Seventy years ago, at the Bretton Woods conference, the United States was instrumental in creating a system of multilateral financial institutions that came to be known as the “Bretton Woods institutions.” Initially consisting of the World Bank Group, the International Monetary Fund, and what became the World Trade Organization, these entities sought to rebuild the global economic order destroyed by the Great Depression and World War II. Beginning in the 1950s, as European colonies gained their independence, the World Bank shifted from rebuilding Europe to focus more on supporting economic development in sub-Saharan Africa and developing Asia. Decolonization and the Cold War competition with the Soviet Union also triggered the formation of a series of regional development banks (African Development Bank, Asian Development Bank, and the Inter-American Development Bank) that provide more specialized lending and technical assistance. At the end of the Cold War, a regional bank focused on the former Soviet republics and Central Eastern Europe was set up, the European Bank for Reconstruction and Development. These were created firmly in a Cold War (or post–Cold War) context and required U.S. and allied leadership to establish. This system remains a significant source of development finance today.

The multilateral development banks (MDBs) face an uncertain future. There are new sources of development finance, new multilateral institutions challenging the established norms, and new areas of focus. To be sure, though, the MDBs continue to demonstrate their value. In the wake of the 2008–2009 global financial crises, the MDBs and IMF stepped in to provide significant financial support in developing and emerging market countries.
This was needed as commercial banks and lenders stepped back from lending to manage their balance sheets. The United States remains the largest or second-largest shareholder in all of these institutions; this reflects the historical role it played in founding them, but it also reflects the fact that the United States made and makes significant financial contributions to support their operations. The United States must take the lead in overhauling the MDBs to make them more effective to meet the challenges of the next 15 years.

The consequences of the United States failing to act are not academic and quite clear to see. The Trump administration and Congress need to recognize that delay or indecision about the MDBs will have negative consequences to U.S. influence and prestige by creating opportunities for competitors such as China to step into the void. With the seeming rejection of the Trans-Pacific Partnership by the incoming administration and others, China recently announced that it would revive its own regional free-trade pact that would likely exclude the United States.

Unintentional Benign Neglect

For the past 15 years the United States has unintentionally adopted a policy of benign neglect toward the MDBs and the IMF. This is the result of a confluence of issues. Since the terror attacks of September 11, the U.S. foreign and national security apparatus has understandably focused its attention elsewhere. During the Bush administration this manifested itself at times in a somewhat thinly veiled mistrust of multilateral institutions that led the administration to question their value fearing they acted contrary to U.S. interests and could constrain U.S. action. Early in his term in office this ideology remained over-valued relative to their economic size and contributions. The Obama administration hoped for quick congressional approval, but ran into opposition over a number of issues. From the beginning, the Obama administration mishandled its relationship with the relevant congressional oversight committees. Second, in the past when administrations had gone to the Hill with complex asks around the multilateral institutions, it frequently required a significant investment of time on behalf of the Treasury secretary (and his or her deputy explaining to small groups of members of Congress why the asks were important and to seek their help. This did not happen initially with IMF Quota Reform. The result was a failure to secure quick passage in the U.S. Congress, and the reforms languished with little action taken for more than 5 years. The other 19 G-20 countries quickly passed the reforms within one year. Rather than aggressively push the reforms with Congress, the Obama administration allowed them to sit idle, until the security crisis in Ukraine required greater IMF involvement. As with the Bush administration’s experience with the proposed IMF bailout of Argentina, the Obama administration’s failure to act quickly with IMF Quota Reform had real-world consequences. At the same time, China used the four-year delay as political cover to create its own competing institutions such as the AIIB.

Increased Competition

As middle-income countries, most notably China, earned a greater share of the global economy, new institutions emerged that provided increased competition for the MDBs. Fifteen years ago, for example, the World Bank, African Development Bank, and bilateral donors provided the vast majority of financing in sub-Saharan Africa. Other sources of financing—foreign direct investment, support from emerging economies, domestic resources, and commercial sources of debt—remained minuscule in comparison. But now countries have more domestic resources (growing from $100 billion in 2000 to just under $500 billion in 2014), access to international capital markets, and foreign direct investment (growing from $5.4 billion in 2000 to $54 billion in 2014). This has been replicated across developing and emerging market regions, and it means that the MDBs are no longer the sole source of development finance; they are now just one among many, making it difficult for recipient nations to discern their comparative advantage.

New Priorities

Some have argued that for the MDBs to remain relevant in light of this new competition and an evolving global economic system, they must fundamentally change their focus. One recent report argues that the MDBs should become financiers for global public goods (e.g., climate finance, response to pandemics, and refugees). This is not necessarily wrong, but it also ignores many of the other priorities that may be more pressing for the MDBs on which to focus. It may also ignore the specific demands of its clients—developing countries. The World Bank is currently in the midst of a capital increase (seeking new pledged-in capital) as well as its triennial hat-passing exercise for its low-income soft loan entity, the International Development Association (IDA). This represents a moment for
MDBs need to consider the following:

**Infrastructure financing.** Financing for infrastructure projects remains an important need across developing and emerging market countries. The MDBs already provide significant financing for infrastructure, but they need to redouble their efforts by ensuring that they meet their clients’ demands in a timely manner. This will require examining how quickly they can approve requests for financing. MDBs should also continue to provide technical assistance for project preparation and strategic planning to ensure that the pipeline of bankable infrastructure projects is strong.

**Private-sector development.** The private sector is responsible for 9 out of 10 jobs created in developing countries; job creation and private-sector-led economic growth will help to end extreme poverty. The MDBs all provide a certain amount of private-sector financing through dedicated entities (e.g., the International Finance Corporation), but these need to look at where they are providing financing (i.e., a need to focus more on FCS) to ensure that they are targeting those most in need of their support.

**Fragile and conflict-afflicted states.** The majority of the world’s poor live in fragile or conflict-afflicted states—countries that are least prepared to provide for their citizens and that attract low volumes or private investment. The World Bank and the regional development banks must begin to shift their resources toward these countries; this is especially critical to achieve the core purpose of the Sustainable Development Goals (SDGs): ending extreme poverty by 2030.

Importantly, though, this is not just about refocusing on new issues. The MDBs must also consider their internal operations and administration. Some of the tumult around the MDBs is a result of dissatisfaction with how they have approached their lending practices, neglected areas of focus, and general dissatisfaction with the speed of these organizations to process loans.

**Renewing U.S. Leadership**

In the face of this competition, the MDBs have not been completely idle. The ADB, in response to the AIIB, made adjustments to its funding streams, creating an increase in the overall amount of money the ADB can lend. This is a good step and other MDBs should consider it as well. In spite of the lack of American focus on the MDBs over the past 15 years, the United States remains the largest or second-largest shareholder in all of the MDBs. It must exercise leadership in reforming what have become overly bureaucratic institutions and help to set them on the path of tackling the challenges of the next 15 years. The new administration should be prepared in its first year to offer a comprehensive roadmap in how it would overhaul these countries and raise the profile of this issue by creating a vice-president focused on fragile and conflict-afflicted states and raising the appropriate, redirect MDB resources toward conflict at the World Bank and the regional development banks. This will require the MDBs also ensure that they are meeting their client demands in a timely manner.

**New priorities:** Continue to grow the infrastructure portfolio at all MDBs and ensure that the proper amount of technical assistance is available to support project preparation. Where appropriate, redirect MDB resources toward fragile and conflict-afflicted states and raise the profile of this issue by creating a vice-president for conflict at the World Bank and the regional development banks. This will require that the MDBs also ensure that they are meeting their client demands in a timely manner.

**Administrative systems:** After 70 years, the MDBs have evolved into complex bureaucracies that each have their own unique internal cultures. Part of this includes the creation of world-class standards for environmental, social, and governance (human rights) protections. These should be maintained, but the MDBs need to consider how the rigid application of these principles frequently delays (often by many years) the implementation of critical projects. Any review of the MDBs must include a top-to-bottom review of all lending practices and the bureaucratic mechanisms to ensure that these institutions continue to meet their customers’ demands.

This will require presidential leadership and political capital. But the rewards justify it: the MDBs are at their heart American (and Western) institutions that have helped to spread the best of free markets and good governance. The United States should not lose sight of the fact that it has gained more from this system than it has lost. To solve the most difficult challenges of the next 15 years, the United States and its allies will need the help of the MDBs. This is an effort worth undertaking.

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