The Spirit of Bretton Woods
The World Bank and the Next 75 Years: Where Will Leadership on Bretton Woods Values Come From Within the Development Sphere?

Afsaneh Beschloss and Mina Mashayekhi

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The values of Bretton Woods were forged in the tragedy of World War II.

Humanity witnessed carnage and destruction on an unprecedented scale, and the leaders of the Allied nations were determined to never let such an atrocity happen again.

The blueprints for the International Bank for Reconstruction and Development (the core of what would become the World Bank Group) and the International Monetary Fund (IMF) were derived from several convictions.

The first was that extreme economic instability had been the tinderbox of conflict. It had given rise to the dislocation, dispossession and grievances that led to popular resentment and a willingness to consider violence and war as solutions.

The second was a recognition of the shrinking nature of the postwar world. Technological revolutions in disparate sectors—transportation, communications, energy and armaments, among others—had converged to make the world a smaller place. The economic fates of nations were more deeply intertwined than ever before.

The third conviction was that the good intentions and preparedness of individual nations could no longer be regarded as a sufficient safeguard against conflicts. Institutions that could bridge borders and generations were needed to serve as repositories of values, solutions, and resources. Global stability could not be derived entirely from the transient care of political leaders with fleeting mandates. It must be supported in part by independent, brick-and-mortar institutions run by public servants who could take a long view guided by dispassionate analysis.

The implication was clear: an orderly, well-financed system would be needed to deal with global economic issues ranging from development to liberalized trade to balance of payments to currency devaluations.

British economist John Maynard Keynes and Harry Dexter White, the emissary of U.S. President Franklin Delano Roosevelt, were the intellectual architects of the new order. As White argued: “There is nothing that will serve to drive these countries into some kind of 'ism'—communism or something else—faster than having inadequate capital.”

The result of their efforts, and those of countless others at Bretton Woods 75 years ago, became the World Bank and IMF, two institutions that quickly became cornerstones of the post-World War II era.

Within years, both had established a level of proficiency that had simply not existed in any such institutions before the war. Perhaps the most vivid demonstration of their mastery of development and finance was the World Bank's financing in the late 1950s of the renowned Shinkansen Project in Japan, which enabled high-speed "bullet trains" to travel between Tokyo and Osaka. The line established the global standard for rail excellence for years.

The missions of the two institutions soon expanded to encompass the developing world, a change driven in part by the Cold War. But the fundamental values that have animated both have changed little since their founding. Economic stability is still regarded as a currency that purchases the opportunity for development; development is still regarded as a down payment on peace, prosperity and the fulfillment of human potential. Indeed, development itself has come to be defined more broadly. It now includes not only growth in GDP but also, as economist Amartya Sen and others have advocated for years, broader measurements of economic performance and social progress.

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The original Bretton Woods institutions have shown remarkable staying power through their ability to reinvent themselves for the prevailing needs of the times.

When the system of fixed-exchange rates broke down in the early 1970s, the IMF adapted to a world in which major currencies floated against one another. During this era, the Fund also started providing concessional financing to the world's poorest countries. The World Bank and IMF, meanwhile, came to recognize that macroeconomic structural adjustments—privatization, deregulation, smaller fiscal deficits, pro-competition policies, and reduction of trade and FDI barriers—were necessary to buttress the effectiveness of their lending to nations.

When it was clear that massive infrastructure projects were insufficient to propel nations forward, the World Bank in the 1970s reoriented its mission to embrace more direct poverty alleviation. In the ensuing decades, this helped bring extreme poverty down from a global rate of roughly 50% in 1970 to just under 11% in 2018, even as world population more than doubled, from 3.7 billion to 7.6 billion. Despite this progress, of course, the ugly head of poverty and increasing inequality continues to contribute to much of the political tension we see globally. Moreover, the potential of technology to exacerbate inequality is increasing—another area in which the Bretton Woods institutions could play an invaluable role.

In the 1980s, as the complex interdependence between projects, communities and institutions became more apparent, the World Bank gradually increased financing for environmental, social, health and education projects.

When cross-border challenges such as environmental threats, refugee crises and epidemics came to the fore, the World Bank devised new instruments and strategies to help preserve global public goods. While helpful, much more work needs to be done, given the increasing scale and near permanence of the refugee crisis.

As middle-income nations began to diminish their reliance on borrowing, both the World Bank and the IMF continued to engage with them by providing more technical assistance and advisory services designed to sustain their progress.

Global and local capital markets have expanded dramatically in recent decades and show no signs of slowing down. Developing nations are now "leapfrogging" legacy infrastructure to adopt state-of-the-art technology. Emerging markets continue to post growth rates that are much faster than those of advanced economies. Their financial ecosystems, from mobile money platforms to sovereign wealth funds, get stronger with each passing year. The World Bank and IMF are beginning to reorient themselves to such changes. However, greater responsiveness and faster adaptation will be necessary to carry Bretton Woods values forward on this front.

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Where else will "Bretton Woods values" come from in the next 75 years?

Regional multilateral development banks (MDBs) have assimilated Bretton Woods values. These MDBs—the European Bank for Reconstruction and Development, the Asian Development Bank, the Inter-American Development Bank and the African Development Bank—have tried to serve their regions by providing capital and economic stability. They have the mandates and capacity to continue doing so. Collectively, they represent almost as much in annual financing as the World Bank. Moreover, the nations that are their major shareholders are the same nations that historically have been at the forefront of the World Bank Group's governance.

Cooperation among these institutions will be critical. Too many times in the past, the multilateral banks have competed for projects, policy mandates or donor funding. The result has been redundancy, contradictory efforts or dilution of impact. Fortunately, this seems to have improved in recent years.

The loosely organized "billions to trillions" movement, for example, was incubated In the World Bank Group in 2015 to mobilize more private sector capital for development. In recent years, it has gathered steam and evolved into a formal collaboration among all MDBs to optimize resources, jointly report results and share best practices. Cutting across a wide swath of activity, from infrastructure development to local currency financing to private equity, the initiative is already showing enormous promise, crowding ever more institutional investors into development finance. These institutions have enormous potential to leverage their resources to harness innovative applications of fintech and new financial tools, and tap the new pool of capital going into impact investing and socially responsible investing.

The regional MDBs are also increasingly providing financing for global public goods, an area in which the World Bank once operated nearly alone. EBRD has made climate finance investments in 38 countries. ADB has a portfolio of $1.5 billion for projects and programs under its Climate Investment Funds windows. The IDB recently announced a $1 billion program for climate-smart investments across the Caribbean region.

The African Development Bank is on the front line of global efforts to combat pandemics such as Ebola. It has provided $300 million for Ebola emergency and recovery programs in the affected nations and neighboring countries, and it will continue to be a key player in the campaign against HIV.

The newer MDBs—the Asian Infrastructure Investment Bank (AIIB); and the New Development Bank (NDB), also known as the BRICs bank—are also beginning to pick up the mantle and methods of the Bretton Woods institutions. They have also committed, at least in principle, to following in the World Bank's tradition of using rigorous analysis for evaluating risk and return, conducting independent evaluations to learn from experience, and sharing best practices. Of course, all these institutions, including the World Bank, could benefit from adopting broader measures of economic performance and impact. The World Bank's willingness to survey projects across disparate countries and sectors for the sake of institutional learning has been a hallmark of its values. Starting with World Bank President Jim Wolfensohn and continuing up to current leaders Jim Yong Kim and Christine Lagarde, the institutions have increasingly stressed transparency in the analysis and reporting of project and program outcomes, so lessons could be drawn from successes and failures.

Both AIIB and NDB have adopted environmental and social frameworks for their lending. In one respect, they had no choice. Pollution, among other issues, has become so pervasive, that it can no longer be waved away in project planning and implementation. Moreover, both institutions have vowed to bring in private capital for co-investment, and private investors are no longer willing to assume the liabilities that accompany projects with negative environmental and social side-effects.

Energy infrastructure is a case in point. The needs at the nexus of energy and the environment in the poorest nations continue to be staggering. More than 60 percent of the people in least-developed nations lack access to electricity. Four out of ten businesses in such nations suffer from inadequate electricity. Thus, the combined forces of public, private and MDB financing as well as public standards will continue to be critical. This is why the NDB, like others, has declared that it is an enthusiastic supporter for "sustainable infrastructure," as well as for the Paris Accord on climate change.

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Another set of institutions that could well carry the torch of Bretton Woods values is the development finance institutions (DFI): CDC Group, Swedfund, FMO and more than a dozen others.

DFIs have a mandate to provide development lending to the private sector in the developing world. They are now coming to the fore in scale and breadth.

This past October, for example, the U.S. replaced its small DFI, the Overseas Private Investment Corporation (OPIC), with a dramatically larger agency. The new entity, the International Development Finance Corporation, inherits the broad mandate, portfolio and personnel of OPIC. However, it will have double the lending authority (up to $60 billion), the ability to take equity investments, and the ability to provide guarantees and loans in local currencies.

The reasons for the recent growth of DFIs are grounded in both technology and economics. Many sectors that were once the nearly exclusive domain of the public sector and MDBs—transportation, telecommunications, energy, water, consumer finance, and education, among others—are increasingly, and in some cases largely, the domain of private sector finance.

Investor demand is another reason. Foreign direct investment and portfolio flows, in a significant and growing number of developing countries, outstrip the volume of official development assistance. DFIs, by design, catalyze these flows and seek to ensure and enhance their development impact.

By providing risk guarantees, insurance, and co-investment (equity and debt), DFIs have come to play an ever-larger role. Collectively they are growing at a faster rate than the World Bank Group and may come to rival the Bank's lending in the 75 years ahead. By drawing on the expertise of their co-investors in the private sector, DFIs have the added advantage of being able to invest only when the market is ready.

DFIs find themselves heirs to all the aspirations and pressures that the Bretton Woods institutions have assumed for years, especially with respect to job creation in low-income countries, environmental and social concerns, and transnational impacts of investments.

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In 1944, two institutions were imbued with Bretton Woods values. Today, dozens of institutions all over the world carry on the legacy of the founding conference. Each, in its own way, also confronts the massive, unfolding challenges of global development: the protection of global public goods; the evolution toward a low-carbon energy regime; and the needs of the poorest nations, especially those facing crises or rebuilding after a conflict. Technological progress is proving to be a dual-edged sword. The phenomenal growth of the Web has enriched thousands of lives and created new economic opportunities. But roughly half the world's population remains disconnected, another source of growing inequality, particularly for women. Mobile money systems are an exciting tool in some developing nations but remain beyond the reach of too many. Inclusion should be a watchword of the Bretton Woods values.

One test of the durability of Bretton Woods values will be the degree of institutional commitment to geopolitical stability, job creation, multilateralism, transparency and environmental and social standards. Further, there should be no doubt by now that Bretton Woods values have become inextricably linked with the Sustainable Development Goals. The success of the SDGs will be a metric of success for the Bretton Woods mission. Nowhere is this clearer than with respect to SDG 5, which aims to eliminate gender inequality. It cuts across the entire global development agenda.

Something more prosaic may be the ultimate litmus test of durability: financial and credit discipline. Whenever the importance of the Bretton Woods institutions seems to wane, a crisis comes along to prove again their unique role in the world. This was demonstrated vividly with the role of the IMF during the global financial crisis of 2007-2008. The Bretton Woods institutions have managed their balance sheets to weather tough economic times, and that has allowed them to stay true to their mission and values over the years. All those who would carry forth the Bretton Woods legacy should do likewise.

Indeed, as competition for public resources grows via the appeals of smaller development banks, sovereign wealth funds, strategic investment funds and entitlement constituencies, the Bretton Woods institutions will face a higher bar for capital replenishments. They will be obliged to make an even more compelling case for their roles. They will have to demonstrate there is more coherence and coordination to their collective efforts. A sharp pencil on the bottom line–in black ink, not red–will be a requirement. Their future will depend on it.

Decades ago, leaders of the Bretton Wood institutions scarcely could have imagined that there would be regions of the developing world where cellular telephones and mobile banking were more pervasive than schools or wastewater facilities. Big Data, CRISPR genetic technology, artificial intelligence, nanotechnology, telemedicine and remote sensing have arrived. Who knows which of these technologies, or perhaps an entirely new one, will revolutionize some part of the developing world, even before the G-7?

What we do know is that Bretton Woods institutions and values will need to adapt to change in every sector: infrastructure, energy, finance, natural resources, healthcare and others. To be successful, the heirs of the Bretton Woods values must hew to the foundational vision for these institutions' success – capital dedicated with discipline toward the purpose of stability, peace, economic performance, social progress and development – even as that vision is revitalized for generations to come.

Afsaneh Beschloss is founder and CEO of RockCreek Group, a global investment management firm. Previously, she was a Partner at The Carlyle Group, and Treasurer and Chief Investment Officer of the World Bank.

Mina Mashayekhi is a Senior Advisor of RockCreek Group and previously led the Division of International Trade and headed Trade Negotiations and Commercial Diplomacy at UNCTAD.