

Henry Owen Memorial Award Essay Contest

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The World Bank: Midlife Crisis or Existential Crisis?

At the end of World War II, the World Bank was created to provide financial assistance for reconstruction. It later moved into fighting poverty and is currently the largest lender in development. This was a necessity because cash was constrained for developing countries. However, times are changing. The Bank faces competition from regional Banks, and financial markets that are now eager to pour money into the developing world. This is true more than ever after the financial crisis in the developed world where developing markets showed strong growth. Business as usual does not seem like a sustainable solution and the Bank will need to re-evaluate its business model. The Bank should continue its IDA grants to low income countries, but gradually discontinue its loans to middle income countries and act as an enabler for other lenders. The organization in essence needs to switch from a lending bank to a knowledge bank.

The fact that credit markets are now more willing to invest in the developing world could be reason enough to question the existence of the World Bank. However, some would argue that this is the case for middle income countries and not for the poorest countries. The problem is that the World Bank is not the only game in town. The Bank is now facing fierce competition from regional banks that are now stronger than ever.

If that was not enough reason, the Bank is also facing competition from developing countries themselves. The 5th BRICS (Brazil, Russia, India, China, South Africa) summit will take place in Durban at the end of March. The expected outcome of the summit is the creation of a BRICS Bank. Developing countries have never been happy with the conditionality the World Bank and IMF have on their money. They also question the notion that Bank-Fund bureaucrats are well equipped to fight poverty from their offices in Washington. In fact, China has already been willing to provide some of its massive reserves for projects in Africa and Latin America. As opposed to the World Bank, China is not very particular about human rights and democratization.

Former World Bank President James Wolfensohn (1995-2005) proposed the idea of a “Knowledge Bank.” The idea behind a knowledge bank is that as mentioned above, lending will not remain a comparative advantage for the World Bank for too long. However, nobody has the years of experience in development that the Bank has. The World Bank houses experts in every area of development – some who have been in the organization for many decades. Repetition is the mother of learning, and after doing projects for so long they know better than anyone what works and what does not. Knowledge is now the Bank’s comparative advantage. The Bank’s role in development should be that of an enabler. In a way, it would be a transformation similar to that of IBM that given its expertise moved into consulting and has become more successful than ever.

However, the Bank must not forget its core mission – fighting poverty. Acting as a global consulting firm in development would probably be efficient at fighting poverty in middle income countries, but not in low income countries. That is why the Bank should consider merging IBRD into IDA and focus entirely in grants to low income countries. In doing this it should consider decentralizing its operations even further.

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The Bank started the metamorphosis with Wolfensohn and changed its structure to a matrix system among regions and networks. According to evaluations from its Independent Evaluation Group (IEG), the transition into a knowledge bank has been “highly inefficient and modestly effective.”¹ The reason why this initiative has been ineffective is probably because the Bank is trying to maintain its level of lending at the same time. It is probably wiser to switch gears. Both objectives do not seem attainable and trying to pursue them seems like a recipe for failure. The Bank should exclusively focus on knowledge and grants to low income countries as a decentralized organization. In a modern world, where the global development landscape is rapidly evolving, this is a necessity. Otherwise, the World Bank will move away from newspapers into history books and business schools’ case studies.

¹ World Bank Independent Evaluation Group (IEG). "The Matrix System at Work: An Evaluation of the World Bank's Organizational Effectiveness." April 2012.