Developing partners: How Bretton Woods institutions can thrive in a new era

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The field of global development is changing like never before. A landscape once dominated by loans from Bretton Woods institutions is giving way to a dizzying array of new players and financing mechanisms.

Consider the past year alone. The BRICS nations established a New Development Bank and "contingency reserve agreement." China announced an Asian Infrastructure Investment Bank and Silk Road Fund. Policymakers experimented with a raft of new financing instruments, from advance market commitments and social impact bonds to matching funds and public-private partnerships.

This sudden proliferation of new actors and financing schemes has left many wondering whether the longstanding role of Bretton Woods institutions is being undermined. The truth is quite the opposite.

New players present a rare opportunity to further the World Bank's twin goals of eliminating extreme poverty by 2030 and promoting a shared prosperity. However, Bretton Woods institutions need to capitalize on the changing environment by adopting a two-pronged strategy. First, they should proactively embrace new institutions and financing mechanisms. Second, they should identify and prioritize the roles that, even in a new era, only Bretton Woods institutions can fill.

Start with engagement. The World Bank estimates the developing world will need to invest an additional $1 trillion per year on infrastructure through 2020; the Asian Development Bank reckons Asia alone will need $750 billion annually over the same period. Yet the two institutions possess a combined capital base of just $397 billion, suggesting there is plenty of scope for newcomers.

Cooperation with new institutions would bring several benefits. Joint projects would inject more capital into poor communities and spread the cost and risks of large undertakings – all the more so if they incorporate public-private partnerships and other innovative financing mechanisms. Engagement also presents Bretton Woods institutions with a chance to share experience, methods and knowledge with newcomers, especially on tricky subjects such as environmental and social safeguards.

At best, engagement might encourage new institutions to improve governance and adopt best practices, all while fuelling growth and development. At the very least, cooperation would limit perceptions of rivalry between similar institutions.

Even as it engages with new actors and financing instruments, however, Bretton Woods institutions should make a clear-eyed assessment of their unique strengths and identify the roles that new players simply cannot fill.

For starters, the World Bank, IMF and WTO command a reputation that no other organization can match. Reformers, especially in developing countries, often lean on this legitimacy to champion pro-growth measures at home. WTO conditionality has provided a critical tool for reformers in several nations to push through liberalizing measures. Officials in countries such as India and Russia have vowed to increase their standing on the World Bank's "Ease of Doing Business" ranking. More subtly, the World Bank's "China 2030" report was key to forging a consensus among Chinese policymakers that led in part to the Third Plenum reform decisions.

This "brand" can also be parlayed to highlight causes that might otherwise go overlooked. In recent years the World Bank has called attention to issues ranging from climate change and gay rights to female education and pandemics. Bank officials can sponsor research and advocate with policymakers, thereby setting the agenda in a way no other organization can.

Yet another indispensible service is information. As economist Dani Rodrik has argued, the data and research generated by the World Bank and IMF constitute a public good few others can efficiently produce. For companies and investors, reliable data reduces uncertainty and encourages investment into risky markets. For scholars, databases form a foundation for the study of development and economic management. For policymakers, rankings provide a benchmark of performance, and research offers guidance on "what works" in development.

The list of unique functions could go on. Countries request WTO arbitration and IMF Article IV Consultations to resolve trade and currency disputes. Officials turn to the IMF because it alone has the scale and surveillance capacity to effectively function as a lender of last resort. Reformers rely on World Bank experts to advise on the nitty-gritty aspects of change. No other institution can readily fill such roles.

Refocusing on these core functions matters precisely because the development landscape is changing so fast. Only by identifying their unique roles can Bretton Woods institutions avoid duplicating services. Only by engaging with new players and adopting innovative financing mechanisms can they maximize their financial firepower. In short, Bretton Woods institutions should embrace all the help they can get. The post-2015 agenda is far too ambitious – and worthy – for anything less.