

Time for the old dog to learn new tricks

As the World Bank celebrates its 60th birthday, we should pose a fundamental question to its shareholders. Are the World Bank Group institutions sufficiently up-to-date in their approaches and structures to best support their members in a very changed world? After reflecting on the Bank's many achievements of the past 60 years, we should now think about its future.

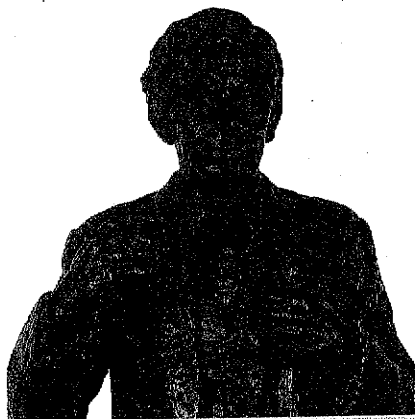
Among those achievements since 1944 are the creation of new Bank Group institutions to meet changes and challenges: the International Finance Corporation (IFC) for private sector support, the International Development Association (IDA) for the poorest countries and the Multilateral Investment Guarantee Agency (MIGA) to catalyse foreign direct investment. The Bank's own scope of operation has expanded dramatically into new fields and the Bank Group's financing has totalled more than \$500bn. The non-financial contributions of the group have also been important. It employs world-class experts, and is able to distill 60 years of experience and share successful policy advice and best practices.

Adapting to private sector view

However, of the challenges now facing the group, none is greater than adapting to a world that has turned from public sector dominance towards private enterprise and free markets. A private sector orientation creates a new context for development assistance, and the World Bank Group should lead the way in making the necessary adjustments.

We can identify four key areas of significant economic change since Bretton Woods. First, we have witnessed a transition in many countries from a "command" economy to a "market" economy. The bank's mandate, however, remains that of lending to governments. Ways must be found to strengthen the World Bank Group's focus and support for development initiated by the private sector.

Second, the role of national sovereign governments in providing investment for areas not taken on by the private sector has been reduced in favour of states and municipalities. Yet the bank cannot lend to sub-sovereign entities unless they obtain national sovereign guarantees, undermining the fiscal responsibility and accountability that should weigh principally on state governors and city mayors. Third is the exceptional increase in access to international private capital by the emerging market economies, which also alters the context of development aid. Bank lending has remained flat over



The World Bank may have turned 60 but it should not be too late for the group to change, says Richard H Frank

recent years, while private capital flows have rocketed. This has created idle financial capacity in the bank and a diminishing of its role and contribution. Policy leverage is tied to lending and if demand for financial resources falls, then so does the bank's influence.

Finally, additional means of financing infrastructure projects must be found. Current needs stretch well beyond the capacity of private capital markets acting on their own. The nexus of risks and rewards for public services provided by private enterprises has frustrated the promise of market finance for the growing backlog of infrastructure projects. The public sector and the World Bank Group need to find imaginative ways of enhancing the private sector's ability to provide the required funding.

Critical issues for shareholders

Shareholders of the World Bank Group should consider three initiatives to deal with these critical issues. The bank's articles need to be changed to allow greater lending flexibility, enabling both the World Bank and the IDA to lend directly to sub-sovereign entities. Capital should be transferred from the bank to the IFC and the MIGA, to create a better alignment of the group's financial capacity in a changed "market-driven" world and reflect the central role of private enterprise. Lastly, the group needs to offer more creative types of risk mitigation and catalytic support for private sector investment, notably in infrastructure financing.

At the broader level, the group must stay focused on economic growth to reduce poverty and avoid excessive expansion of its priorities and initiatives. Governments today do not need a World Bank that covers every issue but one that assists them, above all, to achieve strong, sustainable growth in their economies.

The bank group's shareholders need to demonstrate the decisiveness that they displayed in the past, by enabling the leading multilateral development group to play a more effective and focused role in a changing global economy. **TB**

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The Bracken column is named after Brendan Bracken, the founding editor of *The Banker* in 1926 and chairman of the modern-day *Financial Times* from 1945 to 1958. This column reflects his enormous contribution to the open discussion and understanding of international finance and banking. It focuses on providing views and perspectives on how to improve the global financial system.