International Financial Institutions as Agents of Neoliberalism

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1. Introduction

International financial institutions (IFIs) have been described as 'the world's most powerful agents of economic reform' (Halliday and Carruthers 2007). These organizations provide financing to national governments–usually, although not exclusively, the governments of developing countries. The two most prominent IFIs, by far, are the International Monetary Fund (IMF) and the World Bank.[1] In the 1980s, these two organizations began to enjoy unprecedented influence over the economies of the countries that turned to them for support. At that time, IFIs made access to their resources conditional on extensive domestic policy reforms, including opening to trade and international finance, privatizing natural resources and state-owned enterprises, deregulating economic activities, reforming the provision of social services, and a range of market-oriented institutional reforms (Stiglitz 2002; Summers and Pritchett 1993; Toye 1994).

In this chapter, we revisit the relationship between the two most powerful IFIs–the IMF and the World Bank–and neoliberalism. The term 'neoliberalism' has lost precision in recent years due to overuse and conflicting definitions (Boas and Gans-Morse 2009). Indeed, IFIs and their supporters reject the 'neoliberal' label, which was originally coined to refer to the

[1]Some of the less well-known IFIs include the European Investment Bank, regional development banks (such as the Asian, African, and Inter-American Development Banks), and sub-regional banks.

extreme pro-market philosophies of figures such as Friedrich Hayek (Williamson 2003). For the purpose of this essay, we employ a more expansive definition: by 'neoliberal policy,' we mean any measure intended to lessen the role of states and enhance the role of markets in at least one national economy. In the sections that follow, we begin with an overview of the origins and mandates of the IMF and World Bank. Second, we examine how they have promoted policy reforms across the world. Subsequently, we focus on the ways in which IFIs have been critical to the emergence of neoliberalism, and ask whether they are still neoliberal today. We conclude with an assessment of recent transformations in the field of international economic policymaking.

2. The IMF and the World Bank: a short introduction

In July 1944, representatives from 44 countries gathered in Bretton Woods, New Hampshireto lay the foundations of the post-war economic order. One of the key failures of the League of Nations–the precursor to the United Nations–was in the field of international economic cooperation. The Bretton Woods conference was intended to address the issue by putting in place a system of global financial and monetary governance (Mazower 2012). The basic contours of the agreement had been negotiated in the midst of World War II by the Americans and the British (Ikenberry 1992; Steil 2013). These world leaders envisioned a system of 'free and stable exchanges': freedom was guaranteed by the removal of exchange controls and other restrictions; stability was underpinned by adjustable pegs to the U.S. dollar, and ultimately backed by gold (Cooper 1975). At the same time, countries were guaranteed adequate policy space to adjust their exchange rates and to keep their economies at full employment (Ruggie 1982). In addition, these leaders acknowledged the need for international public financing for economic development and postwar reconstruction (Ruggie 1982). Famously, the Bretton Woods conference led to the establishment of the so-called Bretton Woods twins: the IMF and the International Bank for Reconstruction and Development (IBRD, soon known simply as the World Bank).

The job of the IMF was to oversee and support the Bretton Woods system of pegged exchange rates. It did so by performing two key functions: overseeing the exchange rates of member governments; and making its financial resources 'temporarily available to [members] under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity' (IMF 2011:2). However, following the United States' decision in 1971 to suspend the convertibility of dollars into gold, international monetary relations became unstable and by 1973 countries moved towards floating exchange rates. As a result, the first component of the IMF's operations became redundant (de Vries 1986). It is only the second aspect of the Fund's original mandate that survives until today. Yet, as we discuss below, there has been sustained controversy over how to put this mandate into practice.

For its part, the World Bank was set up to provide investment capital for postwar reconstruction and economic development. Although development was a major aspect of its mandate, the World Bank's impact on developing countries was initially quite limited–partly because the Bank was at first focused on postwar reconstruction, and partly because poorer countries could not afford IBRD interest rates (Mason and Asher 1973). At that time the World Bank specialized in lending for tangible, profitable infrastructure projects, such as ports, railroads, and hydroelectric dams. In response to demands of developing countries for greater financing, in 1960 world leaders established an additional organization within the World Bank, the International Development Association (IDA). Unlike IBRD, IDA had a mandate to improve living standards in the least developed countries, and provided loans at subsidized interest rates. The addition of the IDA made the World Bank more of a development-focused organization. Under the leadership of World Bank president Robert McNamara, from 1968 to 1990, the Bank's mandate expanded beyond the initial focus on infrastructural development to encompass the eradication of global poverty (Kapur, Lewis, and Webb 1997). However, McNamara's Bank continued the tradition of focusing overwhelmingly on project lending–for example, making loans to build roads or schools–rather than so-called 'program' lending to support policy reforms (Kapur et al. 1997:487).

3. How IFIs promote policy reforms

Despite common origins, the Bretton Woods twins' mandates have given rise to different staff priorities. The IMF is focused primarily on addressing short- and medium-term issues, like pressing financial crises, while the World Bank's development and poverty eradication objectives have a longer-term outlook. These priorities–in turn–have given rise to distinct organizational cultures. As Kapur et al. (1997:622) report, 'in contrast to the Fund, which is often caricatured as the multilateral equivalent of the Catholic Church, the Bank has been likened to a contentious collection of Protestant sects': IMF staff are notorious for their discipline, in contrast to the more open culture prevalent at the World Bank (Boughton 2001; Woods 2006).

Nonetheless, the IMF and the World Bank have always exhibited important organizational similarities. Both are staffed by bureaucrats trained in elite universities, commonly in

North America or Britain (Chwieroth 2009; S. C. Nelson 2014). Each bureaucracy is headed by an individual–a Managing Director at the IMF and a President at the Bank–with considerable authority in world economic affairs. By convention, the IMF's leader is European (currently, Christine Lagarde of France) and an American heads the World Bank (currently, Jim Kim). The day-to-day activities of these organizations are governed by their Executive Boards, which are composed of member government representatives who decide on a range of key issues, including the approval of loans and the establishment of new organizational policies.

Perhaps most importantly, both the Bank and the Fund are located in Washington, D.C. and dominated by the United States and other wealthy countries that contribute most to their capital base. Since the founding of these organizations, the United States has held the largest block of weighted voting shares in both (as of 2015, 16.7% at the IMF and 16.1% at the World Bank), followed by other developed countries, such as Japan, Germany, France and the United Kingdom, who together control more than 60 percent of voting shares (Vestergaard and Wade 2015). In practice, votes rarely take place and both organizations have a strong emphasis on building consensus on the Executive Boards (Portugal 2005). The U.S. Treasury–the federal agency in charge of American policy toward the IFIs–exercises considerable influence not only because of its voting share, but also due to geographical proximity and the credible threat of withholding approval for IFI contributions (Babb 2009; Evans and Finnemore 2001; Woods 2006).[2]

The two organizations also possess a similar array of tools for persuading governments to adopt reforms. Unlike colonial administrations, IFIs lack immediate control over national governments' policies. IFIs must therefore rely on indirect forms of influence, the best known of which is conditionality: the practice of requiring policy reforms in exchange for access to resources. In conditional lending arrangements with IFIs, policy reforms are outlined in documents specifying timetables for their introduction and are assessed on a regular basis. Non-implementation can result in delays in loan disbursements and–ultimately–the suspension of lending altogether. Conditionality became much more important starting in the 1980s, when it was used by the IMF, the World Bank, and other multilateral and bilateral lenders, as a means of promoting neoliberal policies (Stallings 1992; Williamson 1990).

While conditionality is the best-known mechanism via which IFIs affect domestic policies, these institutions also rely on subtler means of persuasion. IFIs are powerful not only because they can withhold access to their resources, but also because they possess consider-

[2]The U.S. is uniquely positioned to make this threat because of its presidential system, which allows for divided government and the possibility that Congress will block appropriations for IFIs. This threat has been wielded most effectively by Congressional Republicans (see Babb 2009).

able expert authority (Barnett and Finnemore 2004:24). Both the World Bank and IMF are permeated by professional expertise: currently, the IMF employs about 2,400 individuals, mostly economists, and the World Bank has a more diverse staff of over 10,000, including economists, social scientists and engineers (IMF 2015; Thornton 2013). Both organizations have research departments–commonly headed by prominent academic economists–that produce a torrent of influential research papers and reports. The World Bank's annual World Development Report is probably the most widely-read publication in the development field, and World Bank research is recognized by supporters and critics alike as setting the terms of international development debates (Broad 2006; George and Sabelli 1994:194; Mallaby 2004:71; Pincus and Winters 2002:219-20; Ranis 1997:73; Stern and Ferreira 1997). Similarly, the IMF's flagship publication, the World Economic Outlook, is highly influential among policy elites as it presents short- and medium-term forecasts for economic growth and inflation (IEO 2014). World Bank and IMF publications are widely read by scholars and policymakers around the world. However, they are not vetted through a scientific peer review process, and have been observed to gravitate toward positions officially endorsed by each organization. For instance, a recent IMF assessment of its own research output found that 'many studies had conclusions and recommendations that did not appear to flow from the analysis and other studies seemed to be designed with the conclusions in mind' (IEO 2011 p. vii). One study of the World Bank similarly found that the Bank discouraged 'dissonant discourse' through selective hiring and promotion, through its process for reviewing research, and through selective framing of research results (Broad 2006).

IFIs' well-established expertise provides them with opportunities to influence policies through means other than conditionality. For example, Kedar (2013) shows how Argentinian officials in the 1960s and 1970s agreed to IMF recommendations in their routine encounters with IMF officials, who had far greater knowledge and experience. Governments often invite IFIs to participate in technical assistance missions designed to transfer knowledge and skills–for example, in the 1990s many member governments transitioning from state socialism asked for IMF missions to help them reform their central banks and financial institutions (Wallace 1990). The expert reputation of IFIs also allows them to engage in the transnational socialization of government officials. The World Bank's Economic Development Institute (now the World Bank Institute) has been an important source of training for senior government functionaries since its establishment in 1956 (Stern and Ferreira 1997:526). The IMF has similar programs run by its Institute for Capacity Development that are primarily intended for Ministry of Finance and Central Bank officials (IMF 2008). Rather than disseminating abstract policy ideas, these socialization programs tend to inculcate norms, or taken-for-granted, routine practices that inform policymakers' work (Broome and Seabrooke 2015). Such training programs allow IFIs to accumulate social capital in the form of a network of like-minded officials throughout the governments of medium- and low-income developing countries. Once back home, these officials may serve as 'sympathetic interlocutors,' in their governments' negotiations with IFIs, a factor observed to make compliance with IFI-prescribed policies more likely (Babb 2001; Henisz, Zelner, and Guilln 2005; Woods 2006:72-6).

4. IFIs and the emergence of neoliberalism

For more than three decades after their founding in 1944, neither the World Bank nor the IMF was in the business of promoting neoliberal policies. The World Bank, as described above, specialized in financing development projects rather than making policy-conditional loans. In contrast, the IMF was well known for practicing conditionality in its infamous stabilization programs, which were designed to steady the value of national currencies within the Bretton Woods system. In exchange for emergency loans, the IMF required austerity measures, such as reductions in the fiscal deficit and the money supply. Intended to control inflation and stabilize currencies, these policies also lowered growth and raised unemployment (Vreeland 2003). Yet while painful, these programs were short-term, and the Fund retained a neutral stance about the relative role of states and markets in national economies–a matter that was considered beyond its mandate (Babb and Buira 2005).

In the 1980s, however, both organizations became famous for using conditionality to promote market-liberalizing reforms. The political context for the shift was the rise of neoliberal conservative governments in the U.S. and the U.K. and the Third World debt crisis that coincided with the Reagan years. Compared to earlier administrations, both Reagan and Thatcher espoused a greater faith in the 'magic of the marketplace' and the private sector. With the outbreak of the Third World debt crisis, governments, such as those of Mexico and Brazil–which had borrowed from private banks when interest rates were low in the 1970s–suddenly found their debts to be unpayable with the higher interest rates of the 1980s. To manage the multiple crises that ensued, governments turned to the IMF, which coordinated creditors' claims, lent to allow governments to keep servicing their debts, and required its familiar belt-tightening stabilization, leading to a 'lost decade' for growth in Latin America (Haggard and Kaufman 1992; J. M. Nelson 1990).

It was in this context that U.S. Treasury Secretary James Baker proposed his 'Program for Sustained Growth' in 1985. Under Baker's plan, private banks would increase their lending to developing countries, and the IMF, World Bank, and regional development banks would engage in coordinated 'structural adjustment' lending aimed at market-liberalizing policy reforms. The premise was that by accessing more liquidity and liberalizing their economies under the supervision of IFIs, these countries would be able to restore growth–and this growth, in turn, would make their debts sustainable once again (Babb 2009:128-31).

The Baker Plan failed to get private banks to significantly increase their lending to developing-country governments, and ultimately failed either to solve the debt crisis or restore growth in indebted countries (Cline 1989; Krugman 1994). However, it led to the legitimation of a new role for IFIs, the basic contours of which were immortalized as the 'Washington Consensus,' a term coined in 1989 by a close observer of the U.S. Treasury and international financial institutions (Williamson 1990). The Consensus was a list of market-liberalizing policy reforms that Washington policymakers–especially at the U.S. Treasury, World Bank, and IMF–were recommending to developing-country governments. According to John Williamson, the inventor of the Washington moniker '[t]he economic policies that Washington urges on the rest of the world may be summarized as prudent macroeconomic policies, outward orientation, and free-market capitalism' (Williamson 1990:1). Washington's recommendations had assumed greater importance than ever because they were now tied to the practice of policy leverage, in line with the vision of the Baker Plan. In Williamson's (1990) words: 'No statement about how to deal with the debt crisis in Latin America would be complete without a call for the debtors to fulfill their part of the proposed bargain by "setting their houses in order," "undertaking policy reforms," or "submitting to strong conditionality".'

Meanwhile, the research publications of the World Bank became the most important platform for Washington Consensus norms and ideas. During the 1970s, Bank research output had included a diversity of points of view on the role of the state in economic development and had emphasized the goal of reducing global poverty. In contrast, starting in the 1980s the diversity of World Bank research narrowed. Ann Krueger–a leading public choice economist and critic of 'distortionary' state economic interventions–replaced Hollis Chenery as the Bank's Vice President for Research; there was a major upheaval in the Bank's research personnel, and the department became less tolerant of dissent (Kapur et al. 1997:1193-94). As one observer noted in 1986, 'In recent years, the Bank's research hasgained a reputation for reduced diversity of approach and increased predictability of results. It has devoted quite disproportionate effort to the documentation of the errors of governments and the advantages of reliance upon markets' (Helleiner 1986:62). The anti-poverty theme that had dominated the Bank of the 1970s was muted. Although the scope of World Bank research broadened once again in the decades that followed, the Bank nevertheless maintained a reputation for its skilled 'paradigm maintenance' (Wade 1996; 2002).

During this era, the World Bank began to devote a much larger proportion of its resources to 'program' lending–that is to say, lending for policy reforms rather than for development projects (Babb 2009:152). For its part, the IMF became, for all intents and purposes, a development institution that collaborated with the World Bank to require its borrowers to engage in 'structural' reforms, such as privatizing state-owned industries and lifting trade barriers (Babb and Buira 2005). Compliance with these reforms was encouraged not only by a closer relationship between the IMF and World Bank, but also between the World Bank and regional development banks, which harmonized and upheld one another's conditions, and between the IMF and private creditors (Babb 2009:139-41; Dell 1988; Weisbrot 2007). The presence of IFI agreements also served as a 'stamp of approval' that translated to additional aid flows, such as bilateral assistance from donor governments (Stubbs, Kentikelenis, and King 2016). Among the World Bank and regional development banks, policy leverage was also implemented through greater 'selectivity'–the awarding of project loans to countries that were demonstrably compliant with Washington Consensus policies (Dollar and Levin 2006; Lewis 1993).

Washington Consensus policies were widely criticized in subsequent years, and labeled 'neoliberal' or 'market fundamentalist' (Stiglitz 2002; 2008). In response, Williamson pointed out that none of the ten policies listed in his original article was particularly radical or controversial among economists–it was a capitalist program, to be sure, but hardly a revolutionary one (Williamson 2003:11). Yet the most significant feature of the Washington Consensus was perhaps not the original list of policies prescribed to governments, but its innovative premise: namely, that IFIs should be using their resources to transform the policy architecture of developing economies around the world. This new role for IFIs opened the door to market fundamentalism, since conditionality could be used not only to promote trade liberalization, but also more radical policies–such as public pension privatization (Orenstein 2008), replacing progressive tax systems with more regressive value-added tax systems (Fjeldstad and Moore 2008), or health policy reforms (Kentikelenis et al. 2014; Kentikelenis, Stubbs, and King 2015).

The Washington Consensus tasked the World Bank and IMF with the highly-visible job of persuading governments to make politically difficult and painful structural reforms–with the promise that the short-term pain would be justified ultimately by 'sustained growth'. This set up a natural experiment on the effectiveness of neoliberal policies in developing countries. A series of devastating financial crises - in Mexico, East Asia, Russia and Argentina– suggested to some that the Consensus was flawed (Stiglitz 2008; Weisbrot 2007). Perhaps, most strikingly, in Latin America, where Washington-inspired reforms had been widespread, economic growth mostly failed to materialize (Rodrik 2007). Faced with apparently disconfirming evidence, the new mainstream view in Washington became that the Consensus, while essentially correct, had paid insufficient attention to 'governance,' or the institutional frameworks that allow markets to function, such as laws and judicial systems. Another addition to the original Consensus was establishing and strengthening social safety nets and reducing poverty. In this way, the Washington Consensus soon evolved into the 'augmented Washington Consensus' or 'second generation reforms' (Kuczynski and Williamson 2003).

The augmentation of the Consensus was widely viewed in Washington as signifying a kinder, gentler Consensus–one that did not assume that markets worked perfectly or that they could adequately address the issues of the poor. Yet augmenting the Consensus only caused the list of reforms required by IFIs to become steadily longer and more constraining (Naim 2000:506). For example, during the Asian Financial Crisis, the IMF ordered the South Korean government to make its central bank independent, and specified the level of debts that Korean companies were allowed to accrue (Chang 2006). One IMF Letter of Intent in 1997 committed the Indonesian government to more than 100 policy conditions–including, for example, privatization, the removal of price controls and trade barriers, the revision of national bankruptcy legislation, and changing laws governing corporate mergers and acquisitions (Indonesia Letter of Intent reproduced in U.S. Congress (1998:80-85)). The World Bank's Country Policy and Institutional Assessment (CPIA) index, which is still used today to determine eligibility for World Bank loans, rates potential borrowers according to a detailed list of measures of market friendliness, institutional quality, and social inclusion/equity (Hout 2012). With the end of the Cold War, international financial institutions could be less shy about explicitly using their resources to leverage sensitive and potentially political policy reforms (Dollar and Levin 2006).

5. Are IFIs still neoliberal?

The IMF's role in the Asian financial crisis in the late 1990s caused IFIs to come under greater scrutiny. Academics and policymakers strongly criticized the IMF for its handling of the crisis and advocating policy reforms far removed from its core areas of expertise (Chang and Grabel 2004; Feldstein 1998; Meltzer 2000; Radelet and Sachs 1998; Seabrooke 2010). This poor track record also resulted in set of challenges to the Fund's U.S.-dominated governance structures (Buira 2003b; 2003c; 2005; Carin and Wood 2005; Portugal 2005; Stiglitz 2003; Van Houtven 2004; Woods 1999; 2000). Such criticisms–stemming from all sides of the political spectrum–presented a direct threat to the credibility of the organization, and marked the onset of a period of organizational crisis. By the mid-2000s, middle-income and rapidly-growing countries, such as China, had stopped relying on the IMF for managing their balance-of-payments–choosing instead to 'self-insure' by accumulating large stocks of hard currency (Bello and Guttal 2005; Buira 2005; Grabel 2014). Faced with a dwindling customer base, the Fund made the unprecedented move of cutting its own workforce by about 13% in 2008 (Faiola 2008). Criticisms of the World Bank were more diffuse, but over time it became clear that emerging-market governments with access to private capital markets were similarly avoiding the Bank's conditionality: they had become 'increasingly selective about the [policy-conditional lending] areas in which they invite Bank engagement' (World Bank 2009:16).

In response to these and other challenges, the Bretton Woods twins embarked on a range of organizational changes, intended to challenge the perception that they were single-minded advocates of one-size-fits-all neoliberal economic reforms. Both adopted the language of country 'ownership,' on the theory that reforms could only succeed where they had strong support from domestic governments and other stakeholders (Buiter 2007), as well as the language of making reforms 'pro-poor.' The IMF acknowledged that the practice of conditionality had become unwieldy and unfocused and embarked on attempts at 'streamlining' it (IMF 2001), with the aim of providing valuable policy space to countries with lending programs. There was also a notable shift in the two organizations' research publications. For example, a World Bank report issued in 2005 acknowledged that 'there is no unique universal set of rules' and called for humility and respect for diversity in the prescription of development policies (Nankani 2005 p. xii). More recently the IMF partially disavowed its previously militant stance toward eliminating inflation, and called for fiscal stimuli to forestall global economic recession (Andersen 2008). Indeed, it even acknowledged that imposing controls on the movement of capital in and out of countries in economic crises could under some circumstances aid recovery (Gallagher and Ocampo 2013; Grabel 2011). This policy remedy was strongly opposed by IMF staff in previous decades.

As part of these transformations, the IMF and the World Bank rebranded their 'structural adjustment' facilities, opting for the nondescript terminology of 'extended credit' and 'development policy' loans. In 2014, IMF Managing Director Christine Lagarde appeared puzzled by a journalist's question over the organization's conditional lending: 'Structural adjustments? That was before my time. I have no idea what it is. We don't do that anymore' (IMF 2014). Yet it can reasonably be asked how much substance lies behind these rhetorical changes. After all, the IFIs are complex organizations that must negotiate and adapt to conflicting forces in their environments, including the political demands of wealthy shareholder governments, damaging criticisms from academics, activists and NGOs, and the desires of a dwindling base of borrowers (Kentikelenis, Stubbs, and King 2016; Seabrooke

2010; Weaver 2008). Under such circumstances, organizations are famous for engaging in 'loose coupling,' or 'ceremonial conformity'–creating gaps between the activities of different subunits, or between rhetoric and reality (Meyer and Rowan 1977; Oliver 1991). Weaver (2008) argues that the World Bank has historically responded to such forces by engaging in 'organized hypocrisy.'

It cannot be denied that there have been some real changes in IFI practices. For instance, the World Bank targeted more of its lending toward programs that would directly benefit the poor (Babb 2009:167-8), and the IMF began to embed social spending targets in its loan conditionality (Grabel 2011). However, the evidence suggests that behind the IFIs' post-neoliberal rhetoric and well-advertised reforms a great deal of neoliberal substance remains. A recent study of IMF conditionality through 2014 concluded that the advertised organizational changes represent window-dressing, with few departures from the IMF's standard neoliberal policy advice (Kentikelenis et al. 2016). An important example is labor market reforms–a cornerstone of neoliberal restructuring across the world–which are still part of IMF lending programs and include public sector layoffs, pension reductions, and the dismantling of collective wage agreements. The IMF's own Independent Evaluation Office found that conditionality remained 'very detailed, not obviously critical, and often felt to be intrusive' (IEO 2007 p. vii). At the World Bank, 'development policy loans'–the Bank's new term for policy-conditional lending–have averaged nearly 30 per cent of its total portfolio since 2005 (World Bank, 2015). One study on World Bank conditionality from 2006 through 2008 found that 19 per cent of the Bank's conditions related to privatization or commercialization (Alexander 2009). The Bank also continues to allocate access to loans on the basis of the Country Policy and Institutional Assessment (CPIA) rating system, which places considerable weight on degree of market liberalization (in order to get access to World Bank program loans, governments usually need to receive an average or better CPIA rating) (Alexander 2009; EURODAD 2010; World Bank 2005). The Bank's 'Doing Business' report, which similarly ranks countries' business environments based on such factors as corporate taxation and labor market policies, has drawn criticism from civil society groups for its emphasis on market deregulation (Stichelmans 2014).

6. The Future of IFIs and Neoliberalism

Over the past decade, there have been important shifts in the global political economy that appear to be eroding IFIs' role as promoters of neoliberalism around the world. Some countervailing forces have strengthened IFIs–most importantly, the global financial crisis that started in 2008, which presented the IMF with an opportunity to reestablish itself as the central crisis-management institution. The loans to Greece, Portugal, Ireland and Cyprus–in collaboration with European Union institutions–have been among the largest loans ever disbursed by the organization.

However, at the same time, both the IMF and World Bank have been facing pressures from powerful emerging economies–often referred to as the BRICS countries (for Brazil, Russia, India, China, and South Africa), but in reality including a wider array of emerging-market governments. These governments have been empowered by their rapidly increasing share in the global economy, as well as by their ability to avoid IFI conditionality–whether through accumulating central reserves (rather than relying on the IMF), or by borrowing from private capital markets (rather than from the World Bank) (Birdsall 2006; Grabel 2014). At the same time, BRICS nations have become aid donors themselves, and provide development assistance to low-income countries, thereby weakening the influence of IFIs in the world's poorest regions (Dreher, Nunnenkamp, and Thiele 2011; Naim 2009; Woods 2008). Significantly, such 'South-South' development assistance is entirely focused on financing lucrative projects, and eschews making policy recommendations to recipient governments (Zimmermann and Smith 2011).

For more than a decade, these governments have pressed repeatedly for reforms in the governance structures of IFIs to grant greater representation and voice to developing countries (Buira 2003a; Ocampo 2015; Portugal 2005). Thus far, however, the reforms have been disappointingly modest. With the World Bank's 2010 reform, more than 60 percent of voting shares was still controlled by high-income countries. Equally modest changes to IMF voting that same year remain unimplemented, as they have been held up in the U.S. Congress (Vestergaard and Wade 2015). Neither organization has even contemplated removing the traditional veto power of the United States.

Frustrated by their lack of progress in reforming the Bretton Woods institutions, and in the face of a vast unmet need for development financing, BRICS nations have been setting up parallel IFIs to provide of balance-of-payments and development assistance. The first step was the creation of the New Development Bank (NDB)–better known as the 'BRICS Bank'–that has both a development finance arm (similar to the World Bank) and a balance-of-payments support mechanism (akin to the IMF's operations). These functions lead influential observers to suggest that this Bank would be a catalyst for further reforms 'in the international financial and development architecture that favor developing and emerging countries' (Griffith-Jones 2014:17). The second key organization established by BRICS countries is the China-led Asian Infrastructure Investment Bank (AIIB). The AIIB has already raised $100bn of seed capital for infrastructure projects in Asia (Magnier 2015). In a sign of shifts in the global balance of economic power, both new organizations are headquartered in China–in contrast to the Washington-based Bretton Woods institutions.

Do these South-led IFIs represent the dawn of a new era, beyond the Bretton Woods IFIs and beyond neoliberalism? As this chapter goes to press, the role and implications of these novel organizations remain to be determined. Yet, what is clear is that the NDB and AIIB will pursue a mission focused on lending for infrastructure projects rather than for policy reforms, much like South-South bilateral lenders described above. This suggests that, also like South-South bilateral lenders, these institutions will offer alternative financing untrammeled by Bretton Woods conditionality. Ironically, more competition in the international financial institution arena promises to make it much more difficult for the traditional IFIs to promote market-liberalizing reforms.

Yet although we may be witnessing the end of the era of the undisputed dominance of the Western-dominated World Bank and IMF, it would be premature to announce their demise. Over the decades, these organizations have shown themselves to be remarkably agile at adapting to major changes in their environments–perhaps most strikingly, the IMF was able to survive the collapse of the Bretton Woods monetary agreement and to remake itself into a promoter of market liberalization around the world. Whether or not they remain agents of neoliberalism, we can expect the two organizations to endure.

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