FINANCIAL TIMES

April 7, 2014 7:09 pm

World Bank: Man on a mission

By Robin Harding

An ambitious restructuring programme by Jim Yong Kim, bank president, has attracted both admiration and criticism – but can it deliver results?

World Bank Group President Jim Yong Kim

The World Bank will declare its ambition to "End Poverty" when finance ministers gather for its spring meeting in Washington this week, but behind the slogan stands an institution in turmoil, engulfed by a frenzy of restructuring under president Jim Yong Kim.

Mr Kim, now 21 months into a five-year term at the head of the world's most important development institution, will tell ministers the World Bank is well on its way to becoming a streamlined "solutions bank" after an ambitious reorganisation into "global practices".

According to interviews with about 20 current and former staff, however, the bank has descended into a kind of restructuring hell, as Mr Kim undertakes $400m in cost cuts, a complete financial rethink and a structural overhaul – all at the same time.

Mr Kim has brought in expensive consultants, forced 48 top managers to reapply for their own jobs – pushing out three of the most senior without explanation – and upset staff by travelling in private jets at a time when he is proposing deep cost cuts.

What is more, there are doubts about whether internal change should be Mr Kim's top priority for the bank, which is increasingly battling for relevance. While it remains a pillar of the international financial system, it often finds itself in competition with countries that are its own biggest clients, such as China, when lending to developing countries.

"Does [the restructuring] really go to the heart of the bank's problem?" said Uri Dadush, a former bank official, now at the Carnegie Endowment for International Peace. "I think it's a step in the right direction but the bank's strategic issue is the relevance it retains in middle income countries."

At stake is not just the success of Mr Kim's presidency but the world's collective effort to help developing countries. If the World Bank fades, the alternative is a future of individual countries jockeying for influence via bilateral aid, with less regard for the needs of the poor.

A senior G20 official from one of the bank's largest client countries questioned Mr Kim's strategy and the manner in which he was carrying it out.

"We didn't ask for these changes. We are willing to give them a chance, but we're worried about the way they're being done," says the official. "Nobody wants to tell the emperor he has no clothes on."

. . .

Mr Kim was a last-minute choice by the Obama administration. Developing country heavyweights, such as Nigeria's Ngozi Okonjo-Iweala, had already entered the fray, but Mr Kim's charisma and personal story were appealing to development charities and World Bank shareholders alike. Born in South Korea, he had a glittering academic career as an anthropologist and medical doctor, co-founded a health charity and became president of Dartmouth College.

The CV

Jim Yong Kim is the first World Bank president who does not come from finance or politics.

Born in South Korea in 1959, he came to the US aged five and grew up in Muscatine, Iowa. He went on to earn two doctorates from Harvard: one in medicine and one in anthropology.

His career has included directing the World Health Organisation's HIV/Aids department; co-founding the charity Partners In Health; and running Dartmouth College. He won a MacArthur "Genius" fellowship in 2003.

Yet it was also an odd CV for a bank with a $329bn balance sheet and a mission to make poor countries rich. Mr Kim had no background in economic development, no experience in financial diplomacy and spent only three years running that most decentralised of institutions, an Ivy League university.

Though the selection process gave him no particular mandate, when Mr Kim arrived in July 2012, the World Bank took to him readily enough. The outgoing president, Robert Zoellick, commanded respect but he was a statesman who governed by memo from a corner office.

In contrast, Mr Kim seemed eager to listen. He created an open-plan "bullpen" modelled on that of New York mayor Michael Bloomberg. "At the beginning, it was quite refreshing to have someone who communicated face-to-face," said a bank staffer.

What Mr Kim heard was three common complaints about the World Bank: it suffers from silos, with experts trapped inside one of six regions; it is risk-averse – happier building metro systems in China than getting its hands dirty in Afghanistan; and clients with a choice are not interested anyway, because it is too slow and bureaucratic.

"We found we're really working as six regional banks because knowledge wasn't moving from one region to another," Mr Kim said in an interview. He recalls being told: "Our money is insignificant and we're quickly moving towards irrelevance."

Creeping irrelevance is indeed the heart of the World Bank's problem. Middle-income countries such as Brazil and India can now borrow cheaply on international capital markets.

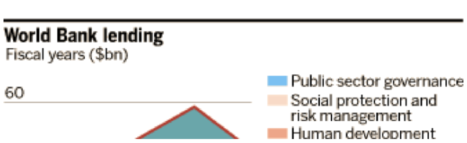
The World Bank has many possible responses: focus on the poorest countries only, cut back on the environmental and corruption controls that make it cumbersome, or focus on cross-border problems such as climate change or infectious disease.

"Nobody that I ever spoke with thought that the first-order concern was organisational," said Lant Pritchett, a professor of international development at Harvard's Kennedy School, and longstanding critic of Mr Kim.

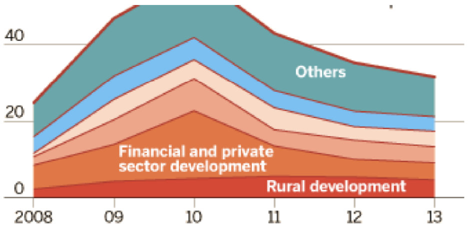
By the start of 2013, however, Mr Kim had decided that the structure of the bank was at the root of its problems. He enthused about *American Icon*, a book about Alan Mulally's turnround at Ford Motors, to senior staff and brought in a parade of management gurus. Among them were Michael Porter of Harvard; Mr Kim's personal coach Marshall Goldsmith; Fred Hassan, another turnround artist at drug company Schering-Plough; former British prime minister Tony Blair; and Mr Blair's "delivery" lieutenant, Sir Michael Barber.

McKinsey conducted an "organisational health assessment". This caused some disquiet because McKinsey consultants not only designed the bank's existing structure, they compete directly with it in advising governments. Deloitte and Booz Allen were hired to address the bank's finances.

The three consultancies were paid $12.45m between them. "Like any large organisation undergoing major change, we sought the expertise and outside perspective that business consultancies can provide," said a spokesman for the bank. Perhaps more of an issue than cost, according to some people involved, was time-consuming differences of opinion, especially between McKinsey and Mr Porter, who had Mr Kim's ear.



The final plan, after the consultants had finished their work last summer, was a restructuring of the bank into 14 "global practices", specialising in areas such as agriculture, poverty, finance and water. The idea is to break down regional silos. The



Source: World Bank

danger is of creating new silos by subject or alienating the bank from its customers by weakening staff on the ground.

Mr Kim insists that will not happen. “The great secret that most people don’t understand, is the structure of our work in the countries is not going to change very much,” he said, adding that there will be “a pretty significant shift” in incentives to get people working together.

...

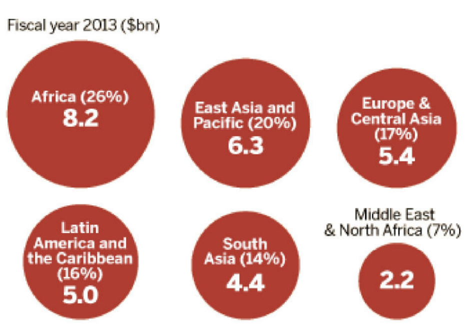
While the reorganisation was still in train, Mr Kim also announced a plan in October 2013 to cut costs by $400m over three years – about 8 per cent of total spending – although with little detail about how this would be done. Three months later the bank announced its first $125m of cost cuts: restrictions on parking subsidies and business-class travel that hardly amount to a revolution. The remaining cuts are still pending.

That was the plan, but it unfolded in rancour, with Mr Kim abruptly pushing out three top managers. Caroline Anstey, one of the bank’s two managing directors, was a close lieutenant of Mr Zoellick. But Pamela Cox was running the restructuring for Mr Kim. She appeared set to become a managing director, but that plan suddenly changed. Laura Frigenti, meanwhile, was dismissed as Mr Kim’s chief of staff. All three women refused to comment.

Mr Kim said the departures were “just a personnel decision that I felt like I had to make”, but the dismissal of three bank veterans did nothing for staff confidence or morale. Then 48 division heads were told to reapply for their own jobs. Last December the bank scrapped this year’s PhD recruitment programme, seven months in. The latest move is a hiring freeze that requires top-level permission to fill any vacancy.

“It was done in a way that breaks all the rules of organisational change as we know them in the 21st century,” said Paul Cadario, a former executive at the bank, and now senior fellow at the University of Toronto’s Munk School of Global Affairs. “In any change effort you need a message, you need messengers and you need an end date,” he said.

Mr Kim said the uncertainty should end when the new global practices begin this summer.



“My hope is a lot of the anxiety will go down as of July 1st because people will know where they’re mapped and who they are reporting to,” Mr Kim said. “I empathise enormously with the staff going through this change.”

Mr Dadush counsels patience with Mr Kim’s efforts. “This is not a job that you would like to have or I would like to have,” he said. “There’s no way a person trying to do this could do it in a nice and pleasant way.”

The ultimate test will be whether Mr Kim makes the bank relevant again. He has set two objectives: ending extreme poverty and boosting the incomes of the poorest 40 per cent in all developing countries. But it is hard to measure the bank’s contribution to either of them.

Mr Kim said he will know the restructuring has worked if demand for the bank’s advice and lending goes up. “The only way we’ll know we’ve succeeded is if our clients tell us you’re faster, you’re bringing us much better knowledge and you’re easier to work with,” he said.

The idea is that the global practices will increase demand while the cost cuts increase capacity to lend. “For every $100m we save, we can lend $1,000m to clients,” said Bertrand Badre, chief financial officer.

There is already spare capacity on the bank’s balance sheet, which middle income countries have been reluctant to use, because it is easier to finance their infrastructure needs in private capital markets. The bank is therefore reviewing its pricing as well as the amount of capital it holds to underwrite lending.

“I’d like us to be a much larger organisation. I think it’s not at all unreasonable to think we’ll be 50, 60 or 75 per cent larger in the next 10 years,” Mr Kim said. “We’re going to be a leaner bank but a bigger bank.”

If that comes true then the bitterness of Mr Kim’s restructuring will in due course be forgotten.

“He’s got to be given credit for courageously shaking up the organisation and taking some tough decisions,” said Mr Dadush. “But that does not exempt him from needing to produce results.”

Morale: Email switch and private jets fuel rancour

The World Bank has a justified reputation for poisonous bureaucratic infighting, but staff discontent is nearing levels seen under Paul Wolfowitz, who resigned after a scandal in June 2007. That is reflected in complaints, perhaps motivated by bitterness at the restructuring, that nonetheless highlight how Jim Yong Kim is battling with the institution.

Perhaps because of his public health background, Mr Kim does not seem to enjoy hobnobbing with finance ministers, and that costs the bank influence. Its president was one of the few absentees at a recent G20 summit in Sydney, for example, which some staff cite as just one example to question his commitment.

A perception of extravagance fuels resentment at the cost cuts: although there is no question of Mr Kim breaking ethics rules, his flights by private jet rankle at an institution dedicated to helping the world’s poorest people.

“The only time I’ve ever travelled by private jet is when I couldn’t possibly get somewhere unless I did so,” said Mr Kim, pointing to tight schedules, or difficult travels in Africa. “I fly commercial 98 per cent of the time except in very, very rare cases when you can’t get into a place.” The bank later produced statistics showing that 91 per cent of Mr Kim’s travel was commercial. He has flown 13 legs by private jet.

Another example is the technophile Mr Kim’s unhappiness, when he first arrived at the bank, with its Lotus Notes email system. At considerable expense, he alone was switched over to Microsoft Outlook. The bank says it was a trial for eventually switching all of its staff and declined to disclose the cost.

By itself, each item is minor. Together, they illustrate how Mr Kim’s leadership is perceived, and his challenge in bringing the bank through its restructuring to triumph.