INTERGOVERNMENTAL GROUP OF TWENTY FOUR

G-24

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The Bretton Woods System at 80:

Key Reforms for the Next Twenty Years

This Special Report summarizes the recommendations of independent experts who participated in the G-24 Bretton Woods Anniversary Roundtable series held between July and September 2024. The recommendations were subsequently discussed at the G-24 Annual Ministerial Meetings in October 2024.

The panelists listed in the Annex attended at least one of four Roundtables and contributed to the recommendations outlined in this report. The G-24 thanks the panelists and participants for their recommendations and valuable insights.

This report is edited by Iyabo Masha, Director, G-24.

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Background

Established 80 years ago, the Bretton Woods institutions (BWIs) have evolved significantly, adapting their mandates, processes, and procedures in response to changes in the global economic environment. During the period, unprecedented globalization driven by trade, investment and finance fueled global economic success. Emerging markets and developing countries (EMDEs) have benefited significantly, with substantial reduction in poverty, and BWIs were central to the process. However, the institutions now face challenges in a rapidly transforming world. Increased financial interconnectedness, digital transformation, climate change, geopolitical tensions, and rising inequality are testing their capacity to address key global issues effectively. Persistent inequality, sluggish growth, and rising indebtedness of developing countries highlight the system's limitations. Though encouraging discussions around several issues are underway, the need for a resilient multilateral system capable of addressing both current and future challenges while taking advantage of emerging opportunities calls for significant reforms in key areas.

The International Monetary Fund and International Monetary Stability

The International Monetary Fund (IMF) was designed to maintain global financial stability. Originally intended as a lender of last resort to manage short-term balance of payment crisis and stabilize markets, the IMF has since expanded the scope of its financing to include long-term structural and climate-related challenges. However, maintaining global financial stability while addressing these additional mandates has become increasingly challenging, requiring reforms to enhance the IMF's effectiveness.

Deepening the Global Financial Safety Net (GFSN) with enhanced short-term liquidity support

IMF's role as the center of the Global Financial Safety Net needs to be aligned to today's international monetary system, which faces complex challenges, particularly in ensuring financial stability and providing short-term liquidity for developing economies. Financial volatility and susceptibility to external shocks have increased, especially for EMDEs with limited access to crisis liquidity at affordable cost. Wealthier economies benefit from more robust support systems, such as unlimited central bank swap lines, regional arrangements like the ECB's Transmission Protection Instrument, and the ability to issue reserve currencies—tools that significantly reduce financial contagion. By contrast, EMDEs often rely on IMF facilities that impose strict fiscal discipline that can exacerbate economic hardship for countries. As a result, most of the facilities are underutilized by the vulnerable economies that need them most. The IMF can address this imbalance by enhancing current arrangements and creating automatic liquidity mechanisms to support countries with sound fundamentals during capital market disruptions. An IMF-supported *Emerging Market Fund*[1] could strengthen EMDE sovereign debt liquidity during systemic crises, ensuring stability without penalizing sound policies.

Enhancing the role of the SDR as a global reserve currency

The Special Drawing Rights (SDRs) was envisioned as a global reserve currency, and it is the only form of global currency backed by all IMF members. Key reforms are required to realize the vision for monetary stability, development financing and payment and settlement roles. First, the accounting limitations which result in its underutilization for liquidity purposes need to be addressed in concert with the central banks of member countries. Secondly, the current SDR interest rate formula would benefit from further review, with a focus on reducing the vulnerability of EMDEs to the adverse impact of changes in the monetary policy of advanced economies, whose interest rates are the determinants of the SDR rate. The scope of SDR for development financing has considerably expanded with recent reviews, including through rechanneling for hybrid capital. However, to emerge as a global reserve currency and truly promote stability across the international financial system, the SDR should be part of ongoing initiatives on the reform of the international payment and settlement architecture.

Meeting global challenges with adequate resources

Increasing the IMF's resources is essential to meet contemporary global challenges effectively. When founded, the IMF's resources represented around 5% of the global economy, and the organization focused only on balance of payment crisis. Today, notwithstanding the added responsibilities on structural, climate, and long-term financing, its resources are less than 1% of the global economy. The current size of IMF's resources is therefore more in line with historical precedents than with current realities. More frequent allocation of SDRs, proportional to the demand for international reserves is warranted to align the size of IMF resources to the scale of global challenges and long-term development needs of its members.

Enhancing capital flow management

As global economic integration deepens, the risks and vulnerabilities associated with multipolarity, and interconnectedness also increase. Consequently, the episodes of capital flow volatility have become a persistent feature of the new global landscape. These fluctuations often exacerbate macroeconomic stability, especially in EMDEs with less developed financial markets. To mitigate these risks, enhanced capital flow management measures are essential. The IMF should play a proactive role in supporting EMDEs in regulating capital inflows and outflows to safeguard sovereign balance sheets and exchange rates. Furthermore, the IMF should deepen collaboration and coordination with Regional Financing Arrangements (RFAs) to manage capital flows across regions and between EMDEs and advanced economies. This coordination is crucial to

[1] This idea was originally proposed by the Latin American Committee on Macroeconomic and Financial Issues (CLAAF), https://claaf.org/wp-content/uploads/2023/12/claaf-statement-special-report-EMF.pdf

address the potential adverse spillover effects of policies implemented by advanced economies on EMDEs.

The World Bank Group and Development Financing

The World Bank Group (WBG) has played a pivotal role in long-term development financing, particularly evident in its contributions to post-war European reconstruction. However, the persistent development gap between developed and developing countries, now compounded by climate change and extreme climate events, highlights the urgent need for comprehensive reforms of its model. Reforming WBG's model is essential for bridging the development divide and fostering shared global prosperity. By enacting these reforms, the WBG can play a more dynamic role in addressing global development and climate challenges, ensuring a more equitable, sustainable future for all.

Scaling and expanding development financing

The WBG's lending capacity has stagnated since 2000 relative to the size of the global economy, limiting its ability to support sustainable development and climate financing. While recent initiatives like balance sheet optimization are positive steps, tripling the WBG lending capacity, as recommended by the G20 Independent High-Level Experts Group would support investments in sustainable development and climate action. Achieving this goal will require additional financing from members, particularly through capital increases, which is very important for reducing overleveraging of the balance sheet. Additionally, the WBG should prioritize offering low-interest, long-term financing—including concessional options for middle-income countries and extended support for climate action—ensuring that developing countries can access resources without incurring unsustainable debt. The International Development Association (IDA) should remain a critical financial lifeline for the world's poorest countries in this regard.

Strengthening collaboration with regional MDBs and national development banks

Strengthening collaboration with regional multilateral development banks (MDBs) is essential to maximizing the impact of financing. A coordinated system can better support equitable and sustainable development and address global public goods, such as climate adaptation, mitigation, and just energy transitions. Furthermore, the WBG must reform its country business model to better leverage national and subnational public development banks in financing structural transformation and sustainable development. Given the scale of investments required for the transition to low-carbon, resilient economies, and the challenges in mobilizing private capital, public development banks should play a much larger role. MDBs and international development finance institutions (DFIs) should collaborate with these banks by providing technical assistance, equity capital, and credit enhancements to strengthen governance, improve creditworthiness, and offer more favorable financing terms.

Deepening domestic capital markets

The WBG should contribute to deepening domestic capital markets by increasing local currency lending, supported by bond placements in those currencies. This would not only mitigate currency risks for recipient countries but also aid in the development of local capital markets. Foreign currency lending should be aligned with foreign exchange-generating activities to reduce risk exposure. Furthermore, the BWI should facilitate the development of foreign currency hedges, as long-term hedges are crucial for development financing due to long gestation periods.

Catalyzing private sector investment

To meet the growing global financing needs for development and climate goals, the WBG must prioritize catalyzing private sector finance. Therefore, working more closely with the private sector will be key. For instance, SDR-linked instruments and guarantees can be better deployed to attract more private capital. Rechanneling SDRs to MDBs could significantly leverage resources for low- and middle-income countries. Expanding the WBG's de-risking efforts through the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID) would further incentivize private investment.

Governance and Institutional Reforms

There is a fundamental trust deficit between the BWIs and developing countries, with the perception that the BWIs primarily serve the interest of major economies. Addressing the trust deficit through quota and governance reforms is crucial for transparency and effectiveness.

Quota reforms

The global economic landscape has changed significantly, with emerging markets and developing economies (EMDEs) now representing a larger share of the global economy. Notwithstanding, the ability of EMDEs to influence decisions, despite their growing share in the global economy, is constrained by an outdated quota system. Furthermore, the share of basic votes in total votes has decreased over time, from 15.6% in 1958 to 5.5% currently. Quota reforms to improve representation would make the IMF a more inclusive and transparent organization. Similarly, the governance of the WBG should also reflect the diversity of its membership. This can be achieved by adjusting the voting power of member countries through selective capital increases, making shareholder capital subscriptions more representative of the relative size of members' economies. Additionally, leadership positions in both institutions should better reflect the diverse membership.

Improving accountability

Accountability mechanisms at the World Bank, International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA) should be strengthened for greater transparency and independence. To enhance IMF accountability, an independent ombudsman should be established to investigate complaints about IMF staff compliance with policies and procedures, similar to the WBG's. This ombudsman will be charged with addressing external complaints, complementing the work of the Independent Evaluation Office without duplicating it.

These reforms aim to strengthen the BWIs role in promoting financial stability, ensuring more equitable global economic support, and preparing the organization to meet the evolving challenges of the global economy.

Sovereign Debt Resolution Framework

Many low-income countries are facing severe debt distress, limiting their ability to pursue climate and development goals, with a growing number of middle-income countries facing similar distress. Despite the pressing need, there is no institutionalized Sovereign Debt Resolution Framework (SDRF). The existing debt resolution mechanism, the G20 Common Framework, similar to past efforts, fails to deliver comprehensive debt relief. Given the scale of the current debt crisis and the limitations of the G20 Common Framework, the world requires a new mechanism for rapid, efficient debt resolution that allows countries to refocus on sustainable, green growth, and that would operate under the IMF and World Bank oversight. The framework should incorporate mechanisms to avoid debt traps by promoting sustainable debt management, supporting climate finance, and aligning financial flows with the Paris Agreement's objectives.

A reformed SDRF should ensure a systematic, transparent, fair, and durable resolution process for sovereign debt crises. This approach would involve enhancements to the *Debt Sustainability Framework* that factor in essential development investments and potential climate or economic shocks. Reforms should also incorporate credit enhancements to lower capital costs and offer liquidity support to countries with limited fiscal space but not yet in debt distress. All creditor classes, including private and commercial creditors, should be required to participate in debt restructurings, ensuring fair treatment and comparability across creditors. Additional provisions, like force majeure and state-contingent clauses, could automatically trigger debt service relief in response to external shocks. The newly launched Climate Resilient Debt Clauses (CRDCs) could operate under the auspices of the SDRF, with the scope expanded to cover a wider range of contingencies, including pandemics and global crises. Additionally, middle- and low-income countries should qualify for these clauses, allowing debt service to be suspended or written off under critical conditions. Addressing systemic challenges, including biased country risk perceptions by credit rating agencies, which lead to higher borrowing costs for Global South nations, is also critical. To enforce compliance, all parties must adhere to the decisions, with credit rating agencies integrated into the process. Reforms to the Common Framework could serve as a foundation, but any new mechanism must operate under the auspices of the BWIs.

Multilateralism, International Tax Cooperation and Trade

The BWIs should leverage their leadership in global economic governance to support critical areas of multilateral cooperation, such as international tax reform and global trade, which are essential for global economic stability. Ongoing reforms in international tax cooperation will help countries boost domestic revenue generation. In this regard, the BWIs should support the UN Framework Convention on International Tax Cooperation (UNFCITC), aimed at building a cohesive global tax architecture. This convention should be inclusive, democratic, and capable of addressing both current and future international tax challenges, with an emphasis on fair, simplified tax rules for cross-border transactions.

Global trade plays a critical role in complementing monetary and development finance systems. The World Trade Organization (WTO) has faced challenges with consensus and compliance, while recent trade tensions have hindered progress in reducing trade barriers. The trend toward intraregional trade and the rise of new trade barriers have exerted pressure on developing countries, manifesting in exchange rate volatility, persistent inflation, and rising job losses. These issues threaten economic gains, poverty reduction efforts, and political stability. Reforms are needed to promote free trade, reduce protectionism, and eliminate unfair trade practices to ensure that trade continues to drive growth and development globally. The BWIs should advocate for a level playing field in both tariff and non-tariff barriers as well as in industrial policies.

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Annex: Seminar and Roundtable Participants

Special Guest

Patrick Achi, External Advisor for *Joint IMF-WB Bretton Woods at 80 Initiative*.
Prime Minister, Cote D'Ivoire (2021-2023)

Panelists

Abdoul Salam Bello, Executive Director (EDS13), World Bank Group
Amar Bhattacharya, Senior Fellow, Global Economy and Development Program, Brookings Institution
Andres Arauz, Senior Research Fellow, Center for Economic and Policy Research
Augusto De La Torre, Professor of International and Public Affairs, Columbia University, member CLAAF
Carlos Lopes, Professor of Nelson Mandela School of Public Governance, former UN-ASG and head of UNECA
Daniel Bradlow, Professor of International Development Law and African Economic Relations, University of Pretoria
Daniel Titelman, Director of the Economic Development Division, ECLAC
Dulce Maria Rivera, Director of Policies, International Financial Institutions, Secretary of Finance, Mexico
Enrique Mendoza, Presidential Professor of Economics and Director of the Penn Institute for Economic Research, University of Pennsylvania; member, CLAAF
Ernesto Talvi, Senior Fellow, Real Instituto Elcano; Committee member, CLAAF
Erwin Sta Ana, Alternate Executive Director (EDS15), and Chair of G-24 Washington Bureau
Fadhel Kaboub, Senior Advisor, Power Shift Africa
Frannie Leautier, Former Vice President, World Bank Group and Senior Vice President at the African Development Bank
Guillermo Calvo, Professor of Economics, International and Public Affairs, Columbia University; member, CLAAF
Hanan Morsy, Deputy Executive Secretary and Chief Economist, United Nations Economic Commission for Africa
Hassatou N'sele, Vice President, African Development Bank Group
Irene Monasterolo, Professor of Climate Finance, Utrecht University School of Economics
Iyabo Masha, Director, Intergovernmental Group of Twenty-Four (G-24)
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John Asafu-Adjaye, Senior Fellow, African Center for Economic Transformation
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Kevin Gallagher, Director, Boston University Global Development Policy Center
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