Whatever happened at the Spring Meetings?*

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Ministers, central bankers, officials and civil society activists returning home from Washington after the Spring Meetings of the World Bank and the International Monetary Fund held in April 2023 were not clear as to what the outcomes of the meetings, however minor, were. To the extent some of them have spoken on what they thought was achieved, opinions diverge significantly. This is of relevance because the Bank and the Fund sit, legitimately or not, at the apex of the international financial architecture. Their roles differ, though in recent times the line dividing their responsibilities has blurred.

The World Bank, along with other multilateral development banks, is a crucial agent in the global recycling of surpluses, from countries with balance of payments surfeits to those in deficit and needing finance, especially in the form of hard currency, to advance their development agendas. The World Bank's financing remit stretches from physical to social infrastructure and beyond. And with the growing emphasis on the SDGs and the climate crisis in the international development discourse, the World Bank is under pressure to widen the ambit and objectives of its lending.

The IMF on the other hand was originally mandated to manage the global balance of payments and exchange rates and has in recent years focused on providing finance for balance of payments stressed countries in return for adoption of policies the Fund claims will help restore external equilibrium. The number of countries needing emergency external financing has risen over the last three years, with many faced with debt distress and defaulting on external debt payments. This has made the IMF an important player in managing less-developed country stress points in the global financial order. It is of course true that the IMF is not a 'bank' in any sense, so the financing it provides, even when it does, is limited. But its strength comes from its claim that it can not only draw out additional financing to support its adjustment programmes from the multilateral development banks and the developed countries, but also trigger a revival of the interest of private financial investors in the country concerned, leading to additional flows of finance post adjustment and debt restructuring, if any. In addition, it is through the IMF that the international community can agree to issue a new tranche of Special Drawing Rights, that increases developing country access to low-cost international liquidity.

However, for quite some years now, while low- and middle-income countries saw no alternative but to turn to the Bretton Woods institutions, especially the IMF, for help when they were faced with balance of payments difficulties, disappointment with the ability of these institutions to deliver resolution and eternal sustainability has been on the rise. It has also been clear that while the IMF has been successful in forcing adjustment, involving measures imposing austerity and economic contraction, in these countries, it has failed to ensure adequate access to liquidity to revive growth and prevent a recurrence of severe balance of payments difficulties.

The IMF's record thus far has reflected long delays in the provision of finance, inability to generate workable Debt Sustainability Analyses, and above all a failure to convince the principal creditors to accept the haircuts and policies it recommends, even if it is in a position to get desperately poor countries to begin implementing those policies even before the IMF or the actual creditors offer a package. Most developing countries are also not satisfied with the record of the World Bank in mobilising and reaching finance when needed in volumes anywhere near that required, and see its interventions as geared to impose the same policy regime that the IMF advocates. The fact that even those poor countries that were the beneficiaries of "debt forgiveness" organised as part of the Highly Indebted Poor Countries Initiative supplemented with the Multilateral Debt Relief Initiative, are once again experiencing debt stress today, is taken as an indication that the IMF's interventions worsen rather than resolve the problem. This is, for example, the 17th time since 1965 that Sri Lanka has turned to the IMF for a financing programme.

The World Bank too has been the target of much criticism. Besides the fact that the institution provides limited finance in return for policy turns that are inimical to development, it has been seen as covertly and overtly promoting global business interests at national and social cost to recipient countries, and of being in the process untrue to the objectives embedded in its rhetoric: funding fossil fuel projects while speaking of the need to reduce dependence on those fuels for energy, for example, or supporting projects that violate internationally accepted norms with regard to environmental standards and safeguards or conditions of workers.

This has given rise to two kinds of views on the change needed today. The more 'radical' one draws from experience the lesson that the prevailing international architecture with these two Bretton Woods institutions at the apex is not fit for purpose when it comes to dealing with the challenges that past policies and development trajectories have given rise to. They are seen as part of the problem rather than the solution. Hence, in this view, 'reform' of the global financial architecture requires a dilution of their role or their attrition, at least in current form, as part of any exercise at shaping a new architecture that mitigates external stress and facilitates the flow of capital to projects that the new challenges have made imperative. Clearly, the Spring Meetings of the Bretton Woods institutions cannot be the location where they write their own epitaph, as it were, to pave way for a new international financial architecture.

So, if there were expectations regarding the Spring Meetings, it was only that these institutions would embark on a journey to reform themselves to becoming meaningful and effective as they can be. Two major challenges face the Bretton Woods institutions and the financial architecture they front. In the short run, it is imperative to relieve external debt stress in poor countries and restore a semblance of balance of payments stability, so that they can return to growth and the pursuit of the Sustainable Development Goals (SDGs). This would require not only the rescheduling of past debt but inflows of new capital to these countries. And this agenda should not be made contingent on the adoption of measures, emphasising austerity, that deprive these countries of the needed policy and fiscal space need for successful 'adjustment'.

In the medium and long run, the architecture will have to find ways of unlocking global and national resources for investments and expenditures needed to realise the SDGs as well as align financial flows with the goals adopted as part of the Paris Agreement on addressing climate change. These resources will also have to be a combination of not just public and private capital, but of grants, concessional credit and commercial loans, principally the first two, to meet financing needs in projects in which returns and profits vary widely.

The participants in the Spring Meetings had a plan before them to deal with both the short-term and long-term challenges, in the form of the much discussed Bridgetown Initiative, mooted by Barbadian Prime Minister Mia Mottley and her climate finance ambassador, Avinash Persaud, which addressed how the international community can come together to realise these goals. That there was some agreement that the plan for international cooperation incorporated in the Bridgetown Initiative and the components thereof were a good basis for bringing creditors and debtors together at the same table was reflected in the French decision to host a summit in Paris, initially referred to as the Macron-Motley summit, to work out a strategy for addressing the unfolding debt crisis. The international community also had as precedent the G20's Common Framework for Debt Treatments, which is an agreement of the G20 and Paris Club countries to coordinate and cooperate on debt treatments for low-income countries that were eligible for the G20s Debt Service Suspension Initiative (DSSI).

Despite this, not much progress was achieved on addressing short and long-term issues. Though IMF research seems to have grudgingly recognised the fact that austerity measures or "fiscal consolidation', by contracting GDP, does not help reduce the external debt to GDP ratio or raise the capacity of countries to service their external debt, the institution made a case for fiscal conservatism to deal with inflation, which it sees as being excessively damaging for growth and poverty reduction. On debt, the only 'progress' was a meeting of the recently launched Global Sovereign Debt Roundtable (GSDR), which laid out what it sees as crucial features of a cooperative debt resolution framework: transparency when developing the IMF's debt sustainability assessment for a country; need for comparability of treatment across creditors; and, a greater contribution of the multilateral development banks to debt restructuring efforts through the provision of additional finance. But little progress was achieved on giving substance to these recommendations, let alone setting a timeline for implementation.

Secondly, the IMF still ignores the fact that many developing countries have experienced multiple balance of payments crises, especially since the 1980s, and a few of them have been through multiple IMF programmes. This does suggest that either the IMF has miserably failed to get these countries to adopt the policies they promised to implement in return for emergency financing from the Fund, or that the policy package it recommends just does not resolve the problem. Yet there is no recognition of the need to change the policy prescriptions associated with debt restructuring programmes led by the IMF. That only increases the possibility of another round of failures.

Having taken the position that the IMF and the World Bank have done nothing wrong, the Bretton Woods twins needed to provide an explanation for the failure to arrive at debt rescheduling agreements in most countries faced with debt stress. An extreme example is Zambia that defaulted as far back as 2020. The explanation in circulation, endorsed by the IMF, is that resolution is difficult because China, which in most instances has become the leading bilateral creditor, refuses to play ball and join the table with the advanced economy creditors belonging to the Paris Club, and agree to shoulder a big share of the burden of resolution as per an IMF endorsed restructuring plan and programme.

The contradictions implicit in the position of the IMF and its dominant shareholders seem to elude them when pointing fingers at China. The financial architecture in which the IMF, controlled by the advanced nations through a voting structure and rulebook that give the United States a veto on all its major decisions, was established in an era where capital flows from the advanced nations to the poorer ones dominated global cross-border flows, and much of this was in the form of "official" flows through the bilateral and multilateral 'aid' network. It was in that context that the IMF had the lead role in managing the global balance of payments. When private flows gained ground after the 1980s, the IMF continued as global ma nager and disciplinarian, ensuring that the interests of financial players backed by advanced nation governments were protected when restructuring of debt became unavoidable in debt stressed situations. Advanced nation governments, especially the US government was willing to contribute disproportionately to such resolution efforts to help their national private financial interests.

The big change in recent years, however, is that China has emerged as a major creditor, especially in Africa and Asia. This has resulted in discordance between the relative importance of nations as sources of credit and in their relative role in efforts to resolve debt stress wherever it arises. What the advanced nations, the IMF and the World Bank want are for the old resolution framework, with the IMF at the centre, to continue despite the changed pattern of credit flows, and for China as a major creditor to fall in line with the recommendations emerging from that framework. China is unwilling, not seeing why it should accept the distribution of the burden of resolution across creditors that the IMF prescribes, nor necessarily seeing IMF-style adjustment programmes as the best way to ensure debt sustainability in future. It wants an important role in the making of Debt Sustainability Assessments, in determining burden sharing, and in deciding the adjustment programme that must accompany the resolution effort. If international cooperation must be forged in the new environment, the IMF must either move out or at least change its perspective and mode of operation. However, the latter requires a change in the interests that the IMF chooses to or is forced to serve, to ensure which the distribution of IMF quotas and the consequent distribution of votes must reflect the new reality. That would require not China but the US to fall in line, and not use its veto to prevent a restructuring of quotas and the distribution of control that entails. As curtains fell on the Spring Meetings of 2023, there was no evidence that the US would comply.

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