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for

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Bretton Woods System at 80: Historical and Emerging Challenges and Options for Reforms

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The Islamic Development Bank (IsDB) Group extends its appreciation to the Intergovernmental Group of Twenty-Four (G-24) for the invitation to the G-24 Ministerial Meeting. At a time when global economic governance is facing unprecedented challenges, the 80th anniversary of the Bretton Woods Institutions offers a timely opportunity to reflect on the evolution of multilateral cooperation and chart a forward-looking path for sustainable and inclusive development.

The Bretton Woods Institutions—the IMF and World Bank—were created in 1944 to help restore and sustain the benefits of global integration by promoting international economic cooperation. In this regard, remarkable progress has been made over the past eight decades. However, recent geopolitical crises and economic turbulence have underscored the risks of global fragmentation and a reversal of hard-earned development gains achieved over the past few decades.

In light of these challenges, the need for bold reforms in global governance is no longer an option; it is imperative. Without accelerated reforms, unresolved global issues—ranging from the climate crisis to rising inequality—will remain unaddressed, and the institutions built to protect global prosperity may become relics of the past. The urgency to adapt and transform has never been more pressing as the world confronts a complex, evolving set of challenges that transcend borders and demand collective action.

Ending poverty and fostering sustainable development

Despite the tremendous gains in poverty reduction achieved in the three decades leading up to the COVID-19 pandemic, the world is now at risk of missing its target to eliminate extreme poverty by 2030. If current trends persist, around 600 million people—or 7 percent of the global population—will remain in extreme poverty, with the overwhelming majority residing in Sub-Saharan Africa. The ongoing polycrisis, marked by economic disruptions, geopolitical tensions, and climate shocks, has exacerbated this challenge, derailed global efforts, and set back poverty reduction by roughly three years between 2020 and 2022. This stark reality calls for a renewed focus on building more resilient economies and addressing the structural vulnerabilities that leave so many communities at risk.

Moreover, the most vulnerable economies are faced with a troubling trend of a development reversal marked by a lower growth in per capita income than wealthier economies. As a result, a growing number of people in these regions are facing severe hunger and malnutrition, driven by high food prices. The situation is compounded by mounting debt pressures, as many of these countries are either already in debt distress or teetering on the brink, severely limiting their capacity to invest in critical development needs.

Low income levels, weak development progress, and widespread poverty often fuel fragility and conflict. In many cases, economic stagnation combined with political instability creates a vicious cycle that exacerbates insecurity and prevents long-term development. Today, forty fragile and conflict-affected states across the world are home to approximately 1 billion people, many of whom live in extreme poverty conditions. Even in countries where per capita income exceeds the extreme poverty line, widespread insecurity and poor access to essential services—such as healthcare, education, and basic public infrastructure—continue to adversely impact the quality of life for millions. This fragility not only threatens regional stability but also poses significant risks to global peace and economic security.

More worryingly, the projections for poverty and economic prospects show little improvement in these countries. Despite global efforts to reduce poverty, fragile and conflict-affected states (FCS) remain trapped in cycles of instability and underdevelopment, undermining progress. It is estimated that by 2030, FCS will account for 60 percent of impoverished people globally, a staggering reality that highlights the urgent need for targeted interventions. Without addressing the root causes of fragility—conflict, governance failures, and institutional weaknesses—the international community risks leaving these vulnerable populations further behind.

Expanding development support for vulnerable and fragile economies presents significant challenges, largely driven by the heightened financial and operational risks that stem from their volatile geopolitical and macroeconomic environments. These regions are often mired in instability, making traditional approaches to development financing unsustainable and inefficient. However, it is precisely in these contexts that development institutions must innovate, forging new partnerships and enhancing risk-sharing mechanisms to amplify their impact. This will require breaking away from one-size-fits-all solutions and adopting tailored strategies that address the unique vulnerabilities of these economies. Institutional frameworks must evolve, adapting to the elevated levels of risk and uncertainty that define today's development landscape.

The need for increased collaboration amongst financial institutions to enhance their development impact has gained significant momentum, hence the call for "better, bigger, and more effective multilateral development banks (MDBs)."

The Bretton Woods Institutions have a critical role to play in fostering collaboration and partnership among MDBs due to their global membership, institutional background, and significant resources.

It is critical to step up our efforts towards strengthening co-financing and catalyzing private sector engagement to scale up financing and maximize impact. Stronger coordination and collaboration are also required at the country level to build synergies, develop capacities, and realize efficiency gains while aligning with the strategic priorities of the member countries.

Enhancing resilience to recurrent shocks through reinforced global safety nets

Strengthening resilience to recurring global shocks requires the urgent reinforcement of global safety nets. To this end, helping countries cope with macroeconomic shocks remains a core mandate of the IMF. It is, therefore, essential that the institution continues to enhance its core functions of economic stabilization and crisis management to support its members in an uncertain and shock-prone world. The Fund's unique role at the center of the global financial safety net needs to be reinforced. Accordingly, its permanent quota resources need to be boosted, enabling the institution to bolster its capacity to protect vulnerable economies against future crises. Equally critical, however, is ensuring that those economies most in need can access these resources, as traditional financial assistance is often out of reach for the most vulnerable nations. Reforming access mechanisms is not just a matter of resource allocation; it is about equitable protection for all economies, especially those on the margins of the global system.

While high-income countries' reserves and borrowing capacity usually enable them to counter shocks through public spending, emerging markets and low-income countries' coping mechanisms are severely curtailed by their limited reserves and access to financial markets. They tend to rely on official sources of finance, especially the IMF, to scale up their response to shocks.

Moreover, we must come together to boost collaborative action on climate initiatives. Climate change poses a collective challenge, and addressing it requires joint action that extends beyond national borders. By focusing on just transitions, we can ensure that our efforts toward a greener economy are fair, inclusive, and beneficial to all, especially the most vulnerable.

In an environment where global cooperation is losing steam due to increasing geoeconomic fragmentation, the roles and mandates of the Bretton Woods institutions must be reassessed to adapt to the shifting global landscape. It is crucial for these institutions to maintain a credible framework for global coordination and robust surveillance mechanisms to safeguard macroeconomic and financial stability. Without this, the risk of uncoordinated responses to crises, rising protectionism, and unchecked financial instability could threaten the hard-earned progress of the global economy.

Addressing debt vulnerabilities

Debt vulnerabilities have been rising in the context of global polycrisis as countries struggle to navigate the economic fallout from multiple shocks, including the pandemic, geopolitical conflicts, and climate change. Preventing liquidity crises from spiraling into solvency issues necessitates that these vulnerabilities be addressed promptly and decisively. Timely intervention is essential to safeguard financial stability and ensure that countries can meet their debt obligations without compromising development goals. In this regard, the IMF, along with multilateral development banks, should prioritize the development of domestic capital markets, including Islamic capital markets, as these can provide alternative financing options. Promoting local currency lending and foreign exchange hedging is equally important, as it helps mitigate the risks associated with currency volatility and external shocks, enhancing long-term debt sustainability.

The push to promote asset-based financing can deliver multiple benefits, from enhancing fiscal discipline to ensuring long-term sustainability. However, its full potential can only be realized if the appropriate ecosystem is in place, enabling private and foreign capital to flow effectively. Strengthening domestic capital markets is a crucial step in this direction, as it increases funding capacity, diversifies financial resources, and taps into private sector expertise. By leveraging these strengths, countries can better distribute risks, thereby improving both their economic and financial resilience. With their focus on risk-sharing, Islamic capital markets offer an innovative platform that aligns with the capital-raising needs of emerging and frontier markets.

Moreover, many developing economies are grappling with a mounting debt crisis, with foreign currency debt disproportionately impacting their ability to repay. The escalating debt service requirements pose a significant challenge to low-income countries, potentially scarring their long-term socioeconomic impacts. This highlights the need for enhanced collaboration and coordination among IFIs to ensure the right balance between debt sustainability and the need to address critical development challenges such as food security, climate change adaptation, and connectivity.

For countries already in debt distress, debt restructuring should be accelerated beyond the current offering of the common framework. The urgency lies in preventing prolonged financial instability, which can hinder recovery and exacerbate social and economic challenges. Initiatives to speed up implementation and increase non-traditional creditors' participation should be considered. Likewise, eligibility criteria should be revised to include middle-income countries where needed.

Conclusion

Reforming in an era of high volatility and uncertainty is not just critical but also challenging. It requires caution and pragmatism. A grand strategy for the future should not be at the expense of the present. This balance between long-term vision and short-term realities is essential to ensure sustainable progress. As we mark this anniversary, a candid and objective assessment of current practices—both operational and cultural—is imperative. We must identify what is working well and, more importantly, where gaps exist to inform reforms that are both realistic and impactful.

Multilateral financial institutions must demonstrate a deeper commitment to evenhandedness, particularly in terms of access to funding and technical assistance programs. Many emerging economies face disproportionate barriers when seeking support, and this undermines their potential to contribute to global growth. Equally important is the need for more inclusive policy advice tailored to the unique challenges and opportunities of developing nations. Policy frameworks that reflect the diversity of economic models will empower these nations to pursue sustainable growth paths, ultimately strengthening the global economy.

The call for better representation in global governance is a call for fairness, efficiency, and future-proofing of our financial architecture. By incorporating the voices of emerging and developing economies, we can create institutions that are not only more democratic but also more responsive to the challenges of the modern world. The stakes are high, and the need for reform is urgent. If we are to address the complex and interrelated crises of our time—whether economic inequality, climate change, or geopolitical tensions—we must ensure that global institutions are equipped with the inclusivity and flexibility to meet these challenges head-on.