

In response to a hypothetical request for policy advice on where The World Bank ought to go in the twenty-first century, Sam writes a memo to the now-former president of the Bank, Paul Wolfowitz with answer to that question.

### ***MEMORANDUM***

Date: March 11, 2005  
From: Sam Sedaei  
To: Paul Wolfowitz, World Bank President  
Subject: ***WORLD BANK IN THE TWENTY-FIRST CENTURY***

The World Bank is one of the most important institutions ever established in the international arena. Under the leadership of President Jim Wolfensohn, the bank achieved substantial success in tackling some of the major issues and problems that were preventing the bank from implementing its job of fighting global poverty at an optimum level. However the bank still suffers from factors that negatively affect its effectiveness. Even though some of these factors are rather difficult to remove as they have become part of the nature of the bank, the leadership could work on solving many of the existing problems. In order to understand the methods by which the bank could improve itself, it is necessary to review some of its strengths and weaknesses over recent years.

One of the main strengths of the bank is currently what it was created to do: to fight to reduce poverty in developing countries. “The Bank manages a loan portfolio totaling US\$200 billion and last year loaned a record US\$28.9 billion to over 80 countries.”<sup>1</sup> Such loans, which are approved after being extensively reviewed, have assisted many developing countries to implement social projects and fight different aspects of poverty. The ability of the bank to provide such amounts of loans at low interests for projects that are aimed specifically at reducing poverty is possibly the most significant strength of the bank.

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<sup>1</sup> World Bank / IMF Questions and Answers, *Global Exchange*

One of the new strengths of the bank, which has been promoted under the leadership of president Jim Wolfensohn, is the positive relations and partnerships with NGOs. Before the arrival of Mr. Wolfensohn, the bank had an intense relationship with most NGOs. Most of these nongovernmental institutions, which had been left out of the activities of the World Bank, looked at the bank as an excessively bureaucratic and political institution that pushed for implementing pro-western-interest projects in developing countries that seemingly did little to eradicate poverty but rather had detrimental effects on the poor countries and the environment. However, Mr. Wolfensohn greatly helped improve this negative relationship. “As soon as his appointment was public, [Wolfensohn] began to stage meetings with environmental groups and other critics, and he soon instituted a new approach to answering their correspondence,” which was to require the vice presidents to respond to the letters received from NGOs.<sup>2</sup> Such positive relations with NGOs has greatly helped the image of the bank, saved it from institutional isolation, and created allies for the bank to counterforce the promoters of the fifty-years-is-enough campaign.

Bank’s ability to deal with politically- and socially-charged issues has helped millions of poor in developing countries. Until as late as mid-1980’s, AIDS was a disease that was being avoided. One of the main reasons was that it was known as a sexually transmitted disease that affected only gays. However as the World Health Organization admitted in mid 1980’s that heterosexuals could also be HIV positive, the bank has become one of the main fighters of this disease. “As a sponsor of UNAIDS<sup>3</sup>, in the past few years we have committed more than US \$1.6 billion to fight the spread of HIV/AIDS around the world.”<sup>4</sup> The bank has also been one of the largest financial supporters of HIV/AIDS programs in developing countries. Such amount of

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<sup>2</sup> Mallaby, Sebastian. 2004. “The World’s Banker.” P 87. *The Penguin Press*. New York, NY.

<sup>3</sup> the group that coordinates the international response to the epidemic

<sup>4</sup> 10 Things to Know about the World Bank, *The World Bank*

funding to fight HIV has been instrumental in helping especially many African countries. Another important and political issue which the bank has done a great job of addressing under the leadership of president Wolfensohn is the issue of corruption. Initially the bank was avoiding the issue because dealing with the issue was considered to be in conflict with the bank's political non-affiliation. However under Wolfensohn, the bank took an economic approach to the issue and demonstrated the negative effect of corruption on development.<sup>5</sup> "Since 1996, [the bank] has launched hundreds of governance and anticorruption programs in nearly 100 developing countries."<sup>6</sup> These programs have largely contributed to lead developing countries to deal more seriously with this issue in order to not jeopardize their eligibility for loans.

Other main strengths of the bank include their ability to response rather quickly to rebuild infrastructure in war torn countries, providing debt relief for those who are borrowing to pay off previous loans, and to promote education and emphasize the importance of women's education to stimulate development. However, despite these achievements, the bank suffers from some problems which are causing the bank to not function at its maximum capability to fight poverty. It is important to review some of these problems in order to proceed with methods of solving those problems.

One of the main weaknesses of the bank is its tendency to lend to those countries which are not the poorest. As Allan Meltzer demonstrates in the Meltzer report, upon the establishment of the World Bank in 1946, "international financial flows were negligible, and the new bank aimed to compensate for the absence of private-sector finance."<sup>7</sup> Today, however, "foreign direct investment is the key fuel of development finance, and the World Bank is a small player in

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<sup>5</sup> Mallaby, Sebastian. 2004. "The World's Banker." P 174. *The Penguin Press*. New York, NY.

<sup>6</sup> 10 Things to Know about the World Bank, *The World Bank*

<sup>7</sup> Meltzer, Allan. *Reforming the IMF and the World Bank*

cross-border flows to developing countries.” However, it seems as if the World Bank has not been taken any measures to adjust its lending practices and, “amazingly enough, [has been] focusing most of its lending on a dozen or so of the developing countries—including Argentina, Mexico, Brazil, and China—that have ample access to private capital.” By giving vast amounts of its resources to countries that have access to private markets, the bank makes itself fall short in helping the poorest countries with lack of sufficient credit to have access to private markets.

Another major factor which contributes to the bank’s weakness is the bank’s resistance to allow the borrowing countries to have a larger say in where they would invest the loans. In many cases, developing countries, such as Uganda, apply for loans which they desire to use for infrastructure and roads. On the other hand, the bank holds that the funding needs to be used for education. In most cases, the governments of developing countries know better what aspects of poverty need to be dealt with more promptly. Therefore by not allowing these governments to have a greater say in the use of the loans, the bank is sacrificing many good projects for those that should get second priority.

A third major problem with the bank is its contribution to the economic phenomenon of continued debt. Many countries, such as Côte d’Ivoire, have previously borrowed vast amounts of money without an economically feasible plan to pay back the loans.<sup>8</sup> As a result, not only most of the loan money has been squandered, but the country is now bearing a heavy burden of debt. As they borrow more to pay for old debt, they are sinking deeper in total accumulated debt. In isolated cases, the bank has solved this issue by providing grants and debt restructuring. However in multiple instances – once more, such as Côte d’Ivoire – the bank has continued to lend to these countries. Hence such lending policies have resulted in the bank spending in

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<sup>8</sup> Mallaby, Sebastian. 2004. “The World’s Banker.” P 104. *The Penguin Press*. New York, NY.

resources to pay for its own debts rather than have those resources to be used to fight poverty, resulting in a weaker, less effective bank.

The new leadership of the bank can take effective measures to eradicate these problems, such as lack of enough resources to lend to the poorest countries. The World Bank is hereby urged to gradually end its current practice of lending to richer countries and focus its resources on the poorest countries. In addition, if possible, it should cancel debts of those countries with the least financial means to be likely to pay the bank anytime soon.

Another major problem which needs to be addressed is the issue of lack of decision-making power on the part of the borrowing countries. It has been mentioned that the bank seems to practice excessive power in deciding what projects to fund. It is important to note that in many corrupt countries, it is difficult to trust the ruling party and their proposed projects out of the fear that they are just creating business for their partners in their countries and are not concerned with eradicating poverty. However if the bank is dealing with a government that is competent and preferably more representative of its people, and as long as the projects that the borrowing countries are proposing are likely to fight some aspect of poverty, the bank needs to review those projects with a much greater deference to the governments of the borrowing countries.

Finally, the bank needs to take much more effective measures to stop spending resources to pay itself for its own previous loans instead of on issues of poverty. The bank needs to start providing more grants to poor countries and fewer loans. By giving loans to a country that is already in debt, the bank is not contributing to its mission to fight poverty, but it is rather helping the countries to pay back the bank previous loans. In addition, the poor country winds up being in an even worse situation due to the loan's interests. However by providing grants, the poor

countries than clear their previous debt and get started on social projects with new loans which would not be wasted on paying the bank.

As the global poverty, lack of infrastructure, good health and education shape the lives of millions in poor countries, the role of the World Bank has never been more important to fight these problems in the twenty-first century. The bank has gone through many positive changes under President Wolfensohn's leadership. However, more work needs to be done to advance the bank's mission. The bank should not focus its efforts to defend the interests on countries based on whether they are borrowing or investing client countries as the goals of most of these clients coincide: to fight poverty. The main problems that the bank needs to deal with are easier to approach because they are in fact economical, as opposed to political. Even though the bank is known to be a rather difficult institution to take major changes, by implementing the policy advice given here, the new leadership is most likely to achieve substantial success in tackling down debt and focusing funds on the countries that need them the most, which will result in a higher chance of success in fighting poverty.