What is the World Bank Good For?*

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The International Bank for Reconstruction and Development (IBRD) emerged out of the Bretton Woods conference of 1944 as an institution designed by John Maynard Keynes and Harry Dexter White to help intermediate between the availability of finance in the US, and the need for it in a bombed out Europe and Japan. The sovereign loan instrument was designed to address the market's reluctance to invest in infrastructure in these countries on a normal commercial basis. The dramatic post war recovery is a testament to the success of the design.

As the remarkable growth of Europe and Japan in the next quarter century reduced this need, the institution turned to developing countries, further bolstering its resources with the concessional loan window of the International Development Association (IDA). For the next quarter century, the World Bank of IBRD and IDA was the biggest game in town for most developing countries and in some cases the only game in town. As the institution approached its half century, the protest movement "Fifty Years is Enough" signified disenchantment with the World Bank (and of course its Bretton Woods twin, the IMF) but, equally, it signified the relevance and importance of the institution for development. It is this relevance which is at issue now, having crept up on us as we approach seventy five years of the World Bank in 2019, and as we look beyond that to the next quarter century of the institution.

The international development assistance landscape is now very different from that at the time of Bretton Woods, and even from that which pertained fifty years after 1944. The World Bank is now decidedly not the only game in town in providing development finance. In the official sphere, multilateral development banks (MDBs) emerged to provide regional counterbalance. Regional Development Banks were founded from the late 1950s onwards, supplemented by sub-regional entities. In the last decade, the World Bank received relatively meagre capital increases compared to these regional and sub-regional entities. Other MDBs like the Islamic Development Bank also began operation and have grown. Most recently, the Asian Infrastructure Investment Bank (AIIB) led by China was launched in 2014, and the New Development Bank (NDB) was launched by Brazil, Russia, India, China and South Africa (the BRICS countries) in 2015.

A common narrative for the emergence of these alternative sources of development finance is that they have emerged in response to the perceived US and European dominance in the governance of the World Bank. But whatever the reason, the vast bulk of development resources now lie outside of the World Bank. This is even more the case if we include the burgeoning of bilateral programs, and non-private sector non-governmental funding like that from the Gates Foundation. And of course private sector flows have increase beyond all recognition in the last quarter century.

The vast expansion of institutions and official sources of finance outside of the World Bank must surely mean that over the next quarter century the resources that the World Bank can devote to its signature country specific development activities are bound to diminish drastically relative to

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development needs. Indeed this unmet need for infrastructure investment, which it is argued traditional sources could not meet, has been a principal rationale advanced for the NDB and AIIB. Of course the capital that went into these new institutions could have gone into the World Bank, but it did not. As noted earlier there is a political reason for this. But there is also an operational rationale, based on the efficacy of having institutions close to their operations. Even for multi-country operations addressing cross-border externalities, if the countries in question are close to each other the principle of subsidiarity argues for a regional institution to handle these, rather than a global institution.

What, then, is the World Bank good for in the next quarter century? What role would John Maynard Keynes and Harry Dexter White assign to a global development institution in a world in which there already were a plethora of institutions addressing flows of funds to individual countries for investment, and indeed many of these could also address regional level cross-border issues? The answer has to be: issues which are truly global in scope, issues which cut not just across countries but across regions of the world as well. It is these issues which cannot be satisfactorily addressed by the proliferation of regional institutions, nor indeed by non-governmental institutions, nor of course by private capital flows.

There are obvious and well-rehearsed examples of such truly global issues. Climate Change is one such issue. Financial contagion is another. The spread of infectious diseases is a third. International migration, including refugee flows, is yet a fourth. When a migrant leaves West Africa, travels through North Africa and then Central and Eastern Europe in an attempt to reach Western Europe, it should be clear that no regional agency has the mandate nor incentive to track the entire path. A global, cross-regional, perspective and interventions are needed. Even if the interventions are country and region specific, their coordination across countries and regions will have to be done by a global agency.

The host of truly global cross-border issues which face our globalized world require a global response. Yet the implementation of these responses, for climate change, financial contagion, infectious diseases and migration, will have to be at the country level in a world which is still Westphalian in its structure and likely to remain so into the foreseeable future. We thus need responses which will entail specific concentrated short term costs on some countries with the promise of more diffuse long term gains for all. This is a classic coordination problem for which the World Bank's standard instrument, the sovereign loan, is highly unsuited. Loans, and their repayment, require specification of who receives the loan and who repays, while the nature of the problem is that the benefits of addressing cross-border issues, while they may be large in aggregate, cannot be attributed quite so easily to individual parties. Of course various methods such as apex loans to joint entities, can be and have been tried. But they cannot fully overcome the basic design problem. For these reasons, a grant instrument is more suitable than the World Bank's classic sovereign loan, which proved so successful in addressing the problems of 1944.

But there is another issue. Since responses to global cross-border challenges have to be implemented by individual nations, and even by sub-national entities for large countries, not just finance but consensus is needed—consensus on the nature of the problem and consensus on the solution and the actions now being asked of sub-global entities. But building a global consensus is itself a global public good, albeit an underappreciated one. Developing a common global understanding of the questions, and common framework for the answers, is not in the mandate of regional institutions or institutions geared towards national level development. This is something which the global community needs to entrust to a global institution.

There are of course many ways of improving the current country specific development assistance activities, not least coordination between the ever increasing number of agencies providing finance and advice to any given country—a typical developing country in Asia will have the World Bank, the Asian Development Bank, several bilateral agencies, several UN agencies, and now the NDB and AIIB as well. But the urgent lacuna in the institutional space is how best to address truly global questions. The World Bank could transform itself to be the global community's preferred agency for addressing these issues. But it will need to undergo fairly drastic changes in order to be able to do so. Its signature sovereign loan instrument will have to be phased out for a range of grant instruments. And it will have to transform itself into a consensus building institution.

There are two core requirements for a consensus building institution—authority and integrity. Authority comes from globally respected technical and analytical capacity. By and large, the World Bank does well on this front in its current operations. Integrity and trustworthiness, however, is a wholly different matter. It is hard won but easily lost. The world community must sense that the institution is not the creature of one or more power blocs, nor that a particular frame is being advanced and maintained in the face of evidence to the contrary. Unfortunately the World Bank historically does not have as good a track record, at least on perception-but that is what matters. These perceptions are also closely linked to the governance structure of the World Bank, which of course reflects the realities of 1944, not those of 2024.

So, what is the World Bank good for? Of course, for the next decade or two it can go along on its current trajectory focusing on country specific operations. There is still plenty to do in the conventional mode. But this must be a downward trajectory of relevance and significance as other institutions grow and new institutions come into place. For self-preservation if nothing else, the institution must transform itself into one which addresses truly global issues, those which cannot be addressed by a purely country or even region focused perspective. This will require drastic changes in its instruments and in its governance. But self-preservation aside, given the realities of the world this is indeed what a Bretton Woods conference for today, and the John Maynard Keynes and Harry Dexter White of today, would come up with as the role for a global development institution.

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