

# THE 'KNOWLEDGE BANK': A NEW RATIONALE FOR THE WORLD BANK

The World Bank must press on with its evolution into an effective 'Knowledge Bank', according to **Christopher Gilbert, Andrew Powell and David Vines**, writing in the latest issue of the *Economic Journal*. The Bank should lend only to countries with good policies and good institutions; and rather than lending to countries with poor policy frameworks, it should concentrate on providing knowledge and technical assistance. And it should play a major role in the provision of 'global public goods', such as forest conservation, pollution control, financial regulation and the prevention of drug trafficking.

The researchers note that at the Bretton Woods conference in 1944, the World Bank was set up to enable poor countries to borrow from international financial markets. Fifty years later, middle-income countries can borrow freely on world markets but the poorest countries primarily need policy reform rather than money. As a result, the World Bank needs a new rationale.

A possible new rationale that has been floated for the Bank is that of a 'Knowledge Bank' - a repository of development knowledge and experience. But this is only part of the answer. The Bank is more than a knowledge bank: it is different from a large consulting company or a university economics department. Its primary objective is to assist development - economic growth and poverty reduction - not just to gain repeat business, and certainly not just to add to the stock of ideas through publishing scholarly articles. What matters for the World Bank's knowledge is that it is applicable in the field. That is why the Bank is a complex organisation: it not only lends money and it is not only a development research centre, it is also a global development agency.

The World Bank's knowledge and experience puts it in a unique position to advise governments on the policies they should adopt if they are to make progress. Under the 'structural adjustment' lending programmes that became important in the 1980s, the Bank paid governments to adopt 'sound' policies - flexible exchange rate regimes, low tariffs, market liberalisation, privatisation and so on. Hence, lending was conditional on governments accepting the Bank's policy recommendations.

But this form of conditionality has been unsuccessful: governments fail to deliver on promised reforms and actually hold back from reform in the hope of being able to 'sell' the reforms to donors for a higher price - or a second time. The Bank's threats to withhold funding from defaulters have often been exposed as empty. We now know from research evidence that lending to governments with poor policies is simply a waste of money.

The new perception is that reforms must be 'owned' by governments, ministries and other

potential beneficiaries if they are to be successful. This concept underlies the ‘Comprehensive Development Framework’ proposed by World Bank President James Wolfensohn, whereby the multilateral agencies, non-governmental organisations and other donors jointly commit with the borrowing government on development plans.

The ‘Knowledge Bank’ view implies that the World Bank should strongly support governments with sound policies that commit to this process, the researchers conclude. Where these preconditions are not satisfied, the Bank should continue to provide advice and expertise, but not actually commit resources.

And what should be the Bank’s role in international crises, such as 1997-8 Asian crisis? Short-term crisis management is primarily the responsibility of the IMF. The Bank should not be diverted by such crises from its longer term development objectives. This is underlined, the researchers argue, by the fact that whereas five years ago, the Bank had ample free resources, it is now close to being fully lent.

This does not imply that the Bank should do nothing during crises. Rather, it should address the causes of the crisis - for example, poor lending practices and non-transparent accounting in the Asian crisis - to prevent recurrence. But it should leave ‘lifeboat operations’ primarily to the IMF.

**Note for Editors:** ‘Positioning the World Bank’ by Christopher Gilbert, Andrew Powell and David Vines is published in the November 1999 issue of the *Economic Journal*. Christopher Gilbert is Research Professor of Finance at the Vrije Universiteit, Amsterdam; Andrew Powell is Head of Economic Research at the Central Bank of Argentina, Buenos Aires (but the article does not necessarily reflect the views of the Central Bank of Argentina); David Vines is a Fellow of Balliol College, Oxford and Director of the ESRC’s Global Economic Institutions research programme, which supported this research.

**For Further information:** contact David Vines on 01865-271067 (email: [david.vines@economics.ox.ac.uk](mailto:david.vines@economics.ox.ac.uk)); Christopher Gilbert on 00-31-20-444 6102 (email: [cgilbert@econ.vu.nl](mailto:cgilbert@econ.vu.nl)); Andrew Powell via email: [apowell@bcra.gov.ar](mailto:apowell@bcra.gov.ar); RES Media Consultant Romesh Vaitilingam on 0117-983-9770 or 0468-661095 (email: [romesh@compuserve.com](mailto:romesh@compuserve.com)); or RES Media Assistant Niall Flynn on 0171-878-2919 (email: [nflynn@cepr.org](mailto:nflynn@cepr.org)).