

## **Abstract**

Their name suggests that the multilateral development banks (MDBs) should provide finance for investments in human and physical capital that promote development. The interpretation of this broad mandate, however, has changed significantly over time. One reassessment occurred when the European Bank for Reconstruction and Development was established following the fall of the Berlin Wall and given a mandate to foster the transition to a market economy by investing primarily in private sector projects. Another is ongoing with the strong focus on achieving the international development goals to reduce extreme poverty to one-half its 1990 level by 2015. This paper assesses the role of MDBs in fostering development or transition through the institutional mechanisms that the MDBs possess for the selection, monitoring and enforcement of loans and other financing agreements through the use of subsidies that they receive from their shareholders and other sources. We conclude that a useful direction for MDB reform is to exploit more effectively the potential complementarities between the public and private sector financing operations. We disagree with the view that the MDBs should become at least in part fiscal agencies for the allocation of grants either for the purpose of international redistribution or for the financing of international public goods.

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