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Who should Lead the World Bank?

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Who is the best candidate to lead the World Bank? I don't know. What I do know, however, is that the process for selecting a new World Bank chief is not designed to find an appropriate answer. The selection process is anachronistic and directs the attention to the wrong issue – whether a candidate carries a US passport. It gives too many people an excuse not to discuss the real issue: what sort of leadership is required to revitalise the World Bank?

Now that the White House has put forward its nominee – Dartmouth College President Jim Yong Kim – there are three people in the race. No one has presented an idea of what he or she would like to do if given the job. And it is probably a vain desire that the candidates will declare an intention. The White House would under normal circumstances be intent on seating the World Bank job with an American. Under an election year – with a President under fire from Republicans of being soft on foreign policy and only "leading from behind" – there will be even a stronger diplomatic campaign from the U.S. government to ensure its candidate gets the job. In other words, it is close to being a done deal that Jim Yong Kim will be the new World Bank chief.

The World Bank is in need of reform. Its star has clearly fallen – for good and bad reasons. One good reason is that developing countries have enjoyed a sustained rise in economic output in the past decade. It is far from being only a story about growth in emerging Asia; many countries in Africa have rapidly expanded their economies. Real GDP in Africa grew by 4.9 percent between 2000 and 2008. Nor is it only a story about a resource boom. African countries without natural resources also grew as fast as the general trend in Africa. About a third of the continent's growth can be attributed to higher resource prices. The bigger part, however, relates to improvements in the general economy – boosted, no doubt, by fewer conflicts on the continent. Furthermore, capital markets have grown and become much more sophisticated in developing countries. Some of the global savings surplus has been challenged into Africa. Even if many African countries remain marginalized on private capital markets, the past decade has seen the emergence of sovereign bond markets and private-capital financing that partly has substituted the role that development institutions previously played.

This is good news – but it further erodes the old type of *raison d'être* for the World Bank, or for development aid more generally. That purpose was based on the notion of a savings gap – the lack of savings to finance the investments necessary for sustained economic growth to occur in a development country. Put differently, without external financing of those investments, developing countries will get stuck in a poverty trap. Columbia professor Jeffrey Sachs, who has campaigned to get nominated for the World Bank job, is a modern proponent of that school of development aid. But in the event it is a good school of thought, which is doubtful, there is a shrinking number of countries that are in strong need of that sort of aid to finance investments necessary to sustain economic growth.

The bad reason is that the World Bank has made itself an uninteresting partner for many developing countries that would benefit from World Bank advice and loans, even if they are capable to cover a good part of its financing needs by other means. The World Bank has become a very bureaucratic organisation. It has an inflated number of ambitions and has eagerly taken on many capricious ideas that have emerged in the public debate. The politicization of World Bank operations, and the tick-all-the-boxes demands it requires from those who seeks a World Bank loan, has distanced the organisation from what should be its core mission: to help countries to grow their economies by advise and support to policy reform – reform of governments – and professionally organised credit. Mission creep has been a problem for the bank for a long time, but it has not really been addressed in the past decade, despite acknowledgements from many people in the organisation that it almost has become ungovernable. What is absent today is a simple narrative of the World Bank's role for development.

In the past decade there has been a strong desire on the part of many World Bank member governments – and World Bank critics – to move away from the era of the "Washington Consensus". Yet the notion of such a consensus – a pro-market philosophy of almost libertarian proportions – was in many ways a product of imagination rather than astute observation of what the World Bank actually did. A good part of the conditions the Bank attached to its structural adjustment lending was indeed about necessary macro and micro economic reforms – but part of that package was also to develop new tax bases (indeed increase taxes), establish new regulations (rather root-and-branch deregulation), and improving social security systems.

The role of the World Bank now is not to return to a Washington Consensus programme – for the simple reason that many of the reforms it required from debtors have now been achieved. Macro-economic policy in developing countries is generally vastly better today than at any point in the history of modern development aid. Many governments have come a long way in managing the problems that have haunted them for decades – runaway inflation and uncontrolled fiscal policy.

Yet policy in many developing countries remains an obstacle to higher economic growth. And this is where much of the World Bank operation should be focused. Reform of state institutions is still a critical area. The quality of institutions and governance is still too poor in many developing countries to allow for economic growth over a long period of time. There is also a need for "second generation" economic policy reform programmes – reforms that are focused on the micro side of the economy and more generally concern the business climate of a country (as, for example, defined by the World Bank's excellent Doing Business indicators).

As the candidates for the World Bank top job now will be examined, member countries should direct the attention to their capacity to lead a reform of the bank that promotes a focus on economic and state reform programmes. Especially the U.S. nominee needs to be scrutinized. Jim Yong Kim has an impressive résumé and should be employed by any development institution that he wants to join. Whether he is a suitable leader of the World Bank is another question – and one that his own professional background only partly helps to answer.