James Wolfensohn, appointed to the Presidency of the World Bank by President Clinton in 1995, made the Bank the premier global lobby for the world’s poor. He will be mostly remembered for his genius in using the bank as a bully pulpit, and in the process for rescuing the Bank from its sinking reputation as an insider institution pushing a harsh structural adjustment agenda that seemed to be hurting the world’s poor. Two other accomplishments are notable. He bucked his bureaucracy and broke the taboo on forgiving the multilateral debt of the poorest countries; and he spoke openly and candidly about the problem of corruption in developing countries.

Yet he leaves his successor with a daunting set of challenges. One is the fight over use of World Bank funds for grants, which the Americans favor and the Europeans fear, has festered for too long. The other three – streamlined borrowing for middle-income countries; independent evaluation of projects; and the governance of the bank itself – can no longer be ignored.

Grants for the poorest countries

Despite nearly a decade-long programme to forgive the multilateral debt of the poorest countries, many of those countries are still too poor and growing too slowly to take on the long-run obligations of even the low-cost (IDA) loans the bank has traditionally offered. The Europeans are not against grants in principle. They simply don't trust that the United States will contribute the additional amounts needed to replace the lost future debt repayments and keep the bank’s IDA window whole. But it makes no sense at all to "lend" resources to countries unlikely to be able to finance the resulting debt; that will only create future rounds of debt write-offs. The new President will need to broker an agreement. That will require some political smarts and some creative thinking about a new instrument —for which countries contingent on what factors, under what overall limits on the bank's receipt of contributions and use of its own net income.

Streamlined borrowing for middle-income countries

Meanwhile the Bank’s future funding is at risk because of insufficient new borrowing by middle-income countries from its higher-cost (IBRD) window. Net income from these loans, financed by the Bank's own borrowing on capital markets, finances the bulk of its administrative costs – including the world-class work of its agronomists, public health specialists, economists, and researchers which, shared through the Bank across countries, is a valuable global public good. Middle income countries' ready access to private markets, combined with higher transaction costs in dealing with the Bank (including the environmental and other safeguards that the bank
enforces), make borrowing from the bank less attractive than it ought to be – despite the good terms it offers. A solution is to reduce the "hassle" costs – to offer countries with established records of good economic management and good governance quicker and more immediate access to loans. Brazil, Mexico, Poland and Thailand ought to be treated the way my credit union treats me – a low-risk client based not on my "project" plans but on my good credit record.

Independent evaluation of the Bank’s effectiveness

Repeated calls for independent evaluation of the Bank’s effectiveness – from the left, right and centre – cannot be forever ignored. In 50 years of post World War II foreign aid, donors and the multilateral institutions have failed to initiate systematic, independent evaluation of aid-financed projects, in part for justifiable fear of undermining fragile political support for any foreign aid among rich country taxpayers. But lack of proper evaluation has undercut aid effectiveness and, ironically, means the statistical evidence that aid does work is less credible. A new World Bank president has an opportunity to lead the entire donor and creditor community toward a new system of independent evaluation, which ought to be collectively agreed and financed.

Governance

Finally there is the question of the bank’s own governance. Governance of the Bank (as well as its sister institution, the IMF) reflects the historically greater financial capacity of today’s richer countries. Their dominance has had the advantage of securing the continuing financial and political support of the rich countries. But times have changed. The legitimacy (and ultimately the effectiveness) of the World Bank is under attack because it seems and in many ways is so undemocratic. In contrast to some of the regional development banks, the World Bank’s developing country members, whose governments and citizens are its main clients and “stakeholders”, have few votes and few Board members. That means their citizens are often suspicious of the Bank’s motives and advice. The G-7 and its wealthy allies are unlikely to take the first step – preferring second-best gridlock to the risks of opening a Pandora’s box of change. They need leadership from the next president to start a process that will help them work collectively on the changes that in their enlightened self-interest as well as in the interests of the world’s poor.