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CHAPTER

International Financial Institutions: Forms, Functions, and Controversies

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Abstract

Having sizeable lending capacity and unparalleled epistemic power, international financial institutions (IFIs) are the world's most powerful international organizations. One class of IFIs is primarily focused on lending for development projects, and commands portfolios of hundreds of millions of dollars that can transform infrastructure and social services in low- and middle-income countries. Another class is geared toward providing financial assistance to countries in economic crisis and has an active role in shaping their policy environments. Through these activities, IFIs alter the development trajectories of borrowing countries, for better or for worse. This article reviews these debates. We first map IFI forms and functions and examine their governance structures. Subsequently, we examine two of the leading controversies surrounding IFI activities: the problematic impact of these activities on social and environmental outcomes; and the charge that they impinge on developing countries' policy sovereignty. We conclude by outlining fruitful directions for future research.

Keywords: : global economic governance, international financial institutions, World Bank, International Monetary Fund, multilateral development banks

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Introduction

Few intergovernmental organizations attract as much attention and controversy as international financial institutions (IFIs). Depending on the account, they are described variously: as averting or deepening economic crises; as lifting people out of poverty or devastating livelihoods through ill-conceived advice; and as aiding climate change mitigation or promoting projects that harm the environment. Of course, it is possible that many of these accounts are simultaneously true: it depends on the geographical, temporal, and economic context, and hinges on the selection of relevant indicators or time horizons to evaluate success or failure.

The purpose of this chapter is to provide background and context for these ongoing debates, which we lay out in three sections. We begin with mapping out the universe and functions of IFIs by sorting them into two categories: financial firefighters and development promoters. The second section addresses the IFIs' varied governance structures, and looks at how different IFIs address the trade-off between resources and autonomy. In the third section we examine two of the leading controversies surrounding the IFIs' activities: the problematic impact of these activities on social and environmental outcomes; and the charge that they impinge on developing countries' policy sovereignty. We conclude by outlining fruitful directions for future research.

Mapping the Field: Economic Stabilization and Development Financing

Among the multitude of multilateral bureaucracies, IFIs are distinguished by their core focus on acquiring and investing or disbursing large amounts of money. Beyond this common pursuit, IFIs fall into two categories, depending on the ends this money is supposed to serve. First, there are those charged with helping countries stabilize their exchange rates, and with preventing currency instability from threating the global economy. Second, there are IFIs charged with the promotion of growth and economic development, known as multilateral development banks (MDBs). Both stabilization and growth were on the minds of the participants of the Bretton Woods conference in 1944—the foundational moment for postwar global economic governance, and were conceived as the core missions of the two organizations sprung out of that meeting: the International Monetary Fund (IMF) and the World Bank. These organizations remain the two biggest and most influential IFIs today. However, as we show below, today the world is increasingly populated by a host of other IFIs—some complementary to the Bretton Woods twins, and some having parallel or competitive operations.

Stabilizing the global economy

In a global economy, no nation is an island: each depends for many of the things it consumes on imports from other countries, and on revenues from the goods it exports to other countries. There is also a constant migration of capital flows (in the form of investment or loans) back and forth across national borders. When a country's export revenues and financial inflows add up to less than the cost of imports and capital outflows, the country is said to have a balance-of-payments deficit. This causes its central bank to lose reserves, and perhaps ultimately to a devaluation in its national currency. Orderly, incremental currency devaluations are routine events. Sometimes, however, there are big destabilizing shocks—such as a spike in the price of imports, or a crisis in the national financial system—that can cause large, disorderly devaluations, with a host of undesirable side-effects: escalating debt, the mass exodus of nervous investors, spiraling inflation, and the contagious spread of financial instability to other countries.

Enter the financial firefighters: international organizations charged with helping promote global financial stability. The IMF—the largest of these financial firefighters—provides loans to governments to manage and contain balance of payments crises. Today, the IMF has an estimated $1 trillion to devote to this purpose (Gallagher et al. 2021). In principle, all member states can turn to it for financial support, but in practice high-income countries rarely do any more—with the notable exceptions of Iceland, Greece, Ireland, Portugal, and Cyprus in the aftermath of the global financial crisis that started in 2008. The main purpose of the IMF's support is to prevent financial contagion of crises, forestall sharp or disorderly devaluations, and allow countries to keep servicing their external debts. In doing this, the organization is infamous for using these resources as a lever for inducing governments to implement policy reforms, a practice called "conditionality." This has changed substantially over the years, from the advocacy of a narrow set of reforms—mostly on fiscal and monetary policy—until the 1980s, to a much wider remit: taxation, trade policy, privatization, and labor issues became targets of loan conditions by the early 1990s, and this list subsequently expanded further to include rule of law and governance issues (Kentikelenis, Stubbs, and King 2016). The augmentation of the IMF's remit was seen as evidence of "mission creep," whereby the organization veered away from its treaty-mandated responsibilities to take on a role in new policy areas and activities (Babb and Buira 2005). Unsurprisingly, the inclusion of an ever-greater number of policy reforms in IMF programs was highly controversial, as we discuss below.

Beyond lending, the IMF also has two additional roles: conducting economic surveillance of member states and the global economy, and aiding "capacity development" in developing countries. In the case of the former, surveillance is institutionalized through so-called "Article IV consultations" (their name referencing the IMF's founding treaty) and Financial Sector Assessment Programs. These entail regular visits to an evaluated country for IMF staff to assess the quality of its economic and financial policies—for example, Article IV reports are published annually for most large economies (Broome and Seabrooke 2007). In addition, the IMF's monitoring of the global economy is conducted through a range of high-profile publications—most notably, the biannual *World Economic Outlook* and *Fiscal Monitor*—as well as various regional reports (Kentikelenis and Stubbs 2021). The third pillar of the IMF's work is capacity development, an activity that has grown within the IMF over the years. It is composed of both training programs and technical assistance to economic policy civil servants around the world (Broome and Seabrooke 2015). The provision of such services is at the request of the recipient country, even though often financed by donor countries, and entails highly practical advice—for instance, on setting up statistical procedures for collecting economic data or on administratively managing tax policy. Together, the three main aspects of IMF operation—lending, surveillance, and capacity development—interlock to make the organization one of the world's most powerful and influential international organizations, that has had a central role in shaping the policy response to economic crises.

Until the end of the 1970s, the IMF had a more or less total monopoly on the job of international financial firefighting. Subsequently, however, a number of other organizations and arrangements emerged to serve the same purpose—some nested within the IMF's framework and operations, and others entirely separate (Kring and Gallagher 2019; Kring and Grimes 2019). The leading example of the former is the Chiang Mai Initiative Multilateralization (CMIM), formed by East Asian countries in the aftermath of the major regional financial crisis of 1997–1998. The CMIM has extensive resources at its disposal—$240 billion—but it has never been utilized by its member states, in part because a pre-requisite for its assistance is a parallel IMF program which East Asian countries—following their bruising experiences with the IMF at the end of the 1990s (Wade and Veneroso 1998)—want to avoid. In contrast, the smaller Latin American Reserve Fund (FLAR), with its more limited resources of only $2.9 billion, has had a flexible lending policy that is not contingent on IMF assistance. At least until the onset of COVID-19 and ensuing rapid demand for large-scale IMF support, FLAR had substantially replaced the IMF in balance-of-payments lending in the region (Kring and Grimes 2019, 74).

The IMF and regional financial arrangements together form the two key pillars of what is known as the Global Financial Safety Net, a web of "financial resources and institutional arrangements that provide a backstop during a financial or economic crisis" (Hawkins, Rahman, and Williamson 2014). The third pillar is central bank bilateral swap lines and countries' own foreign currency reserves. The former is available only to a handful of large economies. The latter amount to a form of self-insurance against destabilizing crises, and many developing countries have accumulated high levels of such reserves, partly in order to avoid needing to resort to the IMF and its mandated policy reforms—described below—in the event of a crisis (Gallagher and Shrestha 2012). Together, the IMF, regional financial institutions and swap lines and reserves are intended to underpin global financial stability and halt domestic or regional crises tipping over into becoming major threats to global financial stability. There is persistent debate as to whether this is indeed adequately achieved, and proposals on how to reform this international monetary architecture abound (see recent review by Ocampo 2017).

Promoting growth and development

Compared to the handful of global financial stabilizers that exist in the world today, the MDBs are far more numerous and varied. All bear a family resemblance to the World Bank—the original and leading MDB. They are multilateral organizations controlled by member governments, and derive their operating resources from three separate sources: member government contributions, the interest on bonds that they issue on international capital markets, and loan "reflows" (i.e., repayments of principal, plus interest). The MDBs can issue bonds and borrow at favorable interest rates because they are insured by "callable capital"—pledges by wealthy member governments to back them up in case of financial distress (Clifton, Díaz Fuentes, and Howarth 2021). Financial assistance is disbursed in the form of loans or grants that are received by the governments of low- and middle-income countries, or sometimes by private firms. In addition to financial resources, MDBs also provide member countries with technical assistance.

The core rationale for the existence of the MDBs is that development requires financial investments that private-sector actors will not provide on their own initiative (Helleiner 2014; Kindleberger 1986; Kring and Gallagher 2019). However, the activities they use to pursue these ends have evolved over time. The earliest World Bank loans were oriented toward supporting infrastructure upgrading and capital development projects (such as building roads, bridges, and dams), and this kind of lending remains a focal MDB activity today (Mason and Asher 1973; Mazzucato and Penna 2016). In recent decades, a greater portion of MDB resources have been devoted to social projects in areas such as health and education (Lyne, Nielson, and Tierney 2009). Perhaps most controversially, since the 1980s the World Bank and some other MDBs have provided a significant number "program" or "development policy" loans—once associated with the infamous term "structural adjustment"—to support policy agendas of economic transformation (Babb 2009).

Table 1. Global Multilateral Development Banks

Organization	Founded	Headquarters	Instruments	Priority sectors	Share-holders	Top two shareholders	New commitments 2019 ($ bn)	New disbursements 2019 ($ bn)
European Investment Bank	1958	Luxembourg	Loans, lines of credit, technical assistance, guarantees and equity	Banking and finance, Transport, Energy	28	Germany, France, Italy, United Kingdom (equal top contributors)	7.9 (non-EU projects only)	4.3 (non-EU projects only)
International Fund for Agricultural Development (IFAD)	1977	Rome, Italy	Loans and grants	Agriculture, Cross-cutting, Industry	176	US, Italy	1.67	0.85
International Investment Bank (IIB)	1970	Moscow, Russia	Loans, grants, lines of credit, technical assistance, guarantees and equity	Industry, Other productive sectors, Banking and finance	9	Russia, Bulgaria	0.143	N/A
New Development Bank (NDB)	2014	Shanghai, China	Loans, grants, lines of credit, technical assistance, guarantees, and equity	Transport, energy, urban development	5	Brazil, China, India, Russia, South Africa (equal top contributors)	7.2	0.92
OPEC Fund for International Development (OFID)	1976	Vienna, Austria	Loans and grants	Banking and finance, Energy, Transport	13	Saudi Arabia, Venezuela	1.8	1.5
World Bank Group:								

a) International Bank for Reconstruction and Development (IBRD)	1944	Washington DC	Loans, grants, guarantees, equity and technical assistance	Governance, Energy, Transport	189	US, Japan	27.98 (FY 2020)	20.2 (FY 2020)
b) International Development Association (IDA)	1959	Washington DC	Loans, grants, guarantees, equity and technical assistance	Governance, Transport, Education, Energy	173	US, Japan	30.1 (FY 2020)	21.2 (FY 2020)
c) International Finance Corporation (IFC)	1956	Washington DC	Loans, equity investments, and guarantees	Financial markets, infrastructure, and manufacturing	156	US, Japan	11.1 (FY 2020)	10.5 (FY 2020)

Source: Table expanding on Engen and Prizzon (2018) and using latest available annual reports of each organization (2019 or 2020).

The World Bank is a *global* MDB, with government membership and clientele from different parts of the world. It is the largest MDB in terms of lending, as well as one of the most authoritative actors in international development. This authority does not only emanate from its financing capacity, but also its extensive ideational or epistemic power: its annual *World Development Report* as well as its other publications influence the thinking of development policymakers and economists around the world. Like the IMF, the World Bank also exerts a powerful influence in its role as capacity builder: the World Bank Institute continuously trains senior government functionaries from a host of developing countries, which further bolsters the influence of its ideas (Stern and Ferreira 1997).

In addition to the World Bank, there are a number of other smaller global MDBs (see Table 1). For example, the European Investment Bank (EIB) provides funding both to European Union (EU) member states as well as low- and middle-income countries outside the EU, mostly in northern Africa. Established in 2014, the New Development Bank stands out as an MDB that was established by middle-income countries (the so-called BRICS countries—Brazil, Russia, India, China, and South Africa) as an attempt at "South-South cooperation," in contrast to the other, Northern-led MDBs (Griffith-Jones 2014; Suchodolski and Demeulemeester 2018).

Table 2. Regional Multilateral Development Banks

Organization	Founded	Headquarters	Instruments	Priority sectors	Share-holders	Top two shareholders	New commitments 2019 ($ bn)	New disbursements 2019 ($ bn)
African Development Bank (AfDB)	1963	Abidjan, Côte d'Ivoire	Loans, grants, lines of credit, technical assistance, guarantees and equity	Transport, Energy, Banking and finance	80	Nigeria, US	5.1	2.5
African Development Fund	1972	Abidjan, Côte d'Ivoire	Grants	Transport, Energy, Banking and finance	32	UK, US	1.2	1.3
Asian Development Bank (AsDB)	1966	Manila, Philippines	Loans, grants, lines of credit, technical assistance, guarantees and equity	Transport, Energy, Non-sector allocable	67	Japan, US (equal top shareholders)	35.5	16.5
Asian Infrastructure Investment Bank (AIIB)	2015	Beijing, China	Loans, guarantees, and equity	Energy, Finance, and Transport	54	China, India	12.0	2.9
European Bank for Reconstruction and Development (EBRD)	1991	London, UK	Loans, lines of credit, technical assistance, guarantees and equity	Banking and finance, Energy, Industry	67	US, France, Germany, Italy, Japan, UK (equal second-largest Contributors)	10.1	7.2

Inter-American Development Bank (IADB)	1959	Washington DC	Loans, grants, lines of credit, technical assistance, guarantees and equity	Banking and finance, Transport, Governance	48	US, Argentina & Brazil (equal second-largest Contributors)	13.4	10.9
Islamic Development Bank (IsDB)	1975	Jeddah, Saudi Arabia	Loans, grants, technical assistance and equity	Transport, Energy, Education	57	Saudi Arabia, Libya	7.8	8.2

Source: Table expanding on Engen and Prizzon (2018) and using latest available annual reports of each organization (2019 or 2020).

The *regional development banks*, summarized in Table 2, are also major development actors, providing financing to countries in their respective regions. Many of these banks emerged in the final years of the decolonization era (late 1950s and 1960s), as a growing number of independent states had extensive financing needs for infrastructure and development. The newest organizational actor in this class is the Asian Infrastructure Investment Bank (AIIB), established in 2015 with core financing provided by China, in order to provide or catalyze financing for "infrastructure gaps" in its region. Like the New Development Bank (see above), the AIIB was initially conceived as an institution of South-South cooperation, but gradually membership was expanded to a growing number of high-income countries, with Germany now being its fourth-largest member with 4.6 percent of its subscribed capital.

There are also several smaller, *sub-regional development banks*, like the Arab Bank for Economic Development in Africa, the Central American Bank for Economic Integration, the Eastern and Southern African Trade and Development Bank, and the Eurasian Development Bank. They all provide resources to countries in their regions, generally to the tune of several hundred million dollars annually. These banks often face difficulties accessing finance on international capital markets, linked to the low credit rating of their members, but nonetheless have found ways to provide important support to their borrowers. This increasingly comes in the form of short-term trade finance to support imports of energy or basic goods (Humphrey 2019).

The larger MDBs have complex, differentiated structures. For example, the entity commonly known as the "World Bank" is actually part of the "World Bank Group," made up of distinct sub-units. The World Bank Group's lending arms are the International Bank for Reconstruction and Development (IBRD) which provides financial support to middle-income countries, the International Development Association (IDA) which offers subsidized-interest loans and grants to low-income countries (the IBRD and IDA are commonly jointly referred to as the World Bank), and the International Finance Corporation (IFC) which is focused on private-sector lending. Like the World Bank, the Asian, Inter-American, and African development banks all have subunits devoted to providing subsidized loans and grants to the poorest countries. Similar to the World Bank's IFC, the IDB also has a dedicated private-sector lending window, the Inter-American Investment Corporation (IIC).

Finally, over the decades, the larger and better-financed MDBs have expanded into activities far beyond the original lending mission. This is especially true of the oldest MDB, the World Bank. Beyond the IBRD, IDA, and IFC, the two remaining entities that make up the World Bank Group are the International Centre for Settlement of Investment Disputes and the Multilateral Investment Guarantee Agency. These tie into the World Bank's development mandate, respectively, by facilitating dispute settlement between investors and states and by providing guarantees to help investors access cheaper financing terms and insure against non-commercial risks (like a war or expropriation of the investment by a government).

The Governance and Politics of IFIs

Given IFIs' abundant resources and important roles, most countries have a keen interest in the setup and operation of their governance structures (Helleiner 2014; Kapur, Lewis, and Webb 1997; Koremenos, Lipson, and Snidal 2001; Mosley, Harrigan, and Toye 1995; Woods 2006). A key feature that sets IFIs apart from other multilateral organizations is that their governance structures do not follow the more common one-country-one-vote or qualified majority voting procedures (Martinez-Diaz 2009). Instead, member states are also IFIs' "shareholders," and their relative power in decision-making depends on their financial contributions, which—in turn—are commonly linked to the country's economic size. This means that larger economies tend to have a much greater say in the running of these organizations compared to the countries receiving loans or grants, and, in many IFIs, the largest shareholder has veto power over decisions.

The system of unequal voting shares finds embodiment in the context of the governing boards that run these organizations day-to-day—often known as "executive boards." This governance structure is akin to private companies' boards of directors: they meet regularly and decide on the range of activities of their organizations—from lending to economic surveillance, and from organizational policies to selecting the leader of the organization. In smaller IFIs, often each member state has a seat on the board. In the larger IFIs, some directors represent single countries (the largest shareholders), while others represent a broader constituency of countries. In the case of the 25-strong board of the World Bank, it has six directors who are each appointed by a single country (the US, Japan, China, Germany, France, and the UK can do so), but the remaining members represent groups of countries. For instance, the constituency headed by an Indian also represents Bangladesh, Bhutan, and Sri Lanka. Even grouped together many countries still have very low voting shares: there are two Board members representing 45 Sub-Saharan African countries—core clients of the World Bank—and, combined, the votes they command are less than Germany's. Similarly, the IMF is also underpinned by unequal voting shares that limit the voice of poor countries in the organization, even though they are the main recipients of its financial assistance. Such imbalances have led to persistent debates around governance reforms within IFIs (Vestergaard and Wade 2013, 2015; Buira 2003), as a constant criticism leveled at them targets their highly skewed representation.

Such unequal voting rights are enshrined in the legal foundations of the IMF and World Bank (Mikesell 1994). Yet, curiously, voting in these organizations very rarely takes place—for example, in the case of the IMF we have not been able to identify a single such vote over the 1980–2009 period. Instead, decisions are routinely reached through consensus, defined as "the absence of explicit, significant and strong dissent" (Portugal 2005, 90–1). In the IMF and World Bank, consensus is gauged by the number of board members objecting, not the voting shares they command. In turn, this can give developing countries—commanding the fewest votes—a larger voice than they would have if votes were taking place (Portugal 2005). In cases of highly contentious issues, the leadership of the organization can go to great lengths to bridge contrasting policy positions and generate the widest possible agreement about the road to be taken, which would—in turn—confer larger legitimacy to decisions. This elaborate system of consensus-making does not give less powerful countries equal input into organizational policy. Nevertheless, they can influence important decisions at the margins, or have a more prominent role in issues that are of less political salience for the more powerful shareholders. Moreover, when developing countries can form wider alliances, combined with broader political maneuvering, they can block or stall major policy decisions they object to (Kentikelenis and Seabrooke 2017).

Beyond boardroom politicking, there are more ways through which powerful shareholders shape the policy direction of IFIs. One glaring example is the opaque selection processes for the management of these organizations. In the case of the Bretton Woods twins, there is a "gentleman's agreement" that a European would head the IMF, while a US citizen would lead the World Bank. Despite growing pushback against this (especially given the legal troubles of several IFI leaders in the past two decades), this informal agreement remains. Leading shareholders commonly have the largest influence over the overall policy direction, as well as day-to-day operations, through a range of formal and informal channels. In the IMF, World Bank, and IDB the top shareholder is the US, which enjoys veto power over major policy decisions in all three organizations. All are conveniently located within walking distance of the US Treasury—the branch of government in charge of US policy toward IFIs—and US officials enjoy an unparalleled level of regular contact with the management of these three organizations.

Much of shareholder influence occurs behind the scenes, in what has come to be known as "informal governance" (Stone 2011, 2013). For example, evidence on the IMF, the World Bank, and the Asian Development Bank have revealed that powerful countries steer IFIs toward preferential treatment of strategically important countries, like UN Security Council temporary members or major trading partners (Dreher, Sturm, and Vreeland 2009, 2015; Kilby 2006, 2011; Fleck and Kilby 2006; Lim and Vreeland 2013; Clark and Dolan 2020). This is commonly attempted through informal avenues through which shareholders seek to build broader coalitions for their preferred policies, inform IFI management about their priorities and desires, and even lobby IFI staff directly.

Informal governance is greatly enhanced during periods of negotiation over large contributions to IFI resources. Such negotiations occur among shareholder governments and between shareholders and IFI management, and fall into two categories. First, there are negotiations over increases in the overall size of IFIs, known as "general capital increases" in the MDBs and "quota increases" in the IMF. Second, there are negotiations over restoring the resources of the subsidized MDB lending windows that provide loans and grants to the poorest countries, such as IDA in the World Bank, and the Fund for Special Operations (FSO) in the IDB. Capital increases are rarer than replenishments: for example, the World Bank has had six capital increases since its founding (in 1959, 1979, 1988, 2010, and 2018), but 20 replenishments of IDA, its concessional window.

Because capital increase and replenishment negotiations are about financial contributions, they naturally exclude the voices of poorer member governments. Among wealthy governments, the US stands out as an especially effective activist shareholder. Enabling US activism is not only the large size of the country's contributions to the most important IFIs, but also the divided structure of its political system. In contrast to other leading shareholders in the major IFIs (that is, large economies in the Global North), the US has a system in which authority over IFI policy is divided between the Executive and Congress. This constrains the Executive, but also allows it to use Congress as a bargaining chip—in effect telling IFI management and other shareholders that failure to concede to US demands will lead to Congress failing to appropriate the needed funds (Babb 2009).

One particularly striking instance of US shareholder activism occurred during the mid-1980s, when the US urged the Washington-based IFIs to engage in coordinated lending for "Washington Consensus" free-market policy reforms (Babb 2009; Kentikelenis and Babb 2019). In the case of the IDB, whereas major shareholders, the IMF and World Bank backed this plan, the IDB's management and its Latin American directors resisted. In response, for more than two years the US held up an IDB replenishment and capital increase, and even suspended its previously promised contributions. The funds were only unblocked once the IDB the agreed to participate in the Washington Consensus, to engage in significant organizational restructuring, and to change its voting rules to be more receptive to US influence (Babb 2021).

The story of the IDB's failed resistance illustrates a fundamental trade-off IFIs face between autonomy and broad member participation, on the one hand, and dependence on wealthy shareholders, on the other (Krasner 1981; Ray and Kamal 2019). The smaller, poorer, and less influential an IFI is, the more autonomous and democratic it can be. On one end of the autonomy-resources spectrum are the "minilateral" sub-regional banks, which have limited funds, and are mostly controlled by the countries that also borrow from them (Humphrey 2019). On the other end of the spectrum are the IMF and World Bank —well-financed behemoths that work closely with leading shareholders.

Occasionally, an IFI may move along this spectrum over time. For example, both the IDB and the African Development Bank (AfDB) began as relatively autonomous banks in which developing-country members had considerable influence (Tussie 1995; English and Mule 1996). As described above, the former was reined in during the 1980s: when given the choice between being a "small bank" with autonomy or a "big bank" that was more responsive to shareholders, the IDB chose the latter (Tussie 1995, 31). The AfDB moved in the same direction, but in more incremental stages. At its founding in 1964, the bank had only African members, and its resources were therefore quite limited. In the 1970s and early 1980s, the AfDB began to let in non-regional members as a way of gaining access to wealthy-country resources (Sanford 1982, 53–4). In the 1990s, with its finances devastated by the Third World debt crisis, the AfDB was bailed out by a group of wealthy donor countries, conditional on major reforms, which, among other things, gave its wealthiest members a veto over major decisions (Babb 2009, 31).

Sometimes the IFIs' wealthiest shareholders cooperate among themselves to approve particular loans or promote broader policies (Kentikelenis and Babb 2019). In other cases, however, shareholder agendas may diverge. In the MDBs, an increasingly popular strategy to manage such divergence is to channel resources through "trust funds" earmarked for particular activities, which may be financed and governed by a smaller subset of shareholder governments. By 2017, the World Bank was managing more than a thousand such trust funds (Reinsberg, Michaelowa, and Knack 2017).

Whether it is through trust funds or traditional lending windows, wealthy governments have the biggest say in IFI activities. Revamping the governance arrangements of Western-based IFIs has been a long-term objective of developing countries, yet the various reform rounds have only moderately rebalanced voting shares while still protecting the power of countries in the Global North (Vestergaard and Wade 2013; Buira 2005). Reflecting such frustrations, as mentioned above, China and other powerful developing economies set up new IFIs, with the aim of presenting alternative options to the Northern-dominated institutions. Despite the promise of these IFIs giving more voice to borrowers, their governance arrangements have thus far mirrored those of established IFIs. In the case of AIIB, voting shares are heavily skewed toward China (30.8 percent of shares) and its major developing-country partners, like India (8.6 percent) and Russia (6.8 percent), but also to high-income countries, like Germany (4.6 percent) and France (3.5 percent. The reason for the high voting shares of non-regional countries is to tap wealthy-country resources, as well as to bolster the AIIB image as a multilateral bank (Kaya and Woo 2021).

IFIs and Their Discontents

Given the power that IFIs have to act as major lenders, shape development trajectories, legitimate economic ideas, and underpin multilateral economic coordination, it is no surprise that their activities have attracted persistent attention and debate. While covering the full range of these discussions is beyond the remit of this chapter, below we lay out two of the biggest academic and political controversies: the social and environmental impact of IFI activities; and IFIs' imposition on "policy space."

Social and environmental impact

For decades, it has been well known that IFI activities can harm the natural environment and adversely impact local communities. Perhaps the best-known culprits are large MDB project loans for development projects such as highways and dams—especially those sponsored by the highly visible World Bank (Shandra, Shircliff, and London 2011). Such projects have long been targeted by activists, including those in wealthy shareholder countries, decrying both their negative environmental impacts and their displacement of vulnerable populations. Under political pressure from wealthy-government lawmakers, the World Bank (along with some other MDBs) adopted environmental safeguards, and began to consult with civil society groups on the impact of their projects (Wade 1997; Rich 1994; Fox and Brown 1998; Nielson and Tierney 2003). However, because the MDBs have a powerful financial incentive to get loans approved, the real impact of such innovations can be circumscribed (Goldman 2005).

A distinct but equally important set of environmental and social concerns arise from *program* lending—that is to say, loans not intended to finance projects, but to incentivize particular kinds of policies, through conditionality. Compared to the highly visible social and environmental damage caused by MDB projects—homeless villagers, flooded valleys, denuded forests, and so on—the social and environmental hazards of program loans are less perceptible to the untrained eye, as they entail can longer causal pathways: macro-level policy change—like increased taxes, deregulated economic activities, or liberalized trade—is often less proximate to affected communities than the highly visible dislocation that investment projects can wield. Nonetheless, such policies have can have profound social impacts, as they alter the ways in which the state and businesses make economic decisions, approach individual and social rights, and treat the environment.

The IFI that has the most experience with conditionality is the IMF, which has been attaching policy conditions to its loans since the 1950s (Babb 2007). As noted earlier, standard IMF conditions include fiscal consolidation (more commonly known as austerity), privatizations of natural resources or state-owned enterprises, and labor market deregulation. The impact of such measures on socioeconomic, environmental, health, and educational outcomes has been the focus of sustained debate with the focus being on two issues. First, to what degree is the impact of these reforms independent of the impact of parallel financial crises or past economic mismanagement? Indeed, the IMF often fashions itself as a doctor who treats a patient with bitter medicine that is nonetheless essential for a return to full health. But such a narrative only serves to minimize the agency of the organization: the scope of its economic advice may not be the most appropriate to help ailing economies to recover as fast as possible, and this advice might have a range of adverse side-effects of its own. The second debate follows on from the first in that it seeks a more fine-grained understanding of when, where, and how different conditions impact socioeconomic outcomes. That is, rather than referring to IMF conditionalities on the undifferentiated aggregate, scholars have tried to isolate the impact of individual reforms mandated in loan—for example, the links between labor market conditionalities on public sector wages (Rickard and Caraway 2018).

These debates—and their various methodological implications—have attracted persistent scholarly attention, reviewed recently elsewhere (see Dreher and Lang 2019; Forster et al. 2020; Kentikelenis 2017; Lang 2020; Stubbs et al. 2018; Vreeland 2003, 2006, 2007). But, zooming out, the main finding of these analyses is that conditionalities tend to exacerbate pre-existing economic problems due to reforms being mistimed, ill-conceived, or excessive, and this has a range of follow-on adverse implications for societies. Indeed, ongoing policy debate—even within IFIs themselves—is focused on how to revamp financial assistance in order to minimize its negative side-effects and aid countries in meeting inclusive and sustainable development targets (Kentikelenis and Stubbs 2021).

The impact on policy space

Beyond the immediate social and environmental consequences of IFI lending, another, more structural, way of assessing the role of IFIs focuses on how they shape the "policy space" available to countries to pursue their chosen development strategies. This term refers to a government's ability—especially over the medium and long term, given that crises and ensuing IFI lending can be associated with short-term constraints—to select their desired policy mix to underpin development efforts or overcome economic problems (Gallagher 2005; Chang 2006).

The constraints that IFIs place on policy space are most direct in the case of lending conditionalities—particularly since the onset of "structural adjustment" programs which sought to promote market liberalization in the developing world (Simmons, Dobbin, and Garrett 2008; Babb and Kentikelenis 2021). Such policies were initially rolled out in Latin America and Sub-Saharan Africa in the aftermath of the Third World debt crisis of the 1980s, and were subsequently vigorously promoted in Eastern European countries after the collapse of the Soviet Union (Hanley, King, and Tóth 2002). They entailed unprecedented levels of collaboration between the IMF, MDBs, and bilateral aid programs of wealthy countries. In addition to standard IMF macroeconomic reforms, loans were tied to such policies as extensive privatizations, rapid economic deregulation, the liberalization of trade flows, and cuts to the number or pay of civil servants and to the availability of public services. In other words, the power to impose policy reform conditions as a precondition for loan tranches gave IFIs extensive power over reshaping the domestic political-economic environments of borrowers.

Of course, not all countries comply immediately with IFI policy prescriptions. In fact, they often do not: for example, more than half of IMF programs experience interruptions, whether temporary or permanent, due to the non-implementation of reforms (Reinsberg, Stubbs, and Kentikelenis 2021b). This can be highly costly for countries. Failing to uphold IMF conditions can prevent countries from accessing the resources of the World Bank, other MDBs, and bilateral aid donors (Dijkstra 2002). It may also lead to capital flight and foreign disinvestment: being in the IMF's good graces serves as a "stamp of approval," signaling to banks and foreign investors that a country is working to overcome economic difficulties. For these reasons, it is common for countries that lapse into noncompliance to ultimately return to the IMF for a fresh loan with new conditionalities (Reinsberg, Stubbs, and Kentikelenis 2021a).

Such policies have contributed to "hollowing out" state infrastructures; for example, by defunding certain areas of policy action or by adversely impacting levels or effectiveness of public sector staff (Reinsberg et al. 2019). These issues matter because bureaucratic quality and state capacity are essential for countries seeking to implement ambitious economic development plans (Evans and Rauch 1999). By undermining, bypassing, or defunding public institutions, IFIs limit the policy options of future policymakers who will have to govern states with stunted or declining administrative abilities, thereby making the return to IFIs for funding or technical assistance more likely.

In addition to lending, the epistemic authority of IFIs also serves to limit the scope of "legitimate" policy choices for developing countries. By corralling their extensive expertise and agenda-shaping capacity, IFIs seek to diffuse policy norms and scripts about what is the most effective and appropriate policy action for a range of policy problems—from the management of cross-border capital flows to the financing of social protection systems, and from domestic tax policy to the operation of central banks (Polillo and Guillén 2005; Henisz, Zelner, and Guillén 2005; Kentikelenis and Seabrooke 2017). In bolstering the legitimacy of such policies, it helps that these organizations are staffed by highly trained officials—often holding graduate degrees from elite universities—who write influential reports on development strategies (Wade 1996), and who develop a host of indicators to measure development performance (Broome, Homolar, and Kranke 2017; Broome and Quirk 2015; Doshi, Kelley, and Simmons 2019) and generate economic forecasts (Kentikelenis and Stubbs 2021). In turn, these reports, policy papers, forecasts, and indicators shape the range of policy options that countries—especially those with more limited resources—consider legitimate, and that global capital markets come to expect as appropriate (Simmons, Dobbin, and Garrett 2008).

Directions for Future Research

This chapter has sought to provide a broad overview of the state of research on IFIs, and is intended as a point of departure for further academic exploration. In lieu of summarizing the points made in our analysis, we spell out some promising directions for future research. First, the overwhelming focus of academic scholarship is on the IMF and the World Bank. For example, our search on JSTOR yielded over 77,500 hits for the World Bank, but only 1,301 for the African Development Bank and 1,025 for the European Investment Bank. The attention on the Bretton Woods twins is well justified, given their key role as focal organizations of global economic governance: they provide financial and technical assistance to countries in the Global South, and are loci for the development of rules and norms on international and national economic policy. However, its side-effect has been the relative scholarly neglect of the wide array of IFIs that exist and cater to governments and businesses around the world, and—by extension—affect developmental outcomes. This omission makes this group of international organizations prime targets for increased academic scrutiny. Already a recent strand of work tries to elaborate on these less-studied IFIs—from the smaller MDBs to the regional liquidity providers (Kring and Grimes 2019; Fritz and Mühlich 2019; Humphrey 2019). But there is a long way still to go to develop a fine-grained understanding of the policies and politics of these institutions, and their potential—or lack thereof—to become challengers to status quo IFIs.

Second, the persistent attention of academic work on IFI lending and conditionalities—both on their determinants and their consequences—has meant that other aspects of IFI practices remain insufficiently understood. Technical assistance provides a case in point: many IFIs provide such support to countries and —in the case of the IMF and World Bank—this is a major component of their operations, even though it remains at the discretion of the countries to implement this technical advice. The fact that such assistance is a "soft" output of IFIs, compared to the coercive pressures of lending and conditionalities, should not diminish its ability to still be a powerful vehicle for the diffusion of policies and "best practices" around the world (Simmons, Dobbin, and Garrett 2008).

Third, unpacking the inner workings of IFI governance structures also holds much promise for future research. While academic work has persistently drawn attention to the informal pathways through which shareholders try to steer IFIs, what goes on within their governing bodies remains a black box: Are boardroom deliberations just kabuki theater or consequential in their own right? How do individual board members or coalitions try to shape organizational output? Under what conditions are less powerful shareholders able to influence IFI activities? And what is the relationship between governance structures and staff? Knowledge on these issues is limited and haphazard, even though centrally important for understanding the politics of IFIs and possibilities for their reform.

Finally, knowledge on the independent role of IFI staff is also severely limited—are they just line bureaucrats strictly following organizational policies and guidelines or do they have independent agency? Past research has documented high degrees of uniformity among staff—for example, in the types of training they have received (Nelson 2014; Chwieroth 2014). However, as the skillset relevant for these organizations is changing—whether due to the emergence of new policy issues that are taken on by IFIs, like climate change mitigation and adaptation, or due to the rise of managerialism and consultancies (Seabrooke and Sending 2020; Seabrooke and Nilsson 2015)—future research can examine whether, when and how staff composition matters for organizational policies and their effectiveness.

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