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The Bretton Woods Institutions at 80

Towards A Bigger, Better and More Inclusive Global Economic Governance Architecture

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EXECUTIVE SUMMARY

July 2024 marks the 80th anniversary of the Bretton Woods Agreement that established the post-World War II multilateral economic order. The agreement, reached at the Mount Washington Hotel in Bretton Woods, New Hampshire in 1944, led to the establishment of the Bretton Woods institutions, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), the precursor to the World Bank, both of which in their current forms "remain at the center of global financial governance today" (Helleiner 2016). While the original agreement also considered trade to be a key pillar, proposing the International Trade Organization (ITO), progress towards a multilateral organization governing global trade took considerably longer. In the meantime, a handful of countries joined the General Agreement on Tariffs and Trade (GATT) in 1947, which would eventually provide the structure and form of the World Trade Organization (WTO), established in 1995.

This report synthesizes the work of the Boston University Global Development Policy Center (GDP Center) on global economic governance focused on the Bretton Woods institutions across three key pillars of financial stability, development finance and trade.

While the Bretton Woods institutions have established a rules-based, multilateral system of global economic governance, the GDP Center's policy-oriented research finds that this system is in urgent need of fundamental reform. This report recognizes both the benefits and contributions of the multilateral institutions established at Bretton Woods, while identifying areas where reform is required. While these institutions have expanded the range of options available for countries, they are indicative of a long gridlocked system that has not transformed itself to accommodate existing economic realities.

GDP Center research has also tracked Southern-led efforts to create alternative institutions across the three pillars (Kring and Gallagher 2019; Barrowclough et al. 2022). While these institutions have been important sources of additional financing and viable alternative options, their emergence underscores the same gridlocked nature of global economic governance reform and the crisis of legitimacy at the heart of the system.

In recent years, policymakers have increasingly emphasized the need to reform global economic governance in order to achieve shared development and climate change goals. The Bridgetown Agenda, the Vulnerable 20 (V20)'s Accra-to-Marrakesh Agenda and the Africa Climate Summit among others are examples of initiatives seeking to transform the global economic governance system in pursuit of sustainable development on a liveable planet.

Building on GDP Center research, this report outlines key global economic governance reform proposals to ensure a bigger, better and more inclusive Bretton Woods System in the coming decades. We identify pathways to improving global economic governance architecture and ensuring that there are sufficient resources to foster financial stability and development; improve the functioning of the global economic governance system; and to increase voice and representation for emerging market and developing economies (EMDEs) within these institutions.

Policy recommendations:

- **Scale up resources for financial stability and development finance:**
  - The IMF and the World Bank need to be equipped with resources that are commensurate with the needs and priorities of EMDEs. The World Bank and other development finance institutions need to play a key role in supporting the 'big push' of investments needed to achieve development and climate goals (Kharas and Rivard

2022). Likewise, a well-resourced IMF is needed for an effective Global Financial Safety Net (World Bank Group 2023).

- The multilateral trading system should facilitate the scaling up of development, climate resilience and mitigation by increasing trade with developing countries in climate-friendly technology and products. An effective response to the climate crisis requires participation by all countries. If the Global South is left behind, without access to key technology to make the energy transition, or stuck once more with the short straw of supplying only primary commodities for the new renewable energy supply chains, those countries will be hindered from taking climate action, and will face additional political obstacles to participating in the global project.

- **Overhaul lending practices and priorities at the Bretton Woods institutions:**
  - The World Bank needs to shift its lending towards supporting structural transformations in EMDEs. This structural shift needs to be supported by appropriately calibrated instruments. The social and environmental risks of a big push need to be minimized and the World Bank operating model needs to better recognize the financial risks faced by members.
  - The IMF needs to improve its lending practices and tools. The IMF and World Bank should improve their Debt Sustainability Analysis framework to account for the necessary development and climate investments and shocks. Moreover, the IMF should eliminate surcharges on borrowing members to avoid further buildup of debt vulnerabilities. Finally, lending conditions and restructuring packages should be connected to growth enhancing plans, rather than austerity packages.
  - WTO members need to proactively transform the multilateral trading system so that it facilitates increased innovation, production and trade in essential climate-related products and discourages continued reliance on fossil fuels.

- **Enhance voice and representation across all pillars of the Bretton Woods institutions.**
  - For the IMF and the World Bank, a significant rebalancing of voting power must be complemented by fundamental governance reforms to ensure more voice and representation for EMDEs.
  - For the WTO, this means maintaining a commitment to multilateral decision-making, recognizing the economic and social impacts of Global North policymaking on the Global South, and allowing special and differential treatment for those countries that need more flexibility during the energy and economic transition.

The mounting global challenges and the intersecting crises of the early 2020s require an ambitious multilateral response. Over the years, the Bretton Woods institutions have served as an anchor of the global economic governance system. As the research discussed in this report demonstrates, they can and must play a bigger, better and more inclusive role in supporting sustainable development and climate resilience. The challenges confronting countries today provide the Bretton Woods institutions and their members with an important opportunity to transform these insitutions to meet the needs and aspirations of people around the world.

Athens, Greece. Photo by Nomadic Julien via Unsplash.

INTRODUCTION

Eighty years ago in July 1944, the Bretton Woods Conference resulted in a wide-ranging agreement to establish an international financial architecture. The post-World War II multilateral order that was created led to the establishment of the Bretton Woods institutions, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), the precursor to the World Bank, as well as a proposal for an International Trade Organization (ITO). While progress on trade was considerably slower, this third pillar of the international financial architecture materialized in 1947 with the General Agreement on Tariffs and Trade (GATT), which provided the foundation for the World Trade Organization (WTO) to emerge in 1995.

Nearly a century later, the Bretton Woods Institutions in their current form "remain at the center of global financial governance today" (Helleiner 2016). Despite their evolution over the 20th century, the international financial architecture faces a dramatically different set of challenges that will test its adequacy and legitimacy over the next 80 years (Volz et al. 2024).. From climate change and high levels of sovereign debt, to financial instability and the fallout from the global pandemic, the international financial architecture will be increasingly tested in the critical decades to come.

This report synthesizes the work of the Boston University Global Development Policy Center (GDP Center) on global economic governance focused on the Bretton Woods institutions across three key pillars of financial stability, development finance and trade.

While the Bretton Woods institutions have established a rules-based, multilateral system of global economic governance that has brought many benefits to the global economy since World War II, our policy-oriented research finds that this system is in urgent need of fundamental reform. To that end, we advance three key recommendations.

First, resources for financial stability and development must be scaled up and made available across the Bretton Woods institutions to backstop the global economy and countries in moments of crisis and meet development needs. Second, lending practices and priorities at the Bretton Woods institutions must be overhauled in order to support the structural transformations required for low-carbon sustainable development and economic growth. Finally, the Bretton Woods institutions are in need of a rebalancing of voice and representation to ensure that EMDEs and the most vulnerable countries have a say in the policies and practices they will be subject to in moments of crisis and beyond.

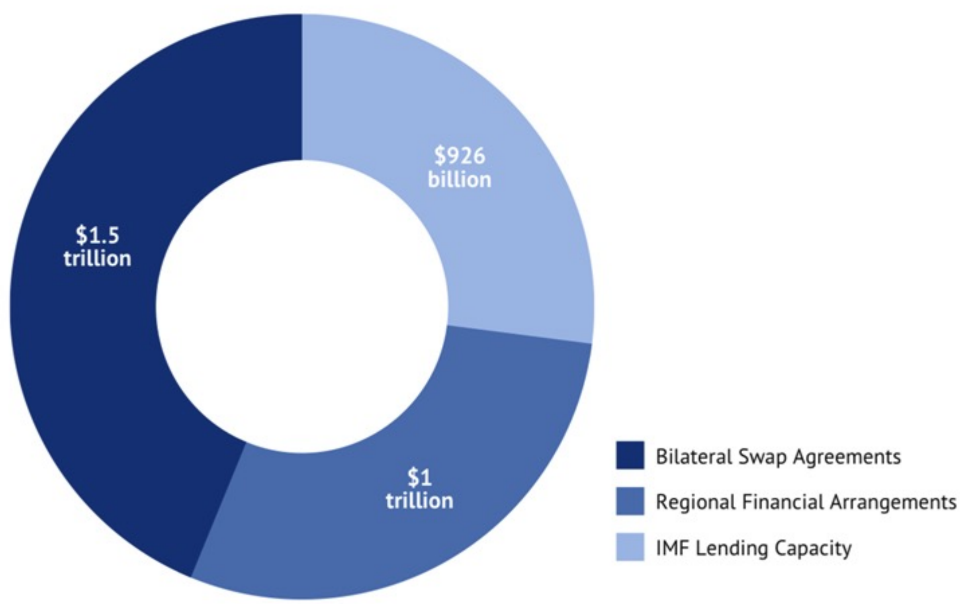
The report is structured as follows. For each of the three pillars, the benefits and contributions of the relevant Bretton Woods institutions are explored, followed by a discussion of their key shortcomings as identified by our research. The final section advances policy-oriented recommendations for fundamental reforms to the Bretton Woods institutions to make them bigger, better and more inclusive for the decades to come.

PILLAR 1: FINANCIAL STABILITY AND THE IMF

The first pillar of the Bretton Woods institutions, financial stability, is anchored by the IMF. The international monetary system that emerged at Bretton Woods filled a critical gap in the global economy. The IMF, the only global, multilateral rules-based institution providing balance of payment support, is crucial for maintaining international financial stability and preventing financial crisis contagion in a highly globalized system (Rodrik and Subramanian 2009; Obstfeld 2009). According to our research and the broader literature, the IMF has contributed to global financial stability in a number of ways, for example, by providing liquidity to countries in need or by conducting economic surveillance (Stiglitz 2011; Bradlow and Gallagher 2021).

Over the past two decades, there has been a proliferation of alternative sources of liquidity finance for certain countries to combat balance of payment crises (Kring and Gallagher 2019; Kring and Grimes 2019; Muhlich et al. 2022; Barrowclough et al. 2022). As Figure 1 shows, currently, the IMF represents less than one-third of the Global Financial Safety Net (GFSN) - the network of institutions aimed at supporting countries during times of financial distress including the IMF, regional financial arrangements (RFAs) and bilateral credit lines provided by central banks called currency swaps. While the emergence and expansion of RFAs and central bank currency swap lines have contributed to a diversified GFSN, lower income countries are largely excluded from these resources (Mühlich et al. 2022). The systemic bias against lower-income countries in currency swaps arises from the economic, trade, financial and political considerations of the central banks providing these swaps in relation to the recipient countries (Goda et al. 2024). Moreover, the lack of an African RFA contributes to this bias (Dagah et al. 2019). At a minimum, the IMF ensures that economies not considered systemically important have a lender to turn to in times of crisis, though the sufficiency of these resources may be limited (Mühlich et al. 2022; Goda et al. 2024).

Figure 1: Composition of the Global Financial Safety Net



Source: Adapted from Mühlich et al (2022).

To its credit, the IMF has shown some willingness to evolve, albeit at a slow pace. The IMF responded relatively rapidly to the COVID-19 pandemic, recognizing the need for countercyclical public spending (Gallagher and Maldonado-Carlin 2020; Ramos and Gallagher 2021) and vitally, its members agreed to inject $650 billion worth of Special Drawing Rights (SDRs), supplementary international reserve assets created by the IMF, into the global economy (Gallagher et al. 2020). The IMF has also come to understand climate change as being closely tied to its core mandate and launched new climate-focused initiatives like the Resilience and Sustainability Trust (RSF) (Titelman et al. 2023). The IMF also moved towards becoming more permanently resourced, based on the decisions taken at the 16th General Review of Quotas, the process by which the IMF determines the sufficiency of its resource base, though increased shares were ultimately allocated equi-proportionally. Hence, this uniform percentage increase of quotas did not adjust the current quota system to reflect the current economic weight and power of developing countries (Kring and Gao 2023). While the IMF's scale of available lending resources did not increase and significant shortcomings in voice and representation remain, this move to permanent, quota-based resources is a welcome shift aligned with Group of 20 (G20) objectives for strengthening the GFSN in recent years (Intergovernmental Group of 24 2022).

The IMF also has a key role to play in supporting countries that are experiencing debt distress. To begin, the IMF monitors and assesses debt vulnerabilities of countries, through its Debt Sustainability Analyses (DSAs), a tool to assess a country's ability to meet its current and future debt obligations without exceptional financial assistance or default (Hakura 2020). The result of a DSA can influence the IMF's decision of whether a country needs debt restructuring and the amount of debt relief that should be provided (Zucker-Marques et al. 2024). Moreover, given the IMF's 'super-senior' creditor status (with the highest priority for repayment), this institution provides finance to countries during debt restructuring - when no other creditor would be willing to provide additional resources.

While the creation and evolution of the IMF as a key pillar of the Bretton Woods institutions have brought considerable benefits, significant shortcomings must be addressed for the IMF to maintain its credibility and legitimacy as the anchor of the GFSN.

In terms of its lending capacity, the IMF has failed to keep pace with the growth of the global economy or global trade flows, as "its size relative to global GDP or global trade volumes has fallen" (Kring et al. 2023; Mühlich and Zucker-Marques 2023). While the 16th General Review of Quotas, resulted in an increase in the permanent resource base of the IMF, there was no net increase in the IMF's lending capacity (Kring and Gao 2023). In fact, the IMF would need to double the quotas of low- and middle-income countries in order to correct for structural gaps in the GFSN (Mühlich and Zucker-Marques 2023).

In addition, the IMF has been widely criticized for the procyclical conditionality associated with its lending programs. The IMF has promoted contractionary conditionalities in its lending, with borrowing countries' lack of voice in the IMF and lack of alternative lenders offering them little power to push back (Stubbs et al. 2021; Ray et al. 2022; Merling 2022). The IMF's conditionalities have regressive distributional effects, as governments are forced to cut public services and public sector wages, and a significant body of evidence demonstrates these procyclical conditionalities also fail to achieve their stated purpose of stimulating growth (Ocampo 2017; Kentikelenis and Stubbs 2023). While the IMF's public position is that it has moved away from austerity and its conditionalities have shifted to some degree (IMF 2014), with the exception of 2020 during the peak of the COVID-19 crisis, the IMF's fiscal consolidation conditionalities remain prominant (Ray et al. 2022). Moreover, the institution remains excessively skeptical of the public sector and its social spending floors are insufficient to prevent negative social repercussions of fiscal consolidation in lower income countries.

Voice and representation also remain a significant issue at the IMF, as EMDEs are highly underrepresented in IMF decision-making processes (Merling 2022). The share of quotas and voting power for EMDEs is dramatically less than their share of the global population, and also lags significantly behind the Global South's share of the global economy (Merling 2022; Merling and Kring 2023). Repeated delays in promises to realign quotas have allowed these imbalances to grow and undermine the legitimacy of the institution (Kring et al. 2023; Kring and Gao 2023). Indeed, the power of decision-making at the IMF is disproportionately concentrated among a handful of advanced economies, “with the United States maintaining a dominant role and veto power of major reforms” (Merling 2022). This lack of voice and representation for EMDEs is especially concerning considering that they are most likely to need assistance from the IMF and be subject to its conditionality, all while simultaneously holding the least influence over the Fund (Merling 2022). Furthermore, undersized quota shares lead to inadequate lending thresholds and SDR allocations for EMDEs, which further contributes to financial instability.

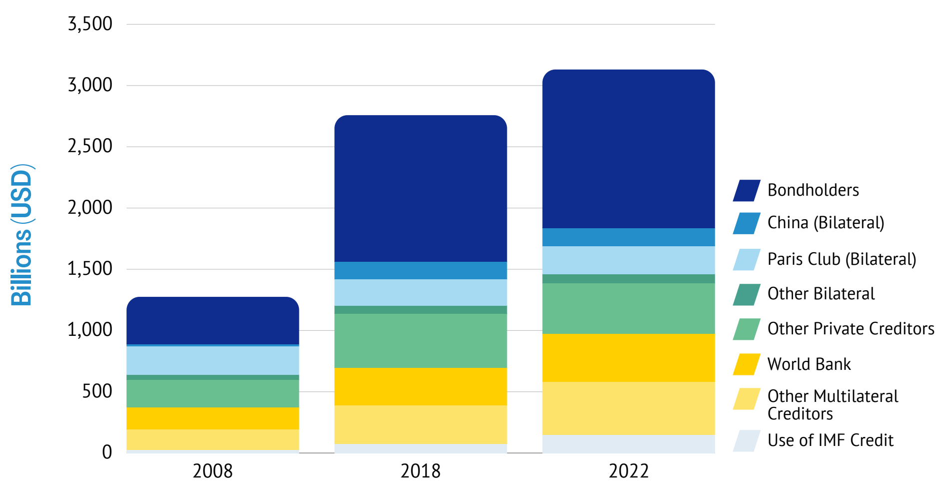
Figure 2: IMF Quotas and Voting Shares Compared to Share of Population and Global Economy, by Grouping

	Quotas	Votes	Population ▼	GDP (PPP adjusted)
Group of 20	81.2%	78.0%	63.8%	80.4%
BRICS	14.8%	14.2%	42.2%	31.6%
Group of 24	20.7%	20.4%	39.8%	38.6%
Vulnerable 20 Group	4.0%	5.3%	16.6%	5.5%
Group of 7	43.4%	41.3%	10.1%	30.4%

Source: Merling and Kring 2023.

Finally, the IMF bears responsibility for the inadequacies of the global sovereign debt architecture. As the lender of last resort, it holds significant influence over debt restructuring negotiations, which have become increasingly complex due to rising debt burdens and a more diverse creditor landscape, as shown in Figure 3.

Figure 3: EMDEs' (excluding China) Public External Debt Composition by Creditor, 2008-2022, in USD Billions



Source: Zucker Marques et al. (2024) based on World Bank International Debt Statistics (2023).

A key problem of the current debt renegotiation process lies in the flawed DSAs. The IMF's DSAs often fail to consider the level of spending required to meet development and climate goals, as well as climate shocks (Gallagher & Maldonado 2022; Zucker-Marques et al. 2024), resulting in inadequate debt relief packages or misdiagnoses where countries needing debt relief are not identified as such. Flawed DSAs can, in particular, have negative consequences for the most debt and climate-vulnerable regions like sub-Saharan Africa (Gallagher et al. 2023) and groups like the Vulnerable Twenty (V20) Group of Ministers of Finance of the Climate Vulnerable Forum (Bhandary & Marins 2024).

Additionally, the IMF's practice of applying surcharges - or additional fees on borrowing members - is not in line with the role of the IMF as a lender of last resort or 'super-senior' creditor, as surcharges have been shown to exacerbate debt vulnerabilities (Stiglitz and Gallagher 2022). Surcharges were initially designed to incentivize IMF members to repay their loans quickly and build reserves for the possibility of default. However, surcharges have proven to be counterproductive, as higher borrowing costs imposed on IMF members jeopardize their ability to repay their debt and further increases reliance on the Fund (Stiglitz and Gallagher 2022).

PILLAR II: DEVELOPMENT FINANCE AND THE WORLD BANK

In terms of the development finance pillar of the Bretton Woods institutions, multilateral development banks (MDBs) have been an important source of low-cost, long-term finance for EMDEs, providing finance and expertise to countries around the world. MDBs have an important role to play in supporting the transformation of economies and providing counter-cyclical finance. Over time, MDBs, such as the World Bank, have expanded their focus from predominantly infrastructure to social sectors as well. In 2022, US Treasury Secretary Janet Yellen called on the World Bank to evolve its practices to help client governments address 21st century challenges (Yellen 2022). The World Bank responded by elevating its focus on global challenges and undertaking a series of reform measures to scale up its financing (World Bank 2022).

The World Bank and other MDBs have also significantly reformed their safeguards and standards to ensure that the negative implications of lending are minimized. However, they are yet to find the right balance between avoiding negative impacts and preserving the ownership of host countries. This trade-off is likely to be amplified in coming years, given the urgency of addressing climate change and the pressure to mobilize vast sums of money as quickly as possible.

The architecture of development finance institutions (DFIs) has expanded to include national and regional level banks. The collective balance sheet of these institutions totals around $24 trillion in assets. The rise of Southern-led institutions is a key development in the architecture of DFIs. At the national level, DFIs have played an important role in supporting national policy priorities, incentivizing the adoption of new technologies, especially renewable energy, and financing the build out of supporting infrastructure (Xu and Gallagher 2022; Bhandary 2022).

Three central concerns regarding the ability of the World Bank to meet 21st century challenges are the need to increase the scale of financing, expand the voice and representation of developing economies in World Bank governance, and improve the impact of World Bank finance.

First, EMDEs need to mobilize upward of $3 trillion annually by 2030 to meet their development and climate goals (Songwe et al. 2022). Against this benchmark, the World Bank and other DFIs need to significantly scale up their financing, and research has found that MDBs can significantly expand their lending without jeopardizing their credit ratings (Munir and Gallagher 2020). The G20 has also recognized that MDBs could indeed increase their financing and has encouraged MDBs to implement measures to optimize their balance sheets and reform capital adequacy frameworks (G20 2023; G20 IEG 2023).

The second core concern has been the governance of the World Bank and its legitimacy. The representation of members on the boards of legacy institutions has not reflected the significant changes in the world economy over the last 80 years. Major EMDEs are not yet adequately represented. Similar to the IMF, the World Bank and other legacy banks offer climate vulnerable economies a very limited voice over decision-making processes.

The third concern has been the composition and impact of financing. At a broad level, research indicates that the impact of MDBs on economic growth is mixed at best. Some scholars have found that World Bank financing is positively correlated with measures of economic freedom (Boockman and Dreher 2003). While the record of MDBs far down the causal chain may be mixed, more proximate steps also suggest that they have plenty of room for improvement. MDB operations have also received criticism for being too cumbersome, with lengthy procedures for approvals and a focus on the 'disbursement imperative' (Nielson et al. 2006).

A more intermediate objective adopted by the World Bank and other DFIs has been to increase private sector engagement in development finance. However, MDBs are yet to achieve significant rates of private capital mobilization (PCM). While the PCM rates vary across MDBs, assumptions regarding the ability of public capital to crowd in private capital continues to be over-optimistic. The IMF estimated that MDBs mobilize only 1.2 times the resources invested from their own accounts (IMF 2022). Given that the MDBs have made PCM a cornerstone of their financing strategies, the gap between ambition and practice is noteworthy.

PILLAR III: TRADE AND THE WTO

In terms of the trade pillar of the Bretton Woods institutions, the evolution of the trade and investment regime has considerably contributed to global economic growth and development. On the heels of the formation of the Bretton Woods institutions, the establishment of the General Agreement on Tariffs and Trade (GATT) in 1947 was indicative of a global consensus view that lowering barriers to international trade was the most effective way to foster economic growth and human development (Mavroidis 2015).

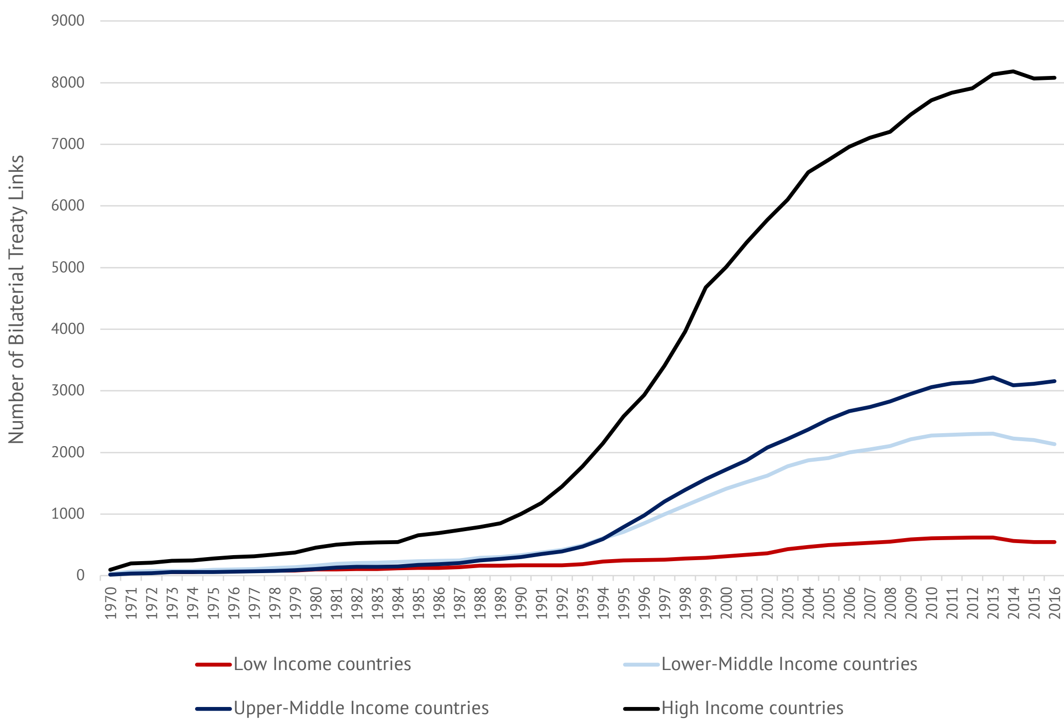
Over 40 years of negotiations, countries progressively liberalized trade by lowering tariffs, while the volume of world trade boomed (Trebilcock, Howse and Eliason 2013). During that same time frame, the world experienced a rapid decrease in the percent of people living in poverty, vast improvements in maternal and child health, as well as many other social welfare improvements (Harrison, McLaren and McMillan 2011).

From 1988-1995, GATT parties completed negotiations to form the World Trade Organization (WTO), which sought to expand market access in the fastest growing areas of the global economy: services and foreign investment. The agreement went further, establishing new disciplines in technical, sanitary and phytosanitary regulations, and intellectual property standards, all while providing a more enforceable dispute settlement system. Around the same period, countries initiated separate bilateral and regional free trade agreements to ratchet up commitments in trade in services, investment and intellectual property, and demand deeper regulatory integration between treaty parties.

As trade liberalization continued through bilateral and regional free trade agreements, these treaties paid homage to the "truths" of market freedom – that the economic system does best without the intervention of government policymakers and that expanded trade is a good proxy for economic development. Champions of market freedom pointed to the rapid development of Taiwan and South Korea as an indicator of the success of the free market through export-led growth (Kumar and Gallagher 2007). Chile and Argentina were held up as prime examples for trade liberalization in South America, and Mexico registered rapid industrial growth (at least in certain sectors) on the heels of the North American Free Trade Agreement (NAFTA), established in 1994 (Stiglitz 2003). As a result, it became common wisdom that trade and investment liberalization has contributed at least in some way, to economic growth. Nevertheless, the benefits of rapid, comprehensive trade liberalization in these regional and bilateral contexts began to crowd out the role of the multilateral system, while worsening some of its negative spillover effects (Rodrik 2018; Kremer and Maskin 2006).

A major critique of the WTO is that, despite an expansion of its membership, progress toward global integration has ground to a halt. At every subsequent ministerial following the formation of the WTO, there have been fewer and fewer areas of agreement leading concretely to increased trade. As a result, countries have turned increasingly to preferential bilateral and regional trade agreements to continue the process of liberalization (Bhagwati 2014), where multilateral negotiations have stalled, leading to further pressure to turn away from the WTO. Moreover, those bilateral and regional agreements include rules that impact many more areas of trade in goods, services and investment, while also demanding more behind-the-border regulatory harmonization (Matoo et al. 2020).

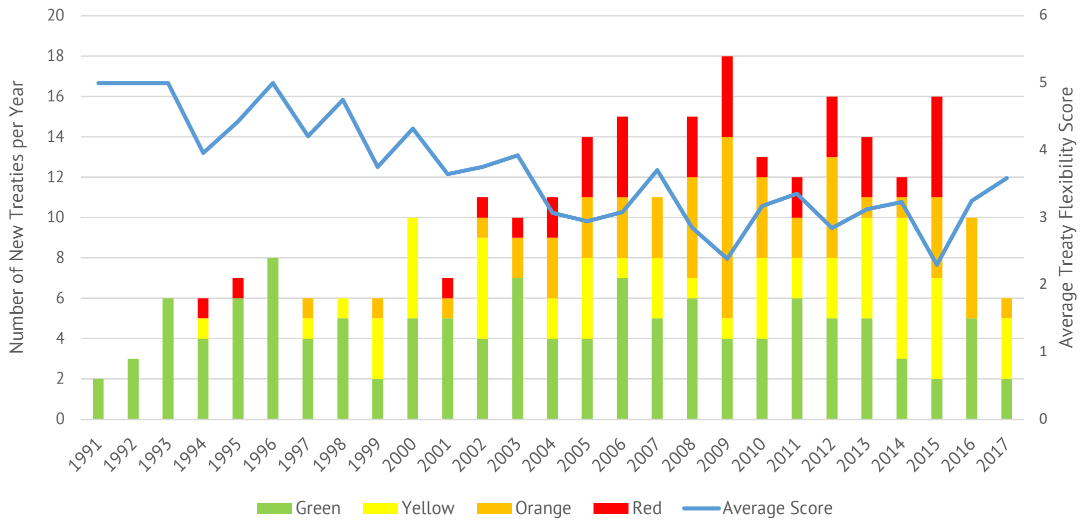
Figure 4: Proliferation of Preferential Trade Agreements Over Time, by Country Income Grouping



Source: Modified from Dutt and Gallagher 2022 based on WTO's Preferential Trade Agreements Database.

Additionally, the WTO and other trade negotiation fora are not appropriately responsive to their developing country members. Specifically, research has found that the trade and investment rules act to constrain measures that governments have historically used for the public purposes of development, public health, environment and more (Thrasher 2021). The global rules at the WTO and in other trade agreements make it more difficult for countries to maintain financial stability (Thrasher, Sklar and Gallagher 2021), to maintain and expand fiscal space (Dutt and Gallagher 2022; Rolland 2020), and to intervene to restructure their economy in line with their development priorities (Thrasher and Gallagher 2010).

Figure 5: Shrinking Policy Space Through Trade Treaty Commitments - Illustrative Graph (Capital Flows Provisions)



Source: Thrasher, Sklar and Gallagher 2021.

Note: Green = Treaties with no commitments to liberalize capital account transfers, or a narrowly circumscribed commitment with broad exclusions/exceptions and no ISDS enforcement. Yellow = 'Either' treaties with a limited scope free transfers commitment, some policy and/or prudential exceptions and no ISDS, 'or' treaties with broad scope, as well as exceptions and no ISDS. Orange = 'Either' treaties with a broad free transfers commitment, broad policy and/or prudential exceptions and ISDS with limits, 'or' treaties with limited scope, some exceptions, and unconstrained ISDS. Red = Treaties with broad free transfers (2–3) commitments, a lack of general safeguards for macroeconomic crises and ISDS.

GDP Center research has also found that least developed countries (LDCs) on the verge of graduating from that development status, like Bangladesh, stand to have their trade policy toolkit curtailed upon graduation, further challenging their development trajectories (Rahman et al. 2021). The move to preferential trade agreements and standalone international investment agreements has also opened the door to private firms pursuing arbitration claims against government measures to preserve financial stability, protect public health and the environment and promote development, potentially subjecting governments to large fees (Tienhaara et al. 2022a; Tienhaara et al. 2022b).

Most recently, Global North countries seem to be disregarding the rules in the interest of creating effective climate policy that has some chance of garnering the support of the majority of their populations (Nam 2023; Thrasher and Liu 2023). This development, on the one hand, could spell good news for developing countries. In public policy areas where they might have experienced regulatory chill, the actions of higher income countries might result in a "thaw" - or a renewed sense that these policies are once more available to them. On the other hand, wealthy countries disregarding the rules against discrimination in international trade also leaves the Global South vulnerable to the economic impacts of unilateral policymaking (He et al. 2022; Titleman et al. 2023).

Bangkok, Thailand. Photo by Waranont via Unsplash.

CONCLUSION

The Bretton Woods institutions were created to rebuild the post-World War II economy and to foster financial stability and development. While these institutions have been incredibly successful and enduring anchors of the global financial architecture, there are significant shortcomings in terms of their resources, operations and voice and representation that threaten the very legitimacy of the global economic governance architecture.

In advancing policy-oriented research, the GDP Center has not only identified areas of necessary improvement for the Bretton Woods institutions, but also outlined concrete steps to fundamentally reform the global financial architecture accordingly.

First, **significantly more resources are needed to foster financial stability and development.**

In terms of the financial stability pillar, the IMF needs a significantly larger resource base for lending if it is to credibly act as the center of the GFSN. To meet the needs of low- and middle-income countries and balance the access to resources compared to high-income countries, GDP Center research estimates that IMF quotas should increase from 127 percent to 267 percent (Mühlich and Zucker-Marques 2023).

The IMF must lead the way in ensuring a more robust GFSN that is sufficiently scaled to meet the needs of today's global economy. An enlarged GFSN must offer more liquidity, especially for EMDEs; have a sufficiently resourced IMF at its center; and allow for rapid deployment of resources in a socially inclusive and climate resilient manner.

Considering the need to mobilize upwards of $3 trillion annually by 2030 to achieve development and climate goals (Songwe et al. 2022), the World Bank and other MDBs need to be significantly scaled to provide low-cost, long-term finance that can support transformative development. GDP Center research identified the significant existing headroom that MDBs have to increase their lending and our research has further shown how capital injections can enable MDBs to play an even bigger role in scaling up finance and unlocking synergies with capital adequacy framework reforms and balance sheet optimization (Munir and Gallagher 2020). The need for the World Bank and other MDBs to play a central role in supporting this transformation agenda has become even more vital, given the high costs of borrowing, growing debt distress and private capital mobilization that is yet to happen at the desired scale.

GDP Center research also highlights that SDRs are a potential key to unlocking more resources in the multilateralized system, including by rekindling the discussion on the use for SDRs for financing development (Bradlow and Gallagher 2021), beginning with a rechanneling of SDRs to MDBs, as recently approved by the IMF (IMF 2024). Further, an additional – and possibly recurring - allocation of SDRs would not only address current liquidity constraint in EMDEs, but also support investments in national priorities. Given the asymmetries and inequalities generated by the allocation of SDRs following IMF quotas (Merling 2022), at least partially de-linking SDR issuances from the quota system would provide a more equitable distribution of resources among IMF members in the next round of issuances.

Finally, in terms of the trade regime, greater amounts of trade and investment (both public and private) in climate-related goods are needed to facilitate a global energy transition. Thus, the goals of innovation, economic growth and development must be pursued with a climate lens – recognizing that the quality and composition of trade and investment, not only the quantity, are essential for meeting the needs of the moment.

Second, **urgent reforms in lending practices and priorities across the Bretton Woods institutions are needed.**

In the case of the IMF, members must overhaul the Fund's lending practices and tools. First, DSAs must be corrected for flawed growth estimates, while integrating climate shocks and accounting for necessary development and climate investments (Task Force on Climate, Development and the IMF 2023; Zucker-Marques et al. 2024). To ensure that the IMF is not funding its operations by preying on the most vulnerable of its member countries, surcharges must be eliminated (Stiglitz and Gallagher 2022). Debt restructuring plans should also be connected to growth enhancing plans, rather than austerity packages (Ramos et al. 2023; Zucker-Marques and Volz 2023). Second, the re-calibration of the IMF's lending toolkit needs to reflect the IMF's responsibility in facilitating an orderly and just transition through a 'big push' of investments (Titelman et al.2023; Kharas and Rivard 2022). The IMF needs to play a central role in supporting countries to chart a fiscally and financially sound pathway to achieve their development and climate goals. Finally, beyond IMF reform, the international community should build the missing piece of the international architecture and develop an independent sovereign debt workout mechanism (Ocampo 2017).

In terms of the development finance pillar, MDBs need to shift their programming approach to help countries achieve long-term structural shifts that pave the way for prosperous futures. There are five major types economies that require structural transformations across EMDEs: first movers, new winners, large emitters, fossil fuel extractors and climate vulnerable economies (Gallagher and Bhandary 2023). While MDBs have taken steps to improve the composition of their finance, such as, by committing to align their portfolios with the Paris Agreement's objectives, the emphasis has been on exclusion lists (Manych et al. 2023). MDBs need to take a leap in re-envisioning their programming to support the structural transformations that countries really need.

DFIs should also work better together as a system. There are important complementarities and synergies across MDBs, regional development banks and national development banks. Country platforms can help connect national priorities with the most relevant DFIs for the country, reduce coordination costs and crowd in finance to support national priorities. Policymakers need to better harness the synergies between MDBs and national development banks. Close cooperation between MDBs and national development banks can help rectify two major problems often identified in the system of development banks. First, many countries face acute investment needs, but have insufficiently developed project pipelines. As national development banks are embedded in local contexts, they can be instrumental in identifying, incubating and incentivizing projects. Second, national development banks as policy banks are a key part of a country's policy ecosystem. As mission-oriented institutions, they can support national policy efforts by putting their resources behind national priorities. They can also serve as a conveyor belt to the government to adjust policies during implementation and help fill gaps by providing comprehensive solutions (Zhang 2022).

The WTO, both as an institution and among its membership, must remember that the trade rules were originally built on the understanding that trade and investment are a means to an end. To resolve the challenges and tensions in the global trade regime, rules and institutions that appropriately respond to research findings are needed to advance a greater amount of high-quality trade and investment growth towards long-term sustainability. Research has shown that implementation of some of the highest priority rules within the WTO has had very different impacts on countries of different income levels. When research shows that trade liberalization leads to uneven growth (Kremer and Maskin 2006) or that investment treaties don't lead to increased investment (Brada et al. 2021), or the intellectual property rules do not lead to increased innovation (USITC 2023), the international community should not treat these measures as ends in themselves, but more like flexible policy levers to be used strategically towards achieving development and climate goals.

Third, **significant governance and operational reforms are needed at the Bretton Woods institutions to ensure more voice and representation for EMDEs.**

The IMF must expand the voice and representation of EMDEs by striving to make their governance systems fit-for-purpose for 21st century needs. The 17th General Review of Quotas, concluding in December 2025, provides a key opening to revise the quota formula to ensure that the voting power at the IMF begins to meaningfully rebalance so that the countries that have been underrepresented for nearly a century have more voice and representation going forward.

Likewise, legacy development banks should strengthen the voice and representation of developing countries and their citizens so that these institutions can improve their accountability and legitimacy. For example, shareholding at the World Bank should reflect current economic realities. Furthermore, the voice of most vulnerable countries needs to be expanded and safeguarded.

Finally, the WTO must maintain institutional credibility by continuing to operate on a multilateral basis and avoiding the gross power imbalances that arise from bilateral and small-group negotiations. From the beginning, WTO members have recognized that different countries will necessarily need "special and differential treatment" in practice to respond to their development needs and priorities. As the trading regime has become more fragmented, however, smaller economies have been subject to more bilateral negotiations that make it harder to build coalitions and often require a two-track approach to trade integration (bilateral and multilateral) (Drahos 2003; Krueger 1999). To avoid this, WTO members must reinforce a multilateral approach to ensure more equitable voice and representation in trade governance in the coming decades.

The mounting global challenges and the intersecting crises of the early 2020s require an ambitious multilateral response. Over the years, the Bretton Woods institutions have served as an anchor of the global economic governance system. As the research discussed in this report demonstrates, these institutions can and must play a bigger, better and more inclusive role in supporting sustainable development and climate resilience. The challenges confronting countries today provide the Bretton Woods institutions and their members with an important opportunity to transform these institutions to meet the needs and aspirations of people around the world.

Vietnam. Photo by Nathan Cima via Unsplash.

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