The Bretton Woods Institutions and The World Trade Organization A History and Criticisms

A History and Criticisms

An excursion into three significant influencers of the international development and financial landscape

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# EXECUTIVE SUMMARY

The World Bank Group (WBG), International Monetary Fund (IMF), and World Trade Organization (WTO) are pivotal entities shaping the global financial and development landscape. They are frequently in the spotlight for their roles in international loans, trade agreements, and economic bailouts.

**World Bank Group (WBG):** The WBG aims to eliminate extreme poverty by 2030 and boost shared prosperity. It pursues these goals through:

* Direct lending for development projects
* Development Policy Finance (DPF), which offers budget support to governments
* Financial support to the private sector, including financial intermediaries
* Guarantees for large-scale developments

**International Monetary Fund (IMF):** The IMF focuses on promoting global fiscal and monetary cooperation, securing financial stability, facilitating international trade, and promoting high employment and sustainable growth.

**World Trade Organization (WTO):** The WTO facilitates global trade in goods, services, and intellectual property. It provides a framework for negotiating trade agreements aimed at reducing tariffs, quotas, and other restrictions. The WTO also administers dispute resolution mechanisms to enforce compliance and resolve trade conflicts.

Despite their significant contributions, these organizations face criticism. They provide essential financial assistance and trade facilitation but often impose stringent conditions, leading to scrutiny of their motives and effectiveness. Understanding the history and operations of the WBG, IMF, and WTO is crucial for contextualizing their criticisms and assessing the reforms implemented to address these issues.

# INTRODUCTION

## Background

## The World Bank Group (WBG), International Monetary Fund (IMF), and World Trade Organization (WTO) are central to global economic stability and development, acting as key responders during financial crises and facilitators of international trade. However, these organizations face significant criticism for perceived biases favoring Western countries, with concerns over their governance, decision-making processes, and socio-environmental impacts. The IMF, often referred to as the world’s "financial crisis firefighter," is called upon by countries facing severe debt crises, helping to stabilize economies and prevent global financial contagion

## Purpose

## This report aims to illustrate the creation and structure of a comprehensive document, focusing on formatting and navigation. It reviews the history and relevance of the Bretton Woods Institutions, discusses various criticisms, and offers recommendations for a more equitable distribution of power

## Overview of Methodology

The content of this report was extracted from reputable websites and paraphrased for simulation purposes. Figures and charts were generated from the collected data and analyzed independently to ensure accuracy and relevance. This approach, while unconventional, provides a practical demonstration of report creation and data presentation techniques.

# THE WORLD BANK

## Background

The World Bank was established at the 1944 Bretton Woods Conference alongside the International Monetary Fund (IMF) to provide loans and grants to the governments of low- and middle-income countries for capital projects. Initially, the Bank focused on funding infrastructure projects such as seaports, highways, and power plants. Over time, its scope has expanded to include NGOs and environmental groups, with loan strategies now influenced by the Millennium Development Goals and various environmental and social safeguards.

As illustrated below, The World Bank Group is an extended family of five international organizations and the parent organization of the World Bank the collective name given to the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).

Figure 1: World Bank Organization Structure

## World Bank Loan Strategy

The Millennium Development Goals include the following: -

1. Eradication of extreme poverty and hunger.
2. Universal primary education.
3. Gender equality.
4. Reduced child mortality.
5. Maternal Health.
6. HIV/AIDS, Malaria, and other diseases.
7. Environmental sustainability.
8. Global partnership for development.

## Members and Voting Powers

The IBRD has 189 member countries while IDA has 174. Each member state of IBRD should also be a member of the IMF and only members of IBRD are allowed to join other institutions within the Bank (such as IDA). In 2010 voting powers at the World Bank were revised to increase the voice of developing countries notably China. List of 20 largest countries by voting power in each World Bank Institution as at Dec 2014 0r March 2015: -

Table 1: Voting Powers by Country

|  |  |
| --- | --- |
| Country | % |
| United States | 15.85% |
| Japan | 6.84% |
| China | 4.42% |
| Germany | 4.00% |
| United Kingdom | 3.75% |
| Country | % |
| France | 3.75% |
| India | 2.91% |
| Russia | 2.77% |
| Saudi Arabia | 2.77% |
| Italy | 2.64% |

# THE INTERNATIONAL MONETARY FUND

## Background

Unlike the World Bank, which focuses on long-term development and social projects, the International Monetary Fund (IMF) was established as a watchdog of monetary and exchange rate policies crucial to global markets. The Bretton Woods Agreement initially required signatory countries to peg their currencies to the U.S. dollar. However, this system of fixed exchange rates collapsed in the late 1960s and 1970s due to the overvaluation of the U.S. dollar and President Richard Nixon’s decision to suspend its convertibility into gold.

The IMF operates like a credit union, providing its members access to a common pool of resources. Countries facing balance-of-payments issues turn to the IMF for support, allowing them time to adjust their economic policies and restore growth. The IMF pursues its mission through lending, surveillance, and technical assistance. Its resources are primarily derived from member countries' capital subscriptions (quotas) and borrowing.

## Resources

### Quotas (Subscriptions in SDR Units)

1. Each IMF member is assigned a quota based on its relative position in the world economy, allowing countries to borrow when facing financial difficulties.
2. Quotas determine voting power in IMF decisions, with votes comprising one vote per SDR 100,000 of quota plus “basic” votes.
3. Quotas set the maximum financing a m ember can obtain from the IMF under normal access and determine a member’s share in Special Drawing Rights (SDRs) allocations.

### Borrowed Funds (NAB and BBAs)

#### The IMF's resources also include borrowed funds from multilateral and bilateral sources, providing additional financial support:

#### New Arrangements to borrow (NAB)

Serving as a second line of defense, NAB involves 40 participants and requires 85% approval for activation. In January 2021, the NAB was increased to SDR 361 billion (US$ 521 billion) for 2021-2025.

#### Bilateral Borrowing Agreements (BBA)

BBAs are a third line of defense, with agreements totaling SDR 135 billion. These agreements, involving 40 creditors, are effective through 2023, extendable through 2024 with consent.

The IMF’s total resources amount to about SDR 973 billion, enabling a lending capacity of approximately SDR 707 billion (around US$ 1 trillion).

Figure 2: IMF Quotas by Select Countries

Source: IMF Data

## Special Drawing Rights (SDRs)

Created by the IMF in 1969, Special Drawing Rights (SDR) supplement member countries' official reserves. SDRs function as an internal IMF currency that can be exchanged for hard currency reserves, like dollars or euros, during crises. They serve as both an accounting unit and a claim on hard currency, making them a stable asset in international reserves. The value of the SDR is based on a basket of five currencies: the U.S. dollar, euro, Chinese renminbi, Japanese yen, and British pound sterling.

Table 2: SDR Currency Basket

|  |  |
| --- | --- |
| Currency | Weights (2015) |
| U.S Dollar | 41.73 |
| Euro | 30.93 |
| Chinese Yuan | 10.92 |
| Japanese Yen | 8.33 |
| Pound Sterling | 8.09 |

### SDR Allocations

SDR allocations are distributed based on countries' IMF capital participation, reflecting the size of their economies. These allocations are cost-free and do not require contributions from donor countries' budgets. SDRs are reserve assets, not foreign aid or debt.

To date, SDR 660.7 billion (US$ 943 billion) have been allocated, including the largest-ever allocation of SDR 456 billion (US$ 650 billion) on August 2, 2021. This allocation aimed to address global reserve needs and assist countries impacted by the COVID-19 pandemic. Of this, $274 billion went to emerging and developing countries, boosting their international reserves by 10%, with low-income countries receiving about $21 billion, significantly enhancing their GDP.

Figure 3: SDR Allocations

Source: IMF Data

### Voluntary Transfers

International aid groups advocate for wealthier nations to share their SDR allocations with poorer countries, a move supported by the IMF, which has pledged to facilitate voluntary transfers. At the June 2021 meeting, G7 countries endorsed reallocating up to $100 billion in SDRs to poorer nations. Since then, $15 billion in SDRs have been pledged by some members for lending to low-income countries at zero interest.

## Lending

The IMF provides financial support to countries in crisis, aiding them as they implement policies to restore economic stability and growth. It also offers precautionary financing to prevent crises. The IMF’s lending tools are continually updated to address evolving needs.

The IMF extends loans and helps reorganize debt repayment schedules to manageable terms. In return, countries agree to implement reforms to rectify balance of payments issues and replenish central bank reserves. Lending conditions aim to ensure loan repayment and the effective use of funds.

IMF lending addresses crises caused by:

Domestic Factors:

* Inappropriate fiscal and monetary policies leading to economic imbalances, such as large deficits and high debt levels.
* Fixed exchange rates eroding competitiveness and causing current account deficits.
* Political instability and weak institutions exacerbating economic vulnerabilities.

External Factors:

* Shocks from natural disasters or commodity price swings, particularly impacting low-income countries dependent on limited exports.
* Policies in other countries and global crises.
* Balance of payment problems.

Crises typically result in slowed growth, higher unemployment, reduced incomes, and increased uncertainty, often leading to deep recessions and, in severe cases, sovereign debt defaults or restructurings.

## Lending Instruments

The IMF’s various lending instruments are tailored to different types of balance of payment needs as well as the specific circumstances of its diverse membership.

### General Resources Account (GRA: Non-Concessional Terms)

All IMF members are eligible to access the Fund’s resources in this account on non – concessional terms.

1. Extended Funds Facility (EFF)
2. Flexible Credit Line (FCL)
3. Rapid Financing Instrument (RFI)

### Poverty Reduction and Growth Trust (PRGT: Concessional Terms)

IMF also provides concessional financial support currently at zero interest rate through this instrument which is better tailored to the diversity and needs of low-income countries.

Extended Credit Facility (ECF)

Precautionary and Liquidity Line (PLL)

Rapid Credit Financing (RCF)

Figure 4: IMF Extended Arrangements

Source: IMF Data

Figure 5:ECF Arrangements

Source: IMF Data

Figure 6:RCF Loans – Kenya

Source: IMF Data

### Stand-by Arrangements (SBAs)

For emerging and advanced market economies in crises, the bulk of IMF assistance has been provided through SBAs to address short-term or potential balance payment problems.

Figure 7: Stand-by Arrangements

Source: IMF Data

### Stand-by Credit Facility (SCF)

Serves a similar purpose as SBA but for low-income countries.

### Non-financial Signaling Instruments

1. Policy Coordination Instrument (PSI)
2. Policy Support Instrument (PSI)
3. The Resilient and Sustainability Facility (RSF)

## Disbursement

When a member country requests assistance, an IMF staff team collaborates with the government to evaluate the economic and financial situation. They determine the country's overall financing needs and agree on an appropriate policy response.

Before the IMF provides a loan, the country and the IMF must agree on a program of economic policies, known as policy conditionalities. These commitments are crucial to IMF lending. The policy program is typically outlined in a "Letter of Intent" and detailed further in a "Memorandum of Understanding," which is then presented to the IMF’s Executive Board for approval.

## Review

The IMF monitors the implementation of agreed policy actions to review progress. For some arrangements, countries with established commitments to sound policies can access IMF resources with no or limited conditionality (e.g., Flexible Credit Line (FCL), Precautionary and Liquidity Line (PLL)). For urgent needs or limited policy implementation capacity due to shocks or fragility, the IMF provides resources under Rapid Financing Instrument (RFI) and Rapid Credit Facility (RCF).

Once an agreement is reached on policies and financing, a recommendation is made to the IMF’s Executive Board to endorse the country’s policy intentions and grant access to IMF resources. This process can be expedited through the IMF’s Emergency Financing Mechanism. Ensuring the country's return to economic and financial stability is essential for the repayment of IMF funds, making resources available to other member countries.

## Surveillance

IMF surveillance involves annual bilateral consultations where IMF staff visit each member country to discuss economic conditions, fiscal and monetary policies, and potential economic risks with government officials and stakeholders.

Following the visit, the IMF compiles a staff report with evaluations and recommendations, the views of the IMF Executive Board, a summary press release, and occasionally a summary from the country’s Executive Director. These components together form the Article

### Global Oversight

#### The IMF monitors regional and global economic trends, analyzing how member country policies may impact neighboring countries and the global economy. It issues periodic reports on these trends and analyses, including:

### Periodic IMF Reports

**World Economic Outlook:** Provides detailed analysis of the global economy, addressing issues such as the macroeconomic effects of financial turmoil and spillovers from major economies.

**Global Financial Stability Report:** Assesses global capital markets and financial imbalances, identifying potential risks to stability.

**Fiscal Monitor:** Updates medium-term fiscal projections and assesses public finance developments.

**Regional Economic Reports:** Offers analysis of major world regions.

**Mutual Assessment Process:** Analyzes member country policies in cooperation with G20 countries to promote sustained global growth.

**External Sector Reports:** Analyzes external positions of major economies, assessing current accounts, exchange rates, and capital flows.

**Global Policy Agenda:** Issued biannually, it summarizes key findings and policy advice from multilateral reports, proposing future policy agendas.

IMF surveillance is regularly reviewed and updated through various reports, including the 2012 Integrated Surveillance Decision, 2014 Triennial Surveillance Review, 2018 Interim Surveillance Review, and the ongoing Comprehensive Surveillance Review (CSR).

## Technical Assistance and Training Programs

The IMF provides practical support and training primarily to low- and middle-income countries to help manage their economies. This assistance ranges from long-term capacity building to short-notice policy support during financial crises. Delivery methods include staff visits and resident specialists.

Training covers areas such as central banking, monetary policy, tax administration, and official statistics, aiming to enhance economic policy design and implementation. Technical assistance is aligned with country reform agendas and IMF operations, while training courses are offered globally, including at regional centers strategically located worldwide.

## Partnership with Donors

The IMF is enhancing partnerships with donors to leverage its technical assistance and meet recipient countries' needs. This involves pooling donor resources in multi-donor trust funds to supplement IMF resources for technical assistance, leveraging its expertise. The expansion of this model is envisioned regionally and thematically, offering donors various entry points aligned with their priorities. Topical trust funds cover areas such as anti-money laundering, public financial management, and financial sector stability.

# THE WORLD TRADE ORGANIZATION

## Background

Commencing operations on January 1, 1995, pursuant to the 1994 Marrakesh Agreement and replacing the General Agreement on Tariffs and Trade (GATT), the WTO is an intergovernmental organization that regulates and facilitates international trade by providing both a framework and dispute resolution mechanism. Governments use the organization to establish, revise and enforce the rules that govern international trade. It is the world’s largest international economic organization with 164 member states representing over 98% of global trade and global GDP.

## Framework

The WTO facilitates trade in goods, services, and intellectual property among participating countries by providing a framework for negotiating trade agreements, which usually aim to reduce or eliminate tariffs, quotas, and other restrictions. These agreements are signed by representatives of member governments and ratified by their legislatures.

## Dispute Resolution Mechanism

The WTO administers independent dispute resolution for enforcing participants adherence to trade agreements and resolving trade-related disputes. The organization prohibits discrimination between trading partners but provides exceptions for environmental protection, national security, and other important goals.

These ideas are established in a six-part list of about 60 agreements, annexes, decisions and understandings: -

Figure 8: WTO Agreements

## History of World Trade Organization

The Uruguay round was the biggest negotiating mandate on trade ever agreed. The talks aimed to extend the trading system into several new areas, notably trade in services and intellectual property and to reform trade in the sensitive sectors of agriculture and textiles. GATT still exists as the WTO’s umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations.

## Budget and Organization Structure

The WTO’s annual budget is roughly US$ 220 million, which is contributed by members based on their proportion of international trade.

Figure 9: WTO Organization Structure

Figure 10: Committees

## 

Figure 11: Working Groups

## Accession and Membership

The process of becoming a WTO member is unique to each applicant country and the terms of accession are dependent upon the country’s stage of economic development and the current trade regime.

Figure 12: Membership Process

# CRITICISMS

Critics argue that the BWIs' policies prioritize economic growth over equity, exacerbating social and environmental challenges.

## Under-representation of the Global South

**Under-representation of the Global South** The distribution of voting power in BWIs favors wealthier nations, with the United States holding significant influence due to its large voting share. Despite shifts in global economic power, the voting structure remains outdated, hindering the voice of developing countries.

**Austerity Measures** BWIs often prescribe austerity measures to reduce government debt, leading to cuts in essential services and disproportionately affecting low-income earners. These policies, criticized for exacerbating inequality, are seen as ineffective by many economists.

**Undermining The Sovereignty of Borrower Nations** Policy conditions attached to loans undermine the sovereignty of borrower nations, limiting their policy autonomy. Additionally, the BWIs' influence extends beyond formal lending programs through research, publications, and policy advice, further constraining policy space.

**Biased and Inconsistent Decision-making** BWIs have faced criticism for decisions benefiting certain stakeholders, leading to accusations of political influence. Despite evaluation mechanisms, recommendations for reform are often overlooked, undermining accountability.

**Immunity From Legal Action** The limited mandates of accountability mechanisms within BWIs hinder redress for affected communities, particularly in cases of project-related grievances.

**Opaque Nature of Investments in Financial Institutions** Lack of transparency in financial institution investments, especially in fossil fuel projects, undermines climate goals and environmental sustainability.

**Social and Environmental Impact** BWIs' projects have been linked to social and environmental harm, including gender-based violence and climate change exacerbation. Concerns persist over governance, environmental impact, and adherence to human rights standards.

**Minimal Positive Impact** While BWIs claim to alleviate poverty and promote economic growth, evidence suggests limited success, with China credited for much of the poverty reduction achieved in recent decades. Poverty rates remain high in certain regions, and BWIs' measurement methods are contentious.

# Conclusion

The slow pace of reforms within BWIs, exemplified by modest increases in quotas for emerging market and developing economies (EMDEs), underscores the pressing need for modernization. Growing discontent, notably from countries like China, with the antiquated governance structures has spurred the establishment of alternative institutions like the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB). These developments pose significant challenges to global multilateralism, necessitating a proactive response. The COVID-19 pandemic has underscored the importance of robust multilateralism and coordinated global responses to crises. BWIs remain pivotal in this regard. However, their legitimacy and effectiveness have been hampered by insufficient reforms, constraining their ability to effectively serve the global community's interests. Despite decades of inertia, the current era of heightened volatility and uncertainty demands meaningful reforms within BWIs, shifting them from a luxury to a necessity in the "new normal" world.