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Kim Plans World Bank Budget Overhaul to Achieve Poverty Goal

By Sandrine Rastello on July 01, 2013

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World Bank President Jim Yong Kim is preparing an overhaul of the lender's budget that he says could lead to "massive shifts" in funding to reflect changing priorities under his goal of ending extreme poverty by 2030.

"We don't really sit down in a corporate way and say how we're going to move the budget next year, in the next two years, in the next three years," Kim said in an interview in Lima, Peru, yesterday, the eve of his first anniversary in the job. "We're going to start that next year and I think that's when no one is going to have any doubts about how much the World Bank is changing."

The comments are Kim's most explicit on how the physician and former Dartmouth College president plans to translate the poverty target into day-to-day operations. While no decision has yet been made on the priority areas, Kim cited energy, health and education as well as improving countries' business environment as "big issues" for the institution.

The bank's net administrative budget reached \$1.87 billion in the last fiscal year at its main unit, which lends to governments, and its total budget including trust funds and pensions was \$3.51 billion. While that's not the money the bank uses to make loans, priorities in the budget are likely to be mirrored in the lending patterns as well.

"Now we're going to say that you could see potentially massive shifts of funding going from problem to problem, region to region, and this will be tough," Kim said. "The things we need to cut, we'll cut. The things we'll need to put more money to, we'll put more money to."

2015 Overhaul

The World Bank's 2014 fiscal year starts today. The changes Kim is talking about will apply to next fiscal year, he said. The stakes are rising as he prepares to lay out a strategy before asking countries -- many facing sluggish economies and tighter fiscal budgets -- later this year to replenish the World Bank pool of money used to give interest-free loans to the world's poorest countries.

Asked about potential job reductions under the new budget approach, Kim said he doesn't know and has asked for a review of a staff of about 10,000. World Bank Chief Financial Officer Bertrand Badre is "going through a really thorough analysis of exactly who we have where," he said.

"I don't think that the bank is too big," Kim said. "I wonder, though, whether we have the right people in the right places, whether we have enough people for example in the technical areas, whether we have enough people with really top-notch global expertise."

October Meeting

Kim, 53, is working on a strategy that he will ask the bank's 188 member countries to approve at their twice-yearly meeting in October. He will seek backing on the budget changes next year.

The visit to Peru, and to Chile and Bolivia later this week, is intended to highlight Kim's focus on ensuring poverty-reduction efforts translate into less economic inequality.

"If you lift your people out of extreme poverty, it's not like they're going to say 'great, now we're all set, we don't want anything else.' At each level of development people are going to demand more," Kim said. "That's really a primary message that I'm going to send here in Latin America."

Eswar Prasad, a former International Monetary Fund official who teaches economics at Cornell University in Ithaca, New York, said Kim may encounter resistance to change from staff internally as well as from national authorities "who see social expenditures as their domain."

Changing 'Mindset'

"Reorienting lending from infrastructure and other large projects towards social expenditures aimed at directly improving the lives of the poor will require a change in the mindset of World Bank officials as well as recipients of its funds," said Eswar Prasad, a former International Monetary Fund official who teaches economics at Cornell University in Ithaca, New York.

Kim's appointment to the job was a break from a tradition of financiers and bureaucrats who've led the lender created after World War II to help reduce poverty.

Shifting priorities under Kim have started to emerge in areas such as a draft energy-policy paper showing that the bank plans to restrict its financing of new coal-fired power plants to "rare circumstances."

In the interview, Kim said the bank is still studying whether to give partial guarantees for a lignite-fired power plant in Kosovo, which would be its first coal project since 2010.

Kosovo Plant

"If it turns out that the only option is to really go forward and help them build a much, much cleaner coal power plant, it would be hard for us to say no to that because they need the energy and right now, what they have is the dirtiest plant in all of Europe," he said.

The Washington-based bank, which ramped up loans to a record during the global financial crisis, is following closely the impact of Federal Reserve policies on developing economies, Kim said.

Interest rates in developing countries have risen in response to comments by Fed Chairman Ben S. Bernanke that the central bank may start tapering the amount of monetary stimulus later this year if the U.S. economy achieves the Fed's forecasts for growth.

"These unconventional monetary policies can have very serious spillover effects, but that's kind of why we exist," he said. "In 2008, we played a very strong counter-cyclical role in making financing available at a time when the availability was shrinking very rapidly. That what we'll continue to do."

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