those countries that have limited or no access to private capital markets. In this paper, I critically analyse the Bretton Woods sisters’ institutional set-up, their objectives and instruments. Further, various criticisms and challenges of the multilateral system are discussed, including the economic policy conditions imposed on borrowing countries, the Western-dominated governance structure and the under-representation of major emerging economies such as China and India.

Key words
IMF, World Bank, Bretton Woods, global financial architecture, multilateralism

Please note
Introduction: IMF, World Bank\(^1\) and the Global Financial Architecture

In the post-1945 international economic and monetary order three international institutions have played a key role (Kahler, 2016; Stiglitz, 2002): the General Agreement on Tariffs and Trade, which later became the World Trade Organization (WTO)\(^2\); the International Monetary Fund (IMF) and the World Bank. While the WTO is concerned with trade in goods and services as well as intellectual property rights, IMF and World Bank focus on the international monetary and financial system. Their central goal is to foster macroeconomic stability, economic development and poverty reduction. Both sister organisations were established at the UN Monetary and Financial Conference in Bretton Woods, NH, USA, in 1944, where representatives from 44 countries convened under the leadership of the USA and the United Kingdom in order to agree on a post-war economic and monetary order.

In essence, the Bretton Woods system was conceived of as a response to the economically and politically disastrous interwar years which were, in many countries, characterised by the Great Depression, high unemployment, impoverishment and political extremism. Governments at the time compounded the economic downturn by pursuing ‘beggar-thy-neighbour’ policies, including the imposition of high tariff barriers, competitive currency devaluations and mercantilist price and wage deflation. Instead of agreeing policies internationally, each government tried to protect its domestic industries at the expense of imports in an attempt to safeguard national wealth and jobs. Consequently, cross-border trade and capital flows plummeted and economic conditions deteriorated further. The Bretton Woods idea was therefore to guarantee open markets and free trade, to establish fixed but adjustable exchange rates and to help countries invest and develop towards full employment (Babb and Kentikelenis, 2017).

In this economic order, the Bretton Woods sisters had specific areas of responsibility (Rajan, 2008; Reinhart and Trebesch, 2016). The IMF was established to maintain the system of stable exchange rates, where currencies were basically pegged to the US-Dollar, which, in turn, was convertible into gold. More specifically, the IMF had to (a) monitor national policies and discourage actions, such as competitive devaluations, which would undermine international economic stability; (b), in a (potential) balance-of-payment crisis, provide short-term funds to countries with insufficient foreign currency reserves, thereby enabling them to undertake necessary monetary and fiscal policy reforms while defending or slowly adjusting the fixed parity (Eichengreen and Woods, 2016).\(^3\) In contrast to the IMF’s original short-term macroeconomic orientation, the World Bank was created as a development agency, preoccupied with reconstruction and long-term growth primarily in war-torn countries. It provided assistance for investment projects when domestic savings were...
insufficient and access to international private capital was non-existent owing to market imperfections (Clemens and Kremer, 2016).

Since 1945 the global political and economic environment has changed substantially, and so have the two organisations. With decolonisation after WW2 and the collapse of the Soviet system in the early 1990s, membership soared; with currently 189 members, IMF and World Bank have reached almost universal coverage. In the global economy, Western dominance has tapered off and new growth poles have emerged – for instance, the so-called BRICS countries –, challenging US and European leadership. At the same time, globalisation and political liberalisation, especially in finance, have made countries more interconnected and exposed to spillovers. While the lack of private funding was a major bottleneck for development in the post-war years, international capital markets have become deeper, broader and more liquid, thus arguably curtailing the need for public capital provision (Ravallion, 2016). A major change occurred when the Bretton Woods fixed exchange rate system collapsed in 1971/73, ridding the IMF of its original purpose. With floating currencies, balance-of-payment crises in industrialised countries became less prevalent, whereas sovereign debt and banking crises in the developing world – and since 2008 in Europe – emerged, posing more severe challenges to crisis solution (Reinhart and Trebesch, 2016). Further, in the 1970s the dominant economic policy paradigm shifted from market-sceptical Keynesian ideas to the neoliberal ‘Washington Consensus’ of market supremacy. This, in turn, came under fire in the wake of the 1990s Asian and the more recent global financial crisis. Consequently, policy advice has ranged from a plea for fixed exchange rates, capital controls and a prominent state role in the economy (all based on the belief that markets fail) to market-based flexible exchange rates, far-reaching external and internal liberalisation, privatisation and austerity (Stiglitz, 2002).

Despite these fundamental changes, the Bretton Woods sisters continue to play a major role in international economics (Krugman, 1998; Nissan, 2015). At the same time, their efficacy and legitimacy as global organisations is questioned (Eichengreen and Woods, 2016; Global Exchange, 2015; Meltzer, 2005; Reinhart and Trebesch, 2016). Against this background, this paper intends to provide an analytical introduction to the two organisations and their policies. It is organised as follows: the next two sections look at the IMF’s and the World Bank’s governance, objectives and instruments, respectively. Based on these separate status-quo analyses, major criticisms and future challenges are discussed for both organisations together. The paper ends with a short conclusion and suggestions for further readings.
The IMF: Governance, Objectives and Instruments

Despite various reforms, the institutional set-up of the IMF still largely reflects the economic and political dominance of the West. Thus, the IMF is headquartered in Washington D.C. The top executive, the Managing Director, traditionally stems from a West European country, upon approval of the US government (Weisbrot and Johnston, 2016). Even though each member country is represented in the Board of Governors, usually by its finance minister or central bank president, voting power in this shareholder body varies with the so-called quota. This is denominated in Special Drawing Rights (SDR), the IMF’s unit of account, and based on a country’s relative global economic weight measured primarily by GDP and economic openness. The quota also informs a country’s financial contribution (‘membership fee’) and its access to IMF loans in times of crisis (see below). In contrast to the WTO and UN principles of ‘one nation, one vote’, the weighted IMF system gives rich countries relatively more voice than populous low- and middle-income ones. With the latest quota reform in 2016, the USA managed to keep the biggest share by far with 16.53 per cent, followed now by China and Japan with about 6 per cent each and major European economies ranging between 4 and 5.4 per cent. The five biggest European economies still control about two times the aggregate votes of the BRICS countries, despite only having approximately 60 per cent of their aggregate GDP (Vestergaard and Wade, 2016). While for most decisions majority suffices, IMF charter amendments and the quinquennial quota reviews require an 85-per-cent supermajority, vesting the USA and some Europeans combined with veto power.

The eight biggest members also hold significant sway in the International Monetary and Financial Committee (IMFC) and the Executive Board, respectively. The former informally determines strategic orientation, the latter runs daily business, including the endorsement of reports, policy recommendations and loan arrangements. Here, decisions are usually taken by consensus so that a voice at the table is essential (Menkhoff and Meyer, 2010). While under the current system the USA, China and other big countries send a national representative each to these two bodies, the remaining 181 countries are clustered in 16 (mainly) regional constituencies which elect one delegate per group. In fact, there are substantial differences in representation: whereas 46 sub-Saharan countries are represented by two Executive Directors, Europe has eight directors, plus additional voice in two regionally mixed constituencies (IMF, 2017).

With the end of the Bretton Woods exchange rate system, the IMF’s central objective changed ‘from the maintenance of stable exchange rates to the maintenance of stable economic and financial conditions broadly defined’ (Eichengreen and Woods, 2016, 39).
Stability (i.e. the absence of crises) does not only benefit individual countries but also protects others from contagion. Moreover, it facilitates the cross-border exchange of goods, services and capital, which, in turn, is conducive to sustained economic growth. In pursuit of this overarching objective, the IMF promotes international cooperation and engages in the prevention and management of international financial crises. In principle, the IMF represents a multilateral, rule-based approach to dealing with international financial and monetary concerns in contrast to a system that fully relies on market mechanisms and/or unilateral action by some powerful countries.

At the *instrumental* level, the IMF primarily engages in (a) surveillance, (b) capacity development and (c) lending.

(a) As for surveillance, the IMF regularly carries out the bilateral Article-IV consultations, which are mandatory for members (IMF, 2016b): in collaboration with relevant national stakeholders IMF economists review fiscal, monetary, regulatory and institutional policies and evaluate a country’s economic performance. Furthermore, voluntary assessments are conducted at the behest of countries, for example concerning the stability of national financial markets (Poole, 2015). At the multilateral level, the organisation oversees developments in capital markets and the world economy more generally. The findings are published regularly in the World Economic Outlook, the Global Financial Stability Report and the Fiscal Monitor, among others. With its reports the IMF intends to identify risks and possible country-to-country spillovers. If needed, policy reforms are advised in order to restore stability and minimise the exposure to dangers.

By publishing standardised information and analyses the IMF supplies a global public good, which would be difficult and costly to provide nationally (Meltzer, 2003). For individual countries it proves almost impossible to systematically gather information outside their jurisdiction. Local authorities are more likely to convey sensitive information to an international organisation than to other governments or market actors such as rating agencies or banks (Eichengreen and Woods, 2016). Given the complicated and protracted nature of financial risks, elected politicians with a restricted time horizon have little incentive to consider foreign developments or the long-term impact of their policies on other countries. In contrast, an international organisation is perceived of as more impartial and it is less myopic owing to the lack of electoral constraints. Given its accumulated expertise, it is capable of compiling information comprehensively and drawing lessons from it. This could result in better informed policies and investment decisions, leading to improved market allocation and system stability (Meltzer, 2003). Thus, public scrutiny might pressurise
governments to adopt stability-oriented policies, and private investors could overcome information asymmetries relative to borrowers more readily so that irrational panic and uninformed herd-behaviour become less probable. For instance, information about the debt structure of a given country can help investors avoid repeated short-term lending for risky long-term assets (Meltzer, 2005).

While there is a convincing rationale for IMF surveillance, the practical implementation is imperfect. A prominent example is the IMF’s failure to foresee recent financial crises, including the US subprime, the banking and the Eurozone sovereign debt crises. Partly, the economics discipline per se is to blame, since it suffers from ‘knowledge gaps around the interaction between the macroeconomy and the financial sector (‘macrofinancial’ linkages), the lack of a global risk assessment framework, and insufficient analysis and discussion of spillovers and low probability but high impact (‘tail’) risks’ (Poole, 2015, 87). However, part of the problem lies within the IMF itself. Informational ‘silos’ within the organisation impede the pooling of knowledge across departments and the identification of vulnerabilities (IEO, 2011). Publications sometimes lack clarity, consequently impairing the quality of information. The most serious issue relates to the surveillance bias that favours more powerful members. According to the IMF’s Independent Evaluation Office, self-censorship among IMF staff results in ‘limits as to how critical they could be regarding the policies of the largest shareholders’ (IEO, 2011, 20). Less powerful countries can be compelled to accept ‘voluntary’ assessments of their financial markets, whereas the USA, for instance, did not have any such reviews prior to the financial crisis. Moreover, powerful members manage to have unsolicited passages in IMF reports deleted far more often than developing nations (Eichengreen and Woods, 2016). While the IMF has started to address some of the internal shortcomings, the lack of evenhandedness is still an issue that is closely linked to the unresolved Western-dominated governance structure.

(b) Besides surveillance, the IMF promotes capacity development. In particular, it provides technical assistance and training to member countries in order to strengthen staff skills and build up institutional capacities (IMF, 2016c). Capacity development is delivered in various ways, ranging from headquarter staff missions and regional training centres to expert placements and on- and offline courses. In principle, the IMF is well equipped to offer capacity development. There are economies of scale and learning curve effects in the design and supply of training programmes and the accumulation of technical expertise. Accordingly, governments – especially from poorer countries – get more value for money when they resort to internationally available know-how. Moreover, cross-country experiences foster policy learning and transfers (Dolowitz and Marsh, 2000). Indeed, the IMF can field-test its
programmes in different countries and channel them to others. In doing so, it has the advantage of being independent from domestic vested interests so that it can focus more on best practice solutions for the common good (Rajan, 2008). However, reality is different: in order to be successful capacity development needs to be made-to-measure, considering local conditions and constraints. In fact, reform blueprints developed in Washington D.C. are too often tailored to the interests of powerful shareholders rather than to a receiving country’s circumstances.

(c) The arguably most important IMF instrument is lending. By granting loans to member countries in balance-of-payment difficulties, the IMF acts as a quasi-lender-of-last-resort (Meltzer, 2003; Reinhart and Trebesch, 2016). Basically, a member country without adequate international reserves or access to affordable private capital can borrow from the IMF, thus receiving breathing space to ‘restore conditions for strong economic growth’ (IMF, 2016d). Typically, loans are relatively short-term – up to four years with final maturity of ten years – and can amount to a multiple of a country’s quota, depending on the specific programme. In exceptional circumstances, these so-called access limits can be surpassed. Greece, Ireland and Portugal, for instance, received loans of up to 30 times their quota during the Eurozone crisis, far above the usual factor of 2 to 6 (Reinhart and Trebesch, 2016). While advanced and emerging nations are charged market-related interest rates, low-income countries can borrow on concessional terms, currently at zero per cent. For countries with a heavy debt burden, the IMF runs debt relief programmes in cooperation with the World Bank, for instance the Heavily Indebted Poor Country (HIPC) Initiative or the Multilateral Debt Relief Initiative (MDRI) (IMF, 2016f).

IMF lending is funded through various sources. The most important one is quotas, i.e. the paid-in capital by IMF members, currently amounting to 477 billion SDR (approximately $642 billion). In addition, the IMF can temporarily borrow through multilateral agreements with member countries. Under the so-called ‘New Arrangements to Borrow’ (NAB), 38 countries and institutions stand ready to provide approximately 182 billion SDR, and under the ‘General Agreement to Borrow’ (GAB) eleven advanced countries plus Saudi-Arabia are willing to supplement another 18.5 billion SDR. NAB and GAB form the ‘second line of defense’ (IMF, 2016e) which can be further expanded by bilateral borrowing arrangements with 26 countries, the so-called ‘third line of defense’, including 260 billion SDR. Subsidised concessional lending and debt relief programmes are funded through bilateral contributions by richer member countries and IMF profits, for instance from gold sales (IMF, 2016e). Overall, the IMF has massively boosted its lending capacity since the global financial crisis, primarily as lending demands have increased significantly and the ongoing crisis requires
larger liquidity firewalls to appease financial markets and protect countries from collapse and contagion.

In order to safeguard loan repayment and avoid moral hazard – a situation where countries run into problems relatively insouciantly, knowing that there will be a fairly pain-free bail-out – IMF loans are subject to conditionality. In most cases, this takes the form of ex-post conditionality: in ‘Stand-By Arrangements’, for example, the IMF agrees with the borrowing country a specific set of macroeconomic and structural policy reforms that are supposed to guarantee recovery, growth and poverty reduction (Dreher, 2004). Financial assistance is then disbursed in phased installments, provided the crisis country complies with programme stipulations. In 2009, the IMF launched a programme with ex-ante conditionality: the Flexible Credit Line. Only economically sound countries are eligible if they have a strong track record of macroeconomic stability and meet pre-set criteria; these countries then get access to resources in a single up-front disbursement (IMF, 2016d). Conditionality constitutes a strong link between lending and surveillance. In principle, the IMF cannot coerce its members to adopt the policies it advises based on surveillance. However, when a country requires financial assistance the IMF can use conditionality as a lever to make countries implement the recommended reforms.

Theoretically, the existence of an emergency lender is pertinent to the stability of the international monetary system, just as a country’s central bank acts as lender-of-last-resort in a national financial crisis. Rather than defaulting in an unorderly way and/or resorting to destructive measures, a country short of liquidity can access emergency funds and thus continue to pay for necessary imports or service foreign debt, while simultaneously adjusting its policies and/or realigning its currency. Further, IMF loans can catalyse private capital inflows as they signal a country’s efforts to avoid default (van der Veer and de Jong, 2013). Ideally, the (potential) crisis can be contained and contagion to other countries averted. However, since the breakdown of the Bretton Woods pegged exchange rate order, reality has been different. Instead of temporary lending for balance-of-payment crises the IMF has primarily been concerned with more systemic crises such as the 1980s debt crises in Latin America and Africa, the Asian and transition country banking and economic crises in the 1990s and the Eurozone crisis since 2008. These shifts coincide with changes in IMF lending patterns: while median loan volumes amounted to less than 2 per cent of borrowers’ GDP when currency crises dominated, the size doubled to approximately 4 per cent thereafter, even reaching between 10.7 and 15.8 per cent in Europe post-2008 (Reinhart and Trebesch, 2016). Similarly, average programme duration increased and consecutive loan arrangements have led to serial lending in several Latin American and African countries, with uninterrupted
spells of IMF loaning of up to 30 years (Reinhart and Trebesch, 2016). Instead of assisting illiquid but fundamentally solvent countries as originally intended, the IMF has thus partly come to replace private debtors in countries with deficient debt sustainability.9

This alteration in IMF practice has serious implications. For one, the IMF actually starts being involved in long-term aid, thus obliterating the division of tasks with the World Bank and other development agencies. Moreover, when loans can be easily renewed countries are enticed to over-borrow and evergreen their debt. Through lending into insolvency or arrears the IMF jeopardises its traditional status as most senior creditor, for example, as in Greece in mid-2015. Similarly, financial assistance to (practically) insolvent countries blurs the important distinction between illiquidity and insolvency. Consecutive liquidity loans might protract eventually unavoidable debt restructuring and – in a case of moral hazard – implicitly encourage private investors to continue (co-)lending for too long, assuming that the IMF will bail them out (Eichengreen and Woods, 2016). What is more, IMF lending gains a bad reputation of being associated with insolvency. Illiquid but solvent countries, for which the IMF was intended as a short-term port of call, then risk being stigmatised as insolvent when taking up an IMF loan, with negative consequences for their access to private capital markets. Thus, the IMF loses its function as a quasi-lender-of-last-resort, thereby putting financial market stability at risk.

The World Bank: Governance, Objectives and Instruments
To a large extent, World Bank governance resembles that of the IMF. The Bank is also located in Washington D.C. and its president has traditionally been a Westerner. The highest decision-making body is the Board of Governors, where each member state is usually represented by its minister of finance or development. Voting power depends largely on shares in the capital stock, which are allotted according to IMF quotas. Once again, the USA is the largest shareholder with 16.45 per cent of the votes, next to Japan and China with 7.11 and 4.59 per cent, respectively (World Bank, 2017a)10. The USA and certain country coalitions have blocking power concerning statute amendments which require an 85-per cent supermajority. Day-to-day business – including loan and guarantee approvals, borrowing and financial decisions – is carried out by the Board of Directors which is made up of 25 Executive Directors. The six largest shareholders – the USA, Japan, Germany, France, the UK and China – appoint an Executive Director each while the other member countries are grouped in constituencies which are represented by an elected director. In March 2017, advanced countries had voting power of at least 51 per cent.
There are, however, also important differences between the Bretton Woods sisters. Thus, World Bank membership is contingent on IMF membership (the opposite is not the case). While the IMF has approximately 2,700 members of staff primarily situated in the headquarters, the World Bank is almost four times as big and maintains more than 130 national offices which facilitate access to up-to-date local information (IMF, 2016a, World Bank, 2017b). In contrast to the monolithic IMF, the World Bank is made up of five separate but related organisations with different purposes (see below). While the IMF is essentially unique as a global provider of last-resort liquidity – the European Stability Mechanism, the Chiang-Mai Initiative and the BRICS Contingency Reserve Arrangement have a limited regional focus and/or have not yet been put to the test (Desai and Vreeland, 2014) – the World Bank is just one, albeit the biggest among several development banks.11

The World Bank’s central objective is the eradication of poverty, explicitly defined as ending ‘extreme poverty by decreasing the percentage of people living on less than $1.90 a day to no more than 3%’ of the world population and promoting ‘shared prosperity by fostering the income growth of the bottom 40% for every country’ by 2030 (World Bank, 2017b). While the original goal was reconstruction in war-torn countries in Europe and Japan with insufficient access to private capital12 (Rajan, 2008), the emphasis is now on development and growth as a means to reduce poverty and inequality in low- and middle-income economies in Asia, Africa and Latin America. Addressing poverty and inequality is a global public good that benefits all countries in two ways (Clemens and Kremer, 2016): first, the well-being of citizens with altruistic preferences increases when the world becomes a fairer, more human place. Second, many poverty-stricken countries feature political, ecological, social and economic conditions that potentially prompt externalities for richer nations in the form of terrorism, crime, ecological degradation, pandemics and migration. Consequently, poverty eradication is in the self-interest of more advanced countries.

Still, the question arises as to why development aid is – at least in parts – delegated to an international organisation rather than being shaped by donor countries individually. The latter allows governments to focus on specific regions and projects in line with their own priorities, for instance in pursuit of business for the domestic export industry (so-called ‘tied aid’) or as a diplomatic bargaining chip (Ravallion, 2016). An international organisation, however, offers different advantages (Clemens and Kremer 2016). Owing to economies of scale, negotiations over aid agreements become less costly and donors increase their bargaining power relative to developing countries when resources are pooled. Money can be allocated more efficiently on a global scale, disregarding particular countries’ or local constituencies’ special interests. As a public good, poverty eradication is subject to free-
riding: since no country can be excluded from its benefits, ‘not donating’ (while still gaining) becomes a viable option. If too many countries free-ride, the global aid level will be inefficiently low. In this case, an international organisation can help coordinate donations and exert more pressure on individual countries to comply, for example, through transparency.

Similar to the IMF, the World Bank’s key instruments comprise (a) financing and the (b) provision of information, technical assistance and advice. Whereas the IMF focuses on macroeconomic and macro-critical areas (monetary, fiscal, institutional and regulatory policies), the World Bank is generally concerned with longer-term growth-enhancing projects, structural policies and government programmes.

(a) The type of financial support alters with the particular World Bank subsidiary. The International Bank for Reconstruction and Development (IBRD), the core unit created in 1944, funds public investment projects concerning physical and social infrastructure in creditworthy lower and middle-income countries (Investment Project Financing) (World Bank, 2017c). Further, it undertakes policy-based lending. This includes contributing to government programmes run by developing countries themselves (‘Program for Results’) and providing non-earmarked budget support for structural policies that fight poverty and inequality sustainably, for example by diversifying the economy or improving the investment climate (Development Policy Financing). While investment project loans dominated in the earlier years, policy-based loans have been expanded massively since the 1980s (Chang 2006). Loan periods usually range from five to ten years and the interest rate is ‘ostensibly close to market terms’ (Clemens and Kremer, 2016, 54). In contrast, the International Development Association (IDA), launched in 1960, subsidises public investment projects and policy programmes in the least developed countries and those at ‘risk of debt distress’, with a concentration on ‘primary education, basic health services, clean water and sanitation, environmental safeguards, business climate improvements, infrastructure and institutional reforms’ (IDA, 2017). Financial support predominantly takes the form of concessional loans, so-called credits, which currently carry zero or very low interest and have a maturity of 25 to 38 years. Countries in debt distress are eligible for grants, which amounted to approximately 12 per cent of IDA lending in the fiscal year 2016 (IDA, 2017). IDA also runs debt relief programmes in collaboration with the IMF.

Besides providing capital to public actors, other World Bank arms promote private sector engagement in economic development and poverty reduction. The International Finance Corporation (IFC) supports commercial investment projects primarily in infrastructure,
manufacturing, services and agriculture, and helps entrepreneurs in developing countries get access to domestic and international capital markets (IFC, 2017). It does so through loans, equity investment, trade financing and venture capital. The Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID) are concerned with private foreign direct investment in developing countries. While MIGA offers political (non-commercial) risk insurance guarantees to private investors (MIGA, 2015), ICSID provides arbitration mechanisms for investment disputes (ICSID, 2017).

In 2016, the World Bank as a whole had lending commitments of $45.9 billion (World Bank, 2017d), financial volumes substantially smaller than the IMF’s. The World Bank has several sources for funding. IBRD and IFC predominantly issue bonds in world capital markets. Owing to their AAA ratings, they can borrow relatively inexpensively and lend to their clients at favourable terms, with the margin adding to profits. These are, in turn, partly redirected to finance IDA activities. The lion’s share of IDA funding stems from donating governments which replenish funds every three years. In addition, the World Bank holds so-called Trust Funds on behalf of non-governmental and public donors which are designated to pursue specific pre-determined goals such as fighting AIDS or malaria or promoting child vaccinations (Clemens and Kremer, 2016).

Policy-based World Bank lending contains conditionality, usually complementing IMF conditions (Dreher, 2004). By stipulating conditions for prior action (pre-loan approval) or, subsequently, for the disbursement of further tranches (so-called tranche-release conditions), the World Bank intends to improve the effectiveness of aid while at the same time ensuring that borrowers use the resources as agreed, including repayment. Conditions refer specifically to the funded programme or policy and/or, more generally, to the macroeconomic and institutional environment (World Bank, 2005). The latter typically entails structural adjustment measures such as the reduction of budget deficits through tax increases and/or spending cuts, foreign debt restructuring, currency devaluations and – more long-term – privatisation, liberalisation and institutional policies (Hernandez, 2016). Similar to the IMF, the World Bank can use conditionality to make a recipient country adopt its policy advice.

At a theoretical level, it is contestable whether a public financer is still required in a world where capital is relatively abundant and finance has lost its critical role as development bottleneck (Rajan, 2008; Ravallion, 2016). A substantial part of World Bank lending, for instance, goes to middle-income countries such as China or Brazil; countries which have
access to financial markets or even their own resources to fund poverty reduction independently.\textsuperscript{13} However, World Bank lending is still important in that it can fill in where private investors are not willing to wait for uncertain, long-term returns or national governments underinvest because the benefits are (partly) accrued by political opponents and/or neighbouring countries. For instance, the World Bank can help supply regional or global public goods where national solutions fall short, including cross-border climate protection or the containment of pandemics such as Ebola. In addition, World Bank engagement can provide a positive signal to private actors who might neglect certain projects or regions owing to a lack of trustworthy local information; the World Bank can consequently act as a catalyst for private investment.\textsuperscript{14} From a public choice perspective, however, World Bank lending can also be deficient (Rajan, 2008). In the absence of competitive pressures and with staff being interested in boosting the number of deals and loan volumes in order to raise their significance, World Bank investment decisions might be taken less diligently than those by private investors who bear the full risk of default. Thus, lending practices might not be oriented towards the overall goal of poverty reduction but motivated by narrower goals of individual World Bank units and bureaucrats.

(b) In any case, the World Bank’s influence has reached far beyond its direct financial involvement in more than 12,800 development projects carried out since 1947 (World Bank 2017b).\textsuperscript{15} In fact, in the field of development policy the World Bank is the most significant supplier of information, technical assistance and policy advice, thus shaping the international aid scene (Gavin and Rodrik, 1995). In cooperation with member countries the World Bank collects and analyses data that is published freely in the form of comprehensive statistical indicators and analytical reports, including the influential World Development Report and the ‘Doing Business’ report on regulation (Besley, 2015). Further, the World Bank offers ‘professional technical advice that supports legal, policy, management, governance and other reforms needed for a country’s development goal’ (World Bank, 2017c) and it helps governments devise and implement development strategies. Moreover, the World Bank assumes the role of an agenda-setter in international development policy in that it organises conferences, coordinates negotiations between donors and recipients and has its staff publish scholarly work. Finally, the World Bank promotes ideas via acting as a reservoir for human resources when staff members, who embraced World Bank culture, become high-ranking government officials in their home countries (Clemens and Kremer, 2016).

Similar to the IMF, the World Bank’s activities in research, analysis and policy advice address economic problems inherent in the ‘production’ of information and knowledge, which are essential ingredients for the skill-intensive field of development policy (Ravallion, 2016). An
international organisation can realise economies of scale resulting from the pooling of resources for information gathering, the conceptual design of development policies and the build-up of technical assistance capacities. In contrast, individual donors have little incentive to document their experiences and share them with others, given the public-good character of knowledge. With its global reach, the World Bank is – at least theoretically – in a position to compare projects and programmes implemented in different national and local contexts, thus providing benchmarks and establishing well-founded expertise on critical success factors. What is more, an international organisation with its nationally diverse staff is usually perceived of as more independent and trustworthy than national donor agencies so that legitimacy and reliability of information and policy advice increases. This enables the World Bank, just like the IMF (Stubbs, Kentikelenis and King, 2016), to act as a leader or aid catalyst that other donors follow.

While the World Bank’s significance has shifted from mere lending to knowledge provision – as reflected in former World Bank president Wolfensohn’s idea of a ‘knowledge bank’ in contrast to the ‘lending bank’ (Ravallion, 2016, 78) –, there are ongoing shortcomings regarding knowledge production (Babb and Kentikelenis, 2017). Admittedly, since 2010 the World Bank publishes more data under its Open Data and Open Knowledge Repository policies, but some relevant information pertaining to the Bank’s own loan programmes is still withheld (Ravallion, 2016). As in the IMF, sectoral silos within the World Bank hinder the exchange of information across units and therefore impair its quality. At times, research output is ‘sugarcoated’ before publication in order not to upset major World Bank shareholders; a fact that possibly triggers ‘preemptive obedience’ in researchers regarding their research questions and the presentation of results. The role of powerful stakeholders – usually donors from the West and major borrowing countries – also impinges on the World Bank’s impartiality and legitimacy and therefore the trustworthiness of its knowledge creation and policy advice (Clemens and Kremer, 2016). Eventually, even though policy advice has become far more country-centred in recent years ‘one-size-fit-all’ proposals are sometimes still made, thus ignoring context, especially regarding policy implementation, and consequently rendering World Bank support either ineffectual or even detrimental to the goal of reducing poverty.16

**Challenges and Criticisms**

Since their inception, both IMF and World Bank have undergone significant changes and they continue to be under pressure in the aftermath of the Great Recession. While their principal objectives – macroeconomic (financial) stability, development and growth, equality and poverty eradication – remain more or less uncontested, current challenges notably
concern the two organisations’ specific policy instruments, their governance structure and, most recently, their rule-based multilateralist approach.

For decades, IMF and World Bank policies have been heavily criticised. Given the ongoing existence of economic crises, underdevelopment, poverty and inequality, both organisations are blamed for having missed their goals, at least partly (Stiglitz, 2002, Rajan, 2008). Where poverty reduction has been most impressive – in East Asia and in particular in China – governments pursued state-centred development policies rather than the market-liberal IMF and World Bank recipes. Some studies suggest that World Bank, and especially IMF lending, may have very little or even negative effects on economic growth in recipient countries (Butkiewicz and Yanikkaya, 2004). One concern is that IMF lending is usually accompanied with requirements for spending cuts which reduce aggregate demand and economic growth. At times, loans might sustain politically corrupt and economically ineffective regimes through the availability of relatively unaccountable, external resources (Birchler, Limpach and Michaelowa, 2016). Another issue stems from serial lending which keeps developing and emerging countries reliant on public loans rather than encouraging debt sustainability and economic independence (Reinhart and Trebesch, 2016). The burden of adjustment is unilaterally imposed on borrowing countries while surplus countries are generally spared adjustment pressures (Nissan 2015). Criticism also concerns the convergence of both organisations’ policy remits. Instead of distinguishing between short-term balance-of-payment crises (IMF) and long-term development (World Bank) both organisations have increasingly engaged in so-called structural adjustment (Dreher, 2004). This blurs responsibilities and reduces competition of ideas and policies between World Bank and IMF. The IMF, in particular, is said to engage in ‘mission creep’ beyond its core competence so that policy advice often lacks adequate expertise (Stiglitz, 2002).

The most severe policy criticism has focused on conditionality (Babb and Kentikelenis, 2017; Blanton, Blanton and Peksen, 2015). According to this, IMF and World Bank have imposed neoliberal policies on borrowing countries via ‘one-size-fits-all’ structural adjustment programmes. These follow the ‘Washington Consensus’, a set of institutional and political reforms ranging from far-reaching privatisation, deregulation, liberalisation to currency devaluations and austerity. Even the pace and sequence of reforms is dictated (Stiglitz, 2002). While intended to create growth, these policies are criticised for their detrimental effects on the environment, social structure, democratic set-up and culture of the recipient country as well as the ignorance of country circumstances. Local governments often lack ownership of the reform programmes and support from their electorate. Indeed, many critics perceive of conditionality as a veil for major shareholders’ vested interests and US
hegemony (Dreher and Sturm, 2012; Cardim de Carvalho, 2016). The apex of conditionality-based interference occurred during the Asian Crisis in the late 1990s when crisis countries were almost micro-managed (Feldstein, 1998). Since then the Bretton Woods sisters have streamlined conditionality by imposing fewer and more targeted conditions (World Bank 2005). As regards content, the focus has broadened to include the institutional framework and human development rather than simple output growth (sometimes called the ‘Post-Washington Consensus’). More specifically, seemingly anti-neoliberal policies such as social spending and cross-border capital controls become acceptable when they benefit the poor or support recovery. However, criticism remains and some of the changes are labelled as ‘window-dressing’, with the neoliberal market paradigm still intact (Kentikelenis, Stubbs and King, 2016; Güven, 2012).

Closely related to these criticisms is the issue of governance. As outlined above, the Bretton Woods sisters are still dominated by the West, despite recent institutional reforms (Vestergaard and Wade, 2015). Consequently, major emerging economies continue to be underrepresented relative to their share in global GDP. This governance bias has important repercussions for the two organisations’ effectiveness. First, it undermines their impartiality, accountability and legitimacy – key resources required for exerting ‘soft power’ in the form of policy advice and knowledge when hard financial and coercive powers are limited (Eichengreen and Woods, 2016). Second, major emerging countries have responded to their misrepresentation by establishing alternative mechanisms (Reisen, 2015; Vestergaard and Wade, 2015). Following the Asian Crisis, for instance, some emerging nations started accumulating foreign exchange reserves as an individual insurance against financial crises. The BRICS countries founded the New Development Bank, plus the Contingent Reserve Allocation as a reserve fund for balance-of Payment crises (Langhammer, 2014). Some countries such as China, Brazil and India provide other developing nations with large-scale aid unilaterally (Desai and Vreeland, 2014)\(^\text{17}\). As far as is discernible at this time, the effect of these developments is twofold: firstly, it is positive in the sense that institutional competition curtails IMF and World Bank power and grants non-Western countries a bigger say in international economic affairs. Secondly, these new donors often have a ‘no strings attached’ approach so that support is more or less granted without policy conditionality. This gives authoritarian regimes access to funds without adherence to certain (Western) standards in the field of environmental and social protection, democracy and the rule of law (Asumah, 2014).

While new global actors potentially threaten the IMF and World Bank’s standing externally, recent political trends challenge the multilateral system from within. In international trade,
bilateral and regional agreements already seem to dominate at the expense of WTO-based multilateral trade talks (Vestergaard and Wade, 2015). In major Western democracies, a political shift is under way towards protectionism and economic nationalism, currently most obvious in the USA and the United Kingdom. In other European countries right-of-centre political parties or movements also put pressure on mainstream governments to pursue more inward-looking policies. Anti-globalisation protests in the developed world are not new, as evident from the existence of NGOs such as Occupy-Wall Street or ATTAC and the protests against WTO, G7/8 and IMF/World Bank meetings. However, globalisation resistance now also comes from the political right and has in some cases assumed governmental power. These relatively recent developments question what IMF and World Bank represent most fundamentally: globalisation and multilateralism (Woods, 2007).

Multilateralism of the Bretton Woods type does not automatically imply an equal or fairer power distribution. Both organisations provide ample evidence for political dominance by a few countries. Hence, the USA and its western allies used IMF and World Bank money during the Cold War to keep developing countries in their political orbit. There is empirical evidence that US-friendly governments – in particular those of political interest, for example, owing to a temporary seat in the UN Security Council – receive loans more easily relative to political foes such as Iran (Clemens and Kremer, 2016). At the same time, developing countries benefiting from Bretton Woods loans seem to ‘vote more frequently in line with the average G7 country’ in the UN General Assembly (Dreher and Sturm, 2012, 387). However, multilateralism is still a (if not the) most useful cooperative tool to govern global relations, especially the provision of public goods such as macroeconomic stability, poverty eradication, climate protection and anti-corruption. In a multilateral system, international organisations offer a place for dialogue, coordination and collaboration and a tool to respond to international crises and spillovers systematically. They help overcome free-riding and exploit economies of scale, and their staff – freed from local interests – can produce relatively impartial analysis and advice (Rajan, 2008). All of this is particularly important for medium and smaller countries. If intergovernmental fora such as the G20 or G7/8 gained power at the expense of the Bretton Woods organisations, relatively marginal countries would be disadvantaged even more, losing access to information, crises solution and power-sharing completely.

**Conclusion**

The Bretton Woods sisters look back on more than 70 years of history as key organisations in the Western-dominated global economic regime. Both provide financial resources next to information, expertise and policy advice. Their influence, however, extends beyond official
policy instruments since they serve as guide for national governments, other international actors and private capital. Major shifts in the political economy – the independence of former European colonies, the end of the Bretton Woods system and the Cold War, the emergence of new global players, the intensification of globalisation and the massive increase in capital flows – require both organisations to adapt. Still, major challenges remain and further reform is unavoidable. Given the more nationalistic political tendencies in many Western countries, a reformed IMF and World Bank could become ever more important players in safeguarding a free and open global economic order.

Further Readings
There are numerous publications on the IMF and World Bank. Particularly useful are the monographs by Woods (2007) and Stiglitz (2002), which discuss the organisations’ role as globalizers and look at the downsides of their policies, respectively. Bird (2007) provides an overview of the IMF. The 2016 Winter issue of the Journal of Economic Perspectives offers an up-to-date selection of scholarly assessments on IMF and World Bank authored by renowned experts, including Reinhart and Trebesch, Eichengreen and Woods, Clemens and Kremer as well as Ravallion. Some future scenarios for the multilateral organisations are presented in Kahler (2016).

Several reform proposals have been discussed over the years, for instance the report of the International Financial Institution Advisory Commission (2000) to the US Congress (the so-called Meltzer Commission) and the report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System (the so-called Stiglitz report) (Stiglitz et al., 2010).

The IMF (www.imf.org) and World Bank (www.worldbank.org) both sustain valuable websites, providing information on current developments, latest research and comprehensive data sets on economic and financial indicators. For an up-to-date critical review of IMF and World Bank policies from a civil society perspective, the UK-based website www.brettonwoodsproject.org is very useful.
Bibliography


In this paper, the term World Bank is used instead of the formally correct ‘World Bank Group’. The latter includes five separate but related organisations. For details, see the section on the World Bank.

While ratification of an international trade organisation failed primarily owing to resistance in the US Congress, a treaty on trade liberalisation was concluded in 1948: the General Agreement on Tariffs and Trade. In 1995, however, the WTO was eventually founded. IMF, World Bank and WTO are thus the institutional pillars of the current global economic system.

Trade deficits, for instance, coincided with a rise in the demand for US-Dollars and depreciation pressures of the country’s currency. In order to maintain the agreed parity the country had to intervene in the foreign exchange market by supplying US-Dollars, the international reserve currency. In case of a reserve shortage, IMF short-term loans provided deficit countries ‘with opportunity to correct maladjustments in their balance of payment without resorting to measures destructive of national and international prosperity’ (Section I of the Articles of Agreement of the IMF).

The use of openness (30 per cent weight in the quota formula, with the GDP share weighing 50 per cent) benefits open European economies with a significant amount of intra-European trade at the expense of monolithic nations such as China, India, Brazil and the USA (Vestergaard and Wade 2015).

The reform only brought partial readjustment: the leading G7 nations gave up as little as 1.8 percentage points of their voting power. All non-advanced nations combined, apart from Brazil, Russia, India and China, even lost voting shares of 3 percentage points (Vestergaard and Wade 2015, Weisbrot and Johnston 2016).

This point is highlighted by the fact that other international organisations and economic experts failed as well in predicting the events, including the Bank for International Settlement, OECD and European Commission (Poole 2015).

In 2010, it became mandatory for countries labelled ‘systemic’ — including the USA — to undergo financial market stability reviews every five years.

Besides Stand-By-Arrangements (SBA), the IMF offers various other lending arrangements which vary in structure, conditions and time horizons, thus catering for different balance-of-payment problems (actual versus potential, short- versus medium-to-long-term). For detail see IMF (2016d).

Reinhart and Trebesch (2016) provide several reasons for this development. On the one hand, economic fundamentals and the crisis character have changed. On the other hand, some countries see IMF loans as ‘an effective way of ever-greening their ongoing loans to both private and official creditors’ (p. 18). In addition, close connections to major IMF powers such as the USA and some European countries seem to be conducive to getting larger and longer-term loans with less strict conditionality.

These figures refer to the Board of Governors of the International Bank for Reconstruction and Development (IBRD), the core organisation of the World Bank. Governance for the other World Bank subsidiaries varies slightly. For details see the World Bank website.

Other important players in the aid market include the Inter-American Development Bank, the Asian Development Bank and the newly established, China-dominated Asian Infrastructure Investment Bank (AIIB).

Access to private capital was limited owing to capital market imperfections, for instance information asymmetries, moral hazard, herding and irrational behaviour (Clemens and Kremer 2016).

For instance, in mid-2015 China owed $15 billion to the World Bank while possessing international reserves of $3.7 trillion (Clemens and Kremer 2016).

World Bank loans are usually of high seniority so that they are among the last to be renegotiated. In contrast to private actors, the World Bank thus rarely has to worry about repayment. Consequently, private investors are usually more careful and scrutinise project proposals more thoroughly (Rajan 2008).

These days, the World Bank provides as little as ‘5 percent of the aggregate private capital flow to developing countries’ (Ravallion 2016, p. 78, data for 2012).
For instance, Ravallion (2016) points to the World Bank’s ‘conditional cash transfer’ schemes. These imply that countries make transfer payments contingent on recipients’ collaboration when it comes to children schooling and preventive health care. Based on very positive evaluations these schemes were supported by the World Bank in many countries. However, conditional cash transfer schemes address the demand side for public services but not problems with the supply of schooling or health care. Thus, World Bank policies may neglect the real bottleneck on the supply side.

China, for instance, founded the Asian Infrastructure Investment Bank (AIIB) and funds infrastructure investment abroad with its ‘Silk Road Fund’.

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