
ABSTRACT

In this CGD Essay, Birdsall and Subramanian argue that the World Bank faces twin crises of relevance and legitimacy in a rapidly changing world. The solution, they argue, is for the bank to become a more active catalyst for generating global public goods and knowledge and a more reluctant lender to governments. The World Bank should move, in effect, from being a bank to being a global development cooperative. The essay suggests specific, practical steps for such reforms.

From the conclusion:

The World Bank is no longer the sole or even major supplier of funds to developing countries. Yet its global reach and technical depth puts it in a key position to expand and enhance its advisory services and help manage such pressing collective action challenges at the global level as global warming, the development of new health and agriculture technologies, and the need to make markets for new financial and other products. All of these are “development” opportunities that go beyond business as usual at the Bank. All require a change in the rules by which the Bank is governed to ensure greater engagement of the developing countries in the Bank’s business. Without their engagement the World Bank will become simply another aid agency confined largely to the overcrowded business of making transfers to the poorest and most marginal countries. And the world will lose what it desperately needs: a global institution addressing the global challenges of the future through global collective action.

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CENTER FOR GLOBAL DEVELOPMENT ESSAY

From World Bank to World Development Cooperative

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The World Bank should become a more active catalyst for generating global public goods and knowledge and a more reluctant lender to governments

The World Bank and the International Monetary Fund (IMF) have new faces and fresher minds at the helm to confront the crises of relevance and legitimacy they both face. The incoming Managing Director of the Fund, Dominique Strauss-Kahn, is in some ways luckier than Robert Zoellick, the World Bank President installed in early July, because the problems of the Fund are obvious and immediate. Spurred by the risk that China, India and other rising emerging market economies will disengage, the Europeans and Americans have agreed to give them and other developing countries more votes and more influence. Though the details of this fundamental reform are far from entirely settled, and while there remain doubts about whether the reform will be adequate, at least the die has been cast. The impetus for this and other fundamental reforms is all the more urgent and proximate because as borrowing from capital-flush emerging markets has plummeted, the Fund is increasingly unable to cover the cost of its operations from current income.

In contrast, the problems at the Bank are less obvious and immediate, and there is little impetus for fundamental reforms among the Bank's powerful member countries. For one thing, the Bank's income position is not seriously threatened. Even if middle-income borrowing, its profit generating machine, shrinks, the Bank has enough income-earning capital to finance current operations for some considerable time. Moreover the G-7 and other rich country members, along with even the Bank's fiercest critics, continue to support the Bank's engagement in Africa and in low-income fragile states in general—where the Bank's combination of financing and technical help are still without peer. From some points of view, less staff time and energy in middle-income countries implies more for Africa. Finally, the Bank as a bureaucracy, though big and dauntingly complex, has kept its many constituencies reasonably happy over many years, by accommodating effectively more and more tasks: reconstruction in Bosnia, a carbon trading facility, the recovery of assets stolen by former leaders of oil states—to name just a few. Whether this is flexibility or mission creep, its protean ability to be all things to all parties has kept its influential “stakeholders” reasonably happy.

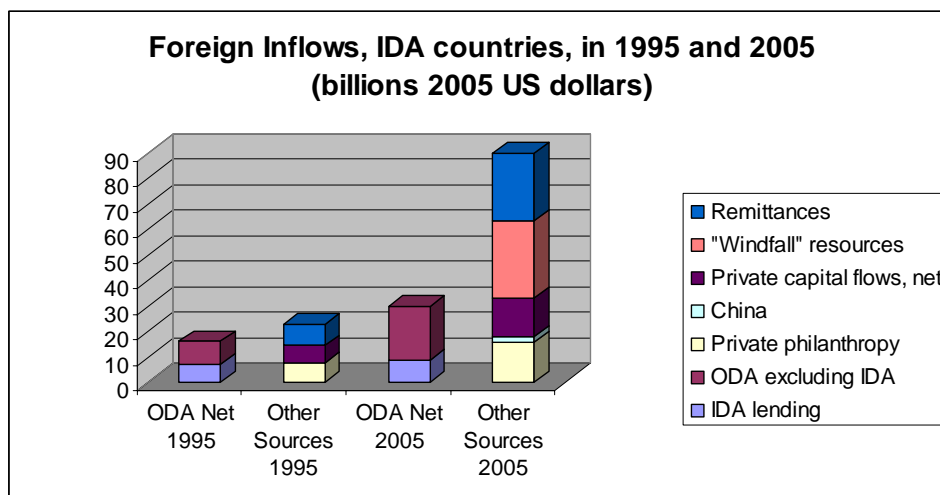
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Three fundamental problems at the World Bank

Yet the Bank faces three central problems that require major rethinking.

First, even in the poorest countries, traditional lending by the World Bank and other official creditors to governments is facing new competition. The growing stock of billionaires-with-a-conscience is creating a large pool of private philanthropic funds; China is becoming a large bankroller of selected (usually resource-rich) African countries; the global liquidity glut is providing cheap private capital to developing countries; and many poor countries have received windfall “resources” in the form of higher commodity prices. Of course, whether cheap private capital and higher commodity prices are cyclical or secular factors remain open. But the current numbers are nevertheless striking.

For developing countries as a whole Bank lending accounts for less than 5 percent of overall resources.



And even more striking, for the poorest countries (those eligible for loans from the Bank’s concessional lending window, IDA), lending and grants account for less than 8 percent of all external resources, down from about 17 percent in 1995 (see Figure). On top of this, the World Bank has become a smaller player even among the official donors: its share of official concessional transfers (called Overseas Development Assistance—ODA) to IDA countries, for example, has fallen from almost half to less than one-third in the last decade as the U.S. and Europeans have pumped up their aid programs.

Moreover the implicit contractual underpinnings of this official lending—we the rich give cheap money and you the recipient deliver on reform—have proven flawed. Conditionality has not worked. Privatization, trade liberalization and other reforms have taken hold, or not, largely independent of Bank loans. Outsiders—no matter how great the financing they transfer—can have influence at best at the margin on what are essentially home-grown transformations. Countries that have what it takes to grow (institutions, human capital, policies, commitment etc.) can almost certainly find the

resources, especially given the increase in the number of willing providers of aid. For countries that don't have it, the marginal returns from additional resources, even with the technically correct strings attached (and there is reasonable debate about what is technically correct anyway) have been limited.

Second, the World Bank's fundamental mission—to reduce poverty through shared growth in the developing world—is threatened by global public “bads” such as climate change and global pandemics. Though the Bank has increased its attention to these “bads” in its country lending programs, its involvement has been and remains limited and ad hoc. Lacking a clear mandate from its member governments, it has never had the kind of flexible funding that would allow it to deploy its considerable economic and technical expertise effectively—to complement country-based loans with global strategic leadership.

Third, and most problematic, is the Bank's own governance crisis. Its big middle-income borrowers have never had much power or influence at the Bank—which explains their lack of resistance despite their unhappiness with the U.S. once again monopolizing the selection of the World Bank head. Now flush with capital and unscathed by the recent liquidity crunch in OECD markets, they need Bank financing less and have even less reason to waste geopolitical chips on arguing for an increase in their voting rights and influence. They can negotiate harder within the current framework (they just extracted a lower interest rate on their outstanding loans in return for eschewing resistance to the Bank's using its income to finance lending to the poorest countries). But they cannot win a change in the framework. Yet without the greater engagement of the middle-income countries the Bank risks losing its global cooperative nature. It cannot be politically effective in dealing with climate change—just one example—and risks becoming simply another aid agency managed by the rich countries to provide assistance to the poorest countries.

Transforming the Bank: Three major changes

All this ought to imply major changes for the World Bank in scope, size and structure: a greater focus on global public goods, a reduction in the number and costs of traditional loans and grants (and consequently a likely reduction in staffing), and a change in the Bank's own financial and governance arrangements to ensure full engagement for developing countries in decision-making and agenda-setting.

In his first annual meeting speech, Mr. Zoellick addressed these challenges only partially and indirectly. We believe in the next year he needs to embrace fully and directly the Bank's twin crises of relevance and legitimacy in a changing world, heeding the counsel offered to the Sicilian Prince in Lampedusa's great novel, *The Leopard*: “If we want things to stay as they are, things will have to change.”

1. More global public goods (GPGs)

The two defining challenges of our times are global warming (and energy management

more broadly) and persistent underdevelopment and poverty in certain parts of the world, notably Africa. Less global warming and in many senses reduced poverty are both classic global public goods (GPGs), and both are under-supplied.

Take global warming. Without collective action to minimize greenhouse gas emissions and develop local systems for mitigating its impact on people, not only will the planet be affected, but the Bank's mission of reducing poverty in the world will be at great risk. Global warming's greatest impact will be on the poorest countries in Africa, the Pacific islands, Bangladesh and India. Not just livelihoods—agricultural potential in India, Brazil and many of Africa's tropical countries could decline by 60 percent and more in the next 70 years—but physical survival will be at stake.

Turn next to development, where better technologies in health, agriculture, communication and information systems could be transforming. Around the world, there is a tendency for research and development (R&D) to be under-supplied because it is difficult even for public suppliers (such as the National Institutes of Health in the U.S.) to capture for their citizens alone all the benefits. But R&D of products of interest to poor countries is even more undersupplied—because a limited consumer market reduces potential private returns, and because the governments of Kenya, Peru and even research-rich India are each reluctant to finance a good from which the others will benefit.

The Bank should as quickly as possible oversee a major effort to see how global warming can be addressed (building upon the existing Global Environment Facility), including, for example, monitoring and surveillance of any agreed reductions by countries; and how R&D for new technologies for poor countries can be substantially increased. The first step is to secure and allocate (including to relevant UN agencies for actual deployment) greatly increased financing for both these objectives. The World Bank and other public and philanthropic groups currently spend in the millions on tropical health research, while the top pharmaceutical companies spend about \$45-\$50 billion on R&D devoted almost entirely to rich country diseases. Similarly, Monsanto, the private corporation that is a major player in agriculture, spends about \$700 million on R&D compared with total spending by the international public agricultural research institutes of only about \$100 million (of which less than \$20 million is spent on agricultural research for Africa).

But over time the World Bank's role will need to go beyond financing to the development and piloting of new GPG products. The recent invention of a mechanism called the Advance Market Commitment (AMC) illustrates the tasks involved. In its first application, the AMC involves a firm commitment by several government donors and the Gates Foundation to purchase a given quantity at a given guaranteed price of a vaccine to prevent certain pneumococcal diseases. It took almost ten years for a good idea—to create a market-like incentive for private industry to invest in medicines for neglected tropical diseases—to be turned into an actionable policy proposal that would generate these pledges. The effort was not fundamentally financial; it involved technical and legal analysis, convening and persuasion—the kinds of activities that require cooperative and collective effort that meets the GPG test.

The Bank's absence from that product development process (until its late stages, when the G-8 requested its help in clarifying technical and financial details) is not in retrospect surprising, since it lacks any clear mandate to work on such global public goods and is organized and managed primarily to lend to individual governments. But that should change. The Bank could make a valuable contribution even now to extending the AMC concept for application to malaria and AIDS vaccines, to a drought-resistant cassava, and so on.

Markets are notoriously slow in creating new products and new ideas for development; hence the case for public intervention. Another example where current Bank efforts are beginning to yield fruit—though again due more to individual staff initiative than any real mandate to develop new markets—is in such risk-sharing financial instruments as index-linked GDP bonds and catastrophe bonds (e.g. for small Caribbean countries for which hurricanes and similar weather shocks pose major difficulties).

The Bank has an impressive research capacity, and has also been successful in what might be called global knowledge creation with major global spillovers. A good example is the Costs of Doing Business Surveys. These have allowed individual countries' performance to be benchmarked against other countries and against their own past performance with salutary (name-and-shame) effects on the incentives for reforms. And Bank staff are developing such new products for the aid community as "output-based aid," under which private water firms are paid by a donor on the basis of water connections made in poor neighborhoods—in this case once again outside traditional Bank work, at the specific request of the United Kingdom, which is financing the product development through a Trust Fund at the Bank.

The Bank itself need not be directly involved in all such experiments. But it should have clear responsibility for distilling the knowledge from others' efforts and disseminating them. Though it has recently stepped up its efforts in systematic evaluation and learning about the impact of programs it itself funds (supported mostly by special funds not by the Bank's own budget), it has not played any role in developing better evaluation of other aid suppliers' programs or even of recipient countries' own development interventions. It has yet to support an existing international initiative to do just that (another global public good "developed" outside the Bank)—presumably because interested staff are stymied for lack of a clear mandate and available Bank financing.

We are not suggesting that the Bank has no involvement now in the development and financing of global public goods. In fact its financial and technical contributions to the work of the Global Environment Facility are manifest; it has helped initiate an Asset Recovery Program in which banks and governments agree together to return to developing countries assets stolen and transferred abroad illegally—reducing the incentives for corrupt behavior in open global capital markets; and it is a longtime contributor from its own capital and earnings to the international consortium on agricultural research from which came the Green Revolution in South Asia. Indeed the constant demands on the Bank to be involved in global programs, because of its technical expertise and sometimes because of its financial capacity, demonstrate the point: that it is

singularly set up to exploit its comparative advantage in addressing development challenges that require collective action at the global level. The problem is that for the last five decades these activities have been ad hoc, out of the mainstream of Bank work, and poorly funded by the Bank and by the world. Even the new efforts on the environment are too project-based and country-focused when in fact a new strategic shift to addressing the problem of global climate change is overdue.

Consider the following anomaly. On the one hand, the returns from GPGs are demonstrably high: for example, it is estimated that the global returns on research on new strains of high-yielding wheat and rice carried out in the 1960s and 1970s were about 40 percent. On the other hand, the results of government-to-government (G2G) lending, in terms of its growth impact, are at best mixed. Even the most ardent champions of aid would not claim returns of that magnitude for G2G lending. Yet look at the current allocation of World Bank lending and administrative expenditure between GPGs and G2Gs. Of the \$25 billion in Bank/IDA transfers to the developing world last year, about \$23 billion took the form of loans and grants directly to individual countries, and only the remaining \$2 billion (primarily grants) can be clearly counted as financing global programs (such as CGIAR for agricultural research). On the one hand this is not surprising, given the Bank's decades-long tradition of making country loans. On the other hand, it no longer seems responsive to 21st-century challenges.

Of the World Bank's annual administrative operational expenditure of \$ 1.3 billion, a breakdown by major units suggests that a larger percent—about 25-30 percent—could be considered GPG-related. But that reflects not a coherent strategy but the accumulation of specific requests (usually made by its non-borrowers and sometimes directly financed by them) for its knowledge services, as well as the fact that some country-specific research and technical advice has benefits for other countries via acquisition of experience.

2. Reluctant lending, active advising

The Bank's member countries should also adopt a new stance with respect to its longstanding product: the financial transfer via a loan or grant to a developing country. We call the new stance that of a "reluctant lender". This is not an argument against transfers to developing countries, but against the Bank making loans (or grants) its priority, as opposed to responding much more selectively and differentially to countries' varying and changing needs—whether for conventional financing or other services.

The rationale for the subsidized provision of financial and other (knowledge, technical assistance) resources to developing country governments has not disappeared. Yet for at least two reasons, the Bank should be more reluctant than in the past to lend. First is the fact that there are many more aid suppliers for the poorest countries and greatly increased private capital flows to emerging-market and middle-income countries than twenty and certainly than fifty years ago. That suggests a more careful evaluation of the Bank's particular comparative advantage and in some cases a reduced role for it in direct financing.

Instead, the Bank should make its priority that it become an active adviser (with or without lending) to all its member countries on the “business of government”. Its knowledge development and sharing services at the country level should be financed internally by an expanded core administrative budget, completely de-linked from a country’s loans, policies, programs and income levels. (To the extent this is already the case, the relevant “core” should be a much larger portion of total country operations budgets.) Expanded core services would build on and constantly replenish the Bank’s comparative advantage in the crowded aid industry, i.e. the worldwide experience of its staff across and within sectors and countries—on expenditure management, governance, anti-corruption programs, environmental standards, procurement management, pension and labor market reforms, education, health financing and so on—preserving and extending the brain trust that constitutes the Bank’s true comparative advantage relative to other financiers in middle- and low-income countries.

Whom to lend to?

What are the implications of the Bank’s being a reluctant lender and an active adviser for various groups of countries? Consider first, whom it lends to.

Among the poorest countries, those with good leadership and reasonable competence should be eligible for loans and grants—but only to the extent Bank transfers fill a gap other donors fail to fill. In the “donor darlings” (Tanzania, Mozambique, Mali, Ghana), the Bank’s financing should come only as the residual, and as we discuss below, not in the form of traditional “projects”. Some rule of thumb—that no country should be receiving more than 40 percent of its own government spending from outside sources—should constrain total transfers, with the Bank exercising the key discipline when needed. In countries without minimally competent and honest government (for example, in many of the failed states or what the Banks calls low income countries under stress (LICUS)), donors reasonably want to effect transfers directly to the poor without adding to the resources of governments. The Bank, by mandate, is poorly set up to engage in such retail giving; it should leave that to others—philanthropic foundations, mostly private agencies and NGOs supported by bilateral donors. It should avoid lending or grant-making altogether—while continuing its core work as an active and engaged adviser.

Some countries that are growing rapidly and able to finance investment domestically (China, India, Brazil, Russia and many other emerging-market and middle-income economies), are currently not only receiving private capital inflows but are actually exporting capital and accumulating high reserves. In such cases, there is little justification for financial transfers from the Bank, with the sole exception being Bank-managed direct subsidies to encourage those countries’ commitments to reducing such global “bads” as climate change. Global financial and liquidity shocks could justify transfers to these countries in the future, but these anyway should be modest since major transfers in times of crisis (such as those to Korea in 1998) are provided more appropriately by the IMF.

Of course, some poor and middle-income countries have good leadership and reasonable competence but still limited access to private capital at reasonable prices and terms (Mali, Senegal, Paraguay, Guatemala, the Philippines). In these the Bank’s loans should be

important not for their size or number but as a signal to markets, internal as well as external, that the policy and regulatory environment will support adequate returns to good investment, that government manages resources effectively on behalf of the public, and that minimum environmental and other safeguards are in place.

How to lend?

Since conditionality of the sort practiced in the past—detailed, monitored ex post, project- and loan-specific—has seldom actually worked, it is time to abandon it and move toward ex ante standards of country performance that are transparent to citizens and activists around the world. As a reluctant lender, the Bank should lend only to countries that meet those minimum standards. We recognize that setting and honoring the resulting thresholds for lending will not be technically or politically easy. But as in the case of IMF surveillance on financial issues, there will be convergence over time to useful and practical thresholds. The Bank already practices a roughly equivalent approach on a limited basis for low-income countries, whose loan and grant allocations are based on the Bank's internal measure of governance and overall competence (called the Country Policy and Institutional Assessment).

Where it does lend, the Bank should move away from projects and toward less cumbersome, more hassle-free loans, largely in the form of budget support (or, in a more radical version of hassle-free lending, the Bank could simply agree to buy a large portion of sovereign bond offerings). The project approach wrongly assumes that outside resources are largely non-fungible. In the Bank's early years, the great development economist Rosenstein-Rodan was at a loss to explain "the psychoanalytical problem why a bunch of intelligent people" should be taken in by this "optical illusion" of non-fungibility. The Bank may think that it had financed an electric power station, he said, "but in fact financed a brothel."

Among other benefits hassle-free budget support would help undercut the culture of over-lending. The way the bank is currently structured, sectoral departments within regions compete with each other to demonstrate the importance of their sectors, which leads to building up larger loan portfolios as an indicator of importance so that more loans can be justified and so on. That is why the move toward budget support (in the past in the form of so-called adjustment loans) has historically been fiercely resisted by sectoral departments, fearful of losing their bureaucratic influence. In fact, since outside resources are at least partly if not wholly fungible, it is governments, not Bank officials, that actually determine priorities.

One insistent refrain from critics is that the Bank should have a clearer notion of what it should not do. But beyond the view that the Bank should steer clear of culture and religion, no one has ever gotten any agreement on what ought *not* to be done. Indeed it is clear that over more than 60 years, sectors and issues have always been added and never subtracted. In fact that is because it makes sense for the Bank to house expertise on the full range of development issues—that is what creates and sustains its comparative advantage. The reality is that sectoral needs and priorities vary across countries and regions and change over time. There is no way these can be determined globally or

established permanently. In our approach, any reduction in Bank activity would be a consequence not of eliminating one or more sectors or areas of expertise but of more demand-driven lending and of streamlined modalities for how such lending takes place.

Pricing and unbundling of financial and knowledge services

For the Bank to become an active adviser requires that it price its advisory services, unbundling those services from loans so that countries (including those with no need to borrow) can “buy” advice beyond the core to which they would be automatically entitled. Given the Bank’s widely acknowledged culture of over-lending and its relatively weak mechanisms of evaluation, its shareholders as a group need some mechanisms, however imperfect and rudimentary, to help determine the “value” of its various services relative to its competitors—and to help push its management and staff toward those services in which it has a comparative advantage as a global institution. Unbundling and appropriate pricing would contribute toward this objective, allowing some measure of “true” demand to be discovered for the individual products offered by the Bank.

An example of one approach to pricing would be to charge IBRD countries the cost of services minus say 10 percent; IDA countries cost minus say 50 percent; and those IDA countries eligible for grant financing, cost minus 80 percent. The minus principle takes into account the fact that these services allow for constant acquisition of new experience and knowledge from which all countries benefit.

Governments might resist unbundling because, for example, they believe the demands of preparing and appraising a loan enhance the quality of knowledge services provided by Bank staff and make staff more responsive; borrowing from the Bank might also be a device for governments to discipline certain ministries or sub-federal entities. These arguments, however, simply suggest keeping the traditional loan-advice bundle as an option. They do not justify the current implicit practice of discouraging requests for advice in the absence of borrowing.

It must be acknowledged that the Bank could lose some of the learning and knowledge acquisition as it becomes a reluctant lender and thus is less intimately involved in designing and implementing projects. But lending is likely to decline in any case, given the growing importance of other financiers. If the Bank is to continue to contribute as only it can, retaining its strength as a uniquely global repository of knowledge about development, it needs now to acquire experience in how to learn without lending.

Third-party evaluation

Finally, given the uncertainties about aid effectiveness and the need for the Bank to be a learning, self-correcting institution, it needs to finance evaluation of its own work by third parties. Under the structure that we envisage, evaluation will focus less on projects and more on broader issues—for example whether the Bank has created incentives for countries to meet common global standards and how effective has been the Bank’s surveillance of countries’ financial, environmental and other management capacities.

3. Reforming the Bank’s own governance

The Bank's founders set up a cooperative. In an initially club-like spirit, there was no clear distinction in the late 1940s between the Europeans, the initial borrowers, and the one creditor country, the U.S. In the 21st century, the Bank has the opportunity to return to that cooperative spirit, in which its major strength is its capacity to acquire and share development expertise and develop and finance attacks on difficult global collective action problems—which if not addressed will delay or even undo the Bank's traditional work to reduce poverty and transform developing country societies.

The Bank's comparative advantage in knowledge sharing (over commercial consulting and academic advice) and in work on GPGs derives from its credibility as an honest broker representing its members' own interests, at least in principle. But its current governance, dominated by the U.S. and other creditors, is not representative, preventing it from exploiting fully its comparative advantage. For example, its advice on policy reform has never achieved the kind of "ownership" at the country level that it could, in part because as an institution it is viewed as reflecting the interests of the G-7 more than the interests of its borrowers. And its advice might have been better in some instances (on sequencing of liberalizing reforms for example) had its Board better reflected the experience and views of developing countries.

So any changes in the Bank's activities and products will require some restructuring of its governance. Two changes are fundamental. First, an open, transparent and merit-based selection process for the next World Bank president needs to be formalized, including agreement that nationality of future candidates should not be an issue. Second, developing countries must be better represented, both in terms of voice on the Board and voting power. There are many sensible suggestions for restructuring the Bank's governance in a manner that would leave in place the effective veto power of creditor countries (which has helped ensure creditors' ongoing support for the Bank's work) while ensuring that developing countries have sufficient influence to warrant their full engagement. For example, such key issues as the choice of the president can require veto-proof pluralities or double majorities of weighted votes and countries.

Without a change in its governance that encourages input and engagement of China, India, Russia, and Brazil, it is unlikely that the Bank can raise the resources to back effective exploitation of its technical and strategic advantages to deal with global climate change. Without a change in governance that ensures that Africa and the countries of the Middle East have input on its policies and practices, the Bank will not have the legitimacy that has to back its advice and counsel to its member countries on making globalization inclusive. Indeed without a change in governance, it will remain politically difficult to work with China on development projects in Africa, and to convince Africa that work on climate change is not a distraction from work on poverty reduction.

Covering Costs, Funding GPGs

All of these suggestions, of course, lead to one of the big problems that any restructuring will have to grapple with. For decades the Bank has relied on income from its loans to

finance its own costs, rather than on annual contributions from governments (the dreaded UN model). Reduce this lending, say the proponents of the status quo, and the Bank stands to become like the UN, subject to the whims and vagaries of national legislatures. Moreover, contrary to the widespread misconception that reduced lending to middle-income countries would free up Bank resources for the poorest countries, it is quite the opposite. Net income from lending to Brazil, Turkey and other middle-income countries has actually helped finance the Bank's concessional loans and grants to the poorest countries—as those middle income countries have often pointed out (and blocked at, for example, the Inter-American Development Bank where they have greater voting power). To the extent this is true, however, it is a highly non-transparent and somewhat inequitable mechanism for sustaining the operations of the Bank and helping support the poorest countries.

Could a bank that became more active in GPG generation and less active as a lender be financially viable? Take the extreme case where profits from lending disappeared altogether. The Bank's endowment (in the form of paid-in capital) of about \$30 billion, would generate an annual income in perpetuity of about \$1-1.5 billion. That compares with current administrative costs of \$1.3 billion. With a re-orientation in scope and modalities (fewer missions to develop highly detailed "projects"), administrative costs ought to come down. And revenues would be greater than otherwise to the extent countries "buy" advisory services. Of course, with no income from lending at all, the Bank would not be able to transfer some of its income to IDA (projected at about \$4.5 billion for the next replenishment), or finance the write-down of debt as it did under the HIPC program in the past; these would have to be financed from direct contributions (which would be more transparent). With some income from hassle-free loans, the currently relatively small transfers to CGIAR and other non-Bank global programs (less than \$1 billion) could still be supported. More to the point, except in the extreme case of losing all income from lending, the Bank would be able to sustain its own knowledge-sharing work. And in any event, an interim period that sees gradually declining lending to middle income countries should provide the time for restructuring Bank finances.

Less clear is the question of how to enlarge the Bank's role in financing major new global programs such as technology development and greenhouse gas emission reductions. The Bank is currently (in late 2007) seeking to replenish its fund for low-income countries, to the tune of \$30 billion over three years being sought from the Bank's non-borrowing "rich" members. One proposal would be for Bank management to similarly launch a major round of contributions for its GPG work. All countries, however, including China, India and middle-income countries, should be asked to make some contribution to what should be a GPG Fund—in which all contributors could have influence and votes inversely related to their economic size and positively to their contributions.

Conclusion: A World Development Cooperative

In discussions of the international financial architecture, the Fund has come to recognize that its future lies less in its financial role than in its regulatory and supervisory roles. It is time for a parallel re-thinking at the World Bank. As with the Fund, the Bank is no

longer the sole or even major supplier of funds to developing countries. Yet its global reach and technical depth puts it in a key position to expand and enhance its advisory services and help manage such pressing collective action challenges at the global level as global warming, the development of new health and agriculture technologies, and the need to make markets for new financial and other products. All of these are “development” opportunities that go beyond business as usual at the Bank. All require a change in the rules by which the Bank is governed to ensure greater engagement of the developing countries in the Bank’s business. Without their engagement the World Bank will become simply another aid agency confined largely to the overcrowded business of making transfers to the poorest and most marginal countries. And the world will lose what it desperately needs: a global institution addressing the global challenges of the future through global collective action.

Background and further reading:

The 2005 CGD Working Group [Report](#), “The Hardest Job In The World: Five Crucial Tasks for the New President of the World Bank,” offers five bold but practical recommendations for restoring the legitimacy and increasing the effectiveness of the world's largest development institution. The five tasks are:

- revitalizing the Bank's relevance for its big middle income and emerging market borrowers;
- greater differentiation across the poorest countries in the nature of its operations;
- creation of a grant fund for global public goods;
- taking the lead on independent evaluation of all aid spending;
- and reforming the governance of the Bank itself, including changes in the composition of the Bank's board and a more open selection process for future Bank presidents.

For additional readings by these authors on reforms of the International Monetary Fund and the World Bank, including on the World Bank as a credit cooperative, see Nancy Birdsall, “The World Bank: Toward A Global Club,” in [Global Governance Reform: Breaking the Stalemate](#), eds. Colin Bradford Jr. and Johannes Linn, The Brookings Institution, 2006, also available at [CGD Publications](#); and Birdsall, “Why It Matters Who Runs the IMF and the World Bank,” in [Globalization and the Nation State: The Impact of the IMF and the World Bank](#), eds. Gustav Ranis, James Raymond Vreeland, and Stephen Kosack, London, UK, 2006, available at [CGD Publications](#); and, on the role of the Bank in low-income countries, Birdsall, Dani Rodrik and Arvind Subramanian, “How to Help Poor Countries,” *Foreign Affairs*, 2005.

These publications and other publications from CGD related to reform of the World Bank and the IMF can be are available at: <http://www.cgdev.org/content/publications/>