

# THE US ROLE IN THE MALAISE AT THE WORLD BANK: GET UP, GULLIVER!<sup>1</sup>

Robert Hunter Wade<sup>2</sup>

Many have laid the blame for the current malaise at the World Bank squarely with James Wolfensohn, its president.<sup>3</sup> Mr Wolfensohn is undoubtedly challenged in the management department. But whoever the president, the Bank has become, since the 1980s, a magnet for controversy and a nearly impossible organization to manage well.

In this paper I diagnose the causes of the current malaise. I emphasize the role of mostly US-based advocacy NGOs working in tandem with the US Congress and the US Treasury.<sup>4</sup> Their combined efforts to make the Bank do a

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<sup>1</sup> 24 August 01. Paper for G 24. Draft--not for quotation. [R.wade@lse.ac.uk](mailto:R.wade@lse.ac.uk) n.29-middle-income countries' report. P.26 Lending figures.

<sup>2</sup> Professor of political economy, London School of Economics; adjunct professor of international relations, Brown University; fellow of Wissenschaftskolleg, Berlin, 2000/01. I thank Ngaire Woods for the subtitle. "The World Bank is for borrowers", Personal View, *Financial Times*, 15 February, 2001, gives a very short version of the argument.

<sup>3</sup> See, as one among many articles appearing at around the same time, Stephen Fidler, "A sheep in Wolf's clothing: Stephen Fidler examines the record of the charismatic but insecure president of the World Bank accused this week of being responsible for a collapse in morale in the institution he has sought to transform", *Financial Times*, February 3/4, 2001. Perhaps the spurt of such articles reflected the new Bush administration's wish to replace Wolfensohn with its own man or woman.

<sup>4</sup> Here I stress the negative aspects of the NGO-Congress-Treasury pressure on the Bank. Let me make clear that I consider the broader phenomenon of which this is a part--the rise of NGOs as political actors-- to make for a better society than otherwise, broadly speaking. The "anti-globalization" protestors who in the name of "civil society" have disrupted one gathering of G8 and world leaders after another since the WTO meeting in Seattle in November 1999, though without a clear agenda, are demonstrating against a diffuse sense of powerlessness in the face of the growing power of capital to override social and environmental constraints on business, and against the claims of the champions of free trade and free capital movements that "the rising tide is lifting all boats". Theirs is the latest episode in a long tradition of protest against free market capitalism. They are right to ring the alarm. The last great surge of global integration and inequality, in the final decades of the 19<sup>th</sup> century and the first decade of the twentieth, produced such inequality and disruption that governments constrained and then reversed global integration, their actions contributing to the start of two great wars and the Great Depression. After 1945 democratic governments strengthened a range of social controls on business and redistributed income downwards—just what the current wave of "globalization" has been undoing. This being said, we have to remember that NGOs tend to be single interest groups, and as such, politically divisive. They tend not to be concerned with reconciling their demands and agendas with those of a whole spectrum of others. Indeed, the civil society agenda, if not always anti-state, tends to turn its back on the state and political parties. But when a political party holds a meeting and no one turns up because the activists are all at NGO meetings, this is a sign of serious political weakness. The state and political parties are the organizations that should be aggregating demands, making compromises, choosing priorities, devising coherent national strategies, taking responsibility, accepting accountability. The civil society agenda, by turning its back on the state and by promoting certain causes as though these are the only things that matter, tends to ignore this fundamental point. (Wade, "Economic growth and the role of government. Or how to stop New Zealand from falling out of the OECD", paper for Creating a Knowledge Wave conference, Auckland University, August 1-3, 2001). My

better job of development, by their lights, have had the effect of tying the Bank down with procedural requirements and of prompting it to expand its agenda to embrace more and more topics as a means of building offsetting coalitions of support. The proliferating procedural requirements raise the cost and reduce the demand for its products from borrower governments, especially for infrastructural projects (which cause more social and environmental disruption than, say, education or health projects). In a situation of no budgetary growth, the proliferating procedural requirements to be met by each task manager and the broadening scope of the organization's work put the staff in a tightening bind, and undermine their ethic of professionalism. The Bank as a whole agrees to do far more than it can possibly fulfill and it makes claims about its achievement of those things that are easily exposed as untrue or misleading. The NGOs and the Congress then ratchet up the procedural requirements and demand tighter audits of compliance and sterner penalties for noncompliant staff. The Bank's senior management, more responsive to American pressure than to anything else, agrees to the demands, putting the staff under still more stress. The circle is vicious. It is fuelled by the peculiarly American distrust of power and the resulting drive to legalism and adversarial relations with public agencies; by the removal of the Cold War discipline on the US government to let the Bank focus on maximizing economic growth in noncommunist countries; and by the growth of private competitors to the Bank which wish to get it out of their areas of competence, pushing it more into soft-nosed social and environmental issues in which NGOs are powerful actors.

The organizational reform of 1997—that involved a dramatic deconcentration of country lending offices out of Washington and into the country, and a shift to a matrix structure in which most operational staff buy and sell services on an internal market (in the spirit of the American “reinventing government” movement)—can be understood as a means to allow the Bank to be responsive to both its borrower governments and its nonborrower governments, especially the United States, by decoupling itself internally so as to allow its parts to say and do things with different parties that if spotlighted all at once would seem inconsistent. The reform, in other words, was a way to institutionalize the capacity to be hypocritical and get away with it.

But the reform had huge transitional costs for several years after 1997, and, transitional costs aside, the decentralized matrix structure has huge and unanticipated transactional costs. Moreover its objective of fostering a culture of entrepreneurialism, flexibility, and innovation inside the Bank has been undercut by the pressure from the United States, above all, to tighten rules, investigations, audits, and control, in the interests of making the organization more “accountable” (to the United States, above all). One sign of the resulting malaise is the extraordinarily negative attitudes about the organization and its

senior management held by a large majority of the staff. Another is a high and fast rising rate of clinical depression, whose incidence among the staff rose by 40 percent between 1996 and 1999. Mr Wolfensohn's personalistic management approach and his inability to build an effective senior management team only makes the situation worse.

I shall first describe a model of an intergovernmental organization that captures key features of the World Bank. From this I derive expectations about the sorts of problems that such an organization will face, and how it might respond. Then I describe how the Bank's external environment has changed since the 1970s, and the kind of role that the US government and US-based NGOs play in it; I use the Qinghai project in western China—the object of one of the biggest ever NGO/US Congress campaigns against the Bank, going on through 1999-2000—as an illustration. Next I describe several kinds of Bank responses to its external environment—multiplying agendas, intensifying procedures, deconcentrating operations, matrix-izing, massaging its performance indicators. For all these responses, the Bank is in crisis, and I give several indicators. I end on the question, “What to do about the World Bank?” I take it as given that the world needs a world bank, and that proposals to close the Bank down or ring-fence it to grant-like activity in Africa (proposals popular in certain quarters in the United States) should not be followed. My proposals include moving the headquarters out of the United States, and selecting the head of the organization by procedures that meet some minimal test of good governance rather than, as now, procedures that are completely non-transparent and reflect nothing more than US hegemony.

## THE ORGANIZATIONAL STRUCTURE OF A WORLD BANK-LIKE INTERGOVERNMENTAL ORGANIZATION

The literature about the World Bank is hobbled by its tendency to treat the Bank as *sui generis* and discuss it in Bank-specific terms. To understand the general causes of the current malaise at the Bank, consider an intergovernmental organization with the following features:<sup>5</sup>

### BASIC FUNCTION AND MISSION

- ( ) The organization lends money (foreign exchange) to governments of low-income countries.
- ( ) The organization has a broad mission related to an *insolvable problem* (“development”, “poverty alleviation”), which can only be managed or contained at the edges but not solved; in a domain characterized by

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<sup>5</sup> I draw on James Wilson, *Bureaucracy*, New York: Basic Books, 1989; Nils Brunsson, *The Organization of Hypocrisy: Talk, Decisions and Actions in Organizations*, Chichester: John Wiley, 1989; Devesh Kapur, John Lewis, Richard Webb, *The World Bank: Its First Half Century*, vol. 1 and 2, Washington DC: Brookings Institution, 1997.

*analytical uncertainty* and *lots of ideological, interest-based and scientific disagreements* about goals, priorities and causation; in other words, not a technical mission, in the sense that the International Telecommunication Union has a technical mission.

#### WORK

() The organization has a *large bureaucracy* that provides services, to which most of its budget is devoted; that is, the organization is not mainly just a forum, like the WTO, nor a simple financier of other people's projects, like the European Investment Bank.

() The core or action work of the organization consists of designing and supervising the implementation of *long gestation* projects, with delays of several or many years between decisions made inside the organization and results on the ground.

() The borrowing governments are the implementors, not the organization itself, so that the organization has little control over how the projects it helps to design and finance are implemented, beyond the threat to withhold funds; more generally, *many factors outside the control of the organization intervene between decisions in the organization and results on the ground, and hence the outcomes of what is done inside the organization are difficult to observe.*

#### COMPLIANCE SYSTEM

() Managers can observe the work of their operatives and set *output* targets whose achievements can be monitored ("X staff-weeks and Y dollars to produce Tunisia's Poverty Reduction Strategy Plan by date Z").

() Because the *outcomes* are difficult to observe, managers seek to obtain the compliance of their operatives with the goals of the organization by monitoring their outputs, specifically their compliance with standard operating procedures, of which the organization has many. In this sense it is a "procedural" organization.

#### GOVERNANCE

() The organization is a cooperative of member states; the members form a governing body of state representatives, which sets the rules and policies of the organization, approves its projects, and approves the uses of its revenues.

() In principle, member states "pay for privilege"; that is, those with a larger share of the vote contribute more to the capital base and to certain parts of the revenue base, in contrast to the "one country one vote" rule of the United Nations General Assembly.

() The organization's constitution requires it to make decisions on the basis of *technical and apolitical* considerations, without regard to the political character of the member state which is the potential beneficiary;

## REVENUE BASE

() The organization's base of revenue and loanable funds is comprised mainly of *repayments of loans* from borrowing governments (reflecting the fact that it has been making loans for several decades).

() The organization also obtains loanable funds by *selling its bonds* on western capital markets, which it is able to do at the best possible price because repayment is guaranteed by its member governments; it is therefore able to on-lend to borrowing governments at below the rate at which those governments could raise loans directly under their own names.

() A smaller but significant part of the organization's revenue base is comprised of *grants from the non-borrowing members*, which must be approved through their political process.

() The organization faces *very little risk of non-repayment*, because the borrower governments give preferred status to the organization's loans, meaning that repayment of these loans have first claim on the government's foreign exchange reserves; repayment is independent of the success or failure of the particular projects financed with the loans; and the remuneration of no one in the organization is directly affected by the organization's revenues.

## AUTHORIZING ENVIRONMENT

() The organization is *highly salient* to the interests of the most powerful states.

() *The member states have strongly divergent preferences* about what it should be saying and doing.

() The divergences are *structured between those owners powerful enough to make the rules and set the agendas, who know that they themselves will never have follow those rules and implement those agendas because they do not borrow from the organization* (call them the Part I members), *and those owners who, as borrowers, have to "take" the rules and the agendas and apply them to themselves* (call them the Part IIs).

() The United States is the preponderant member. It makes the biggest single financial contribution to the capital base and to the replenishment of a soft-loan fund, it has the largest single share of votes in the board of directors (large enough for it to exercise a veto on certain constitutional issues, the only member state able to do so), and it selects the president, who is an American citizen.

() The organization is surrounded by a *hinterland of international NGOs*, mostly based in the Part I countries. Those that watch the organization most critically tend to be US-based ones, which derive a significant part of their support from their ability to make the organization appear to embrace their agendas, which believe that they are advocates of universal

moral principles to which dissent cannot be properly legitimate, which have well-developed methods of discovering less-than-100-percent-compliance between what the organization says it will do and what it does, and well-developed methods of mounting criticisms of the organization in a way that threatens its legitimacy and revenue streams.

() The organization depends on remaining in good standing in the eyes of the bond rating agencies and investment houses of Wall Street and the City of London.

() Hence the organization must both provide borrowers with competitively-priced products and commit itself to say and do much of what nonborrower entities require of it. It must be both an “action” organization and a “political” organization at the same time.

#### COMPETITIVE ENVIRONMENT

() The organization competes against private suppliers of project finance and advice, and against regional public lending organizations structured in much the same way as itself; but its niche and government support insulate it from direct competitive pressure. Hence:

() The organization has *few comparator organizations* against which it could compare its own performance, and no clear bottom line test.

#### STAFFING

() The organization presents itself as highly meritocratic, but as an intergovernmental body it must maintain nationality ratios, Part I and Part II ratios, and increasingly, gender ratios in its recruitment and promotion. This also applies in the ranks of senior management; recruitment to these ranks is heavily influenced by considerations of nationality balance.

#### LOCATION

() The organization is headquartered and most of its staff are based in Washington DC, capitol of the hegemonic power.

### *Management Difficulties*

We can bet the bank that such an organization—an organization that is owned and governed by governments, which have strong but divergent preferences about what it should and should not do; that combines political functions with action functions; that has a large bureaucracy; that employs many professionals with a professional ethic of service, whose performance it judges largely in terms of their compliance with standard operating procedures and output targets rather than by outcomes; that has a highly multinational management cadre; that is based in the capitol of the United States--is very difficult to manage, its autonomy and accountability constantly contested. Its external environment is full of inconsistent norms and demands as between its

member governments, international NGOs, commercial firms and other entities; and internally it is likely to contain strong tensions between the operational parts and the legal and auditing parts, the former wanting flexibility in operations, the latter wanting full compliance with operational directives in order to keep the organization out of trouble from its external monitors.

More specifically, the management difficulties stem from several different sources.

- *Need for simultaneous integration and dis-integration:* As an action organization it must generate organized, coordinated action that yields valued products (competitively priced, if sold), because this is the basis of legitimacy of an action organization. As a political organization it needs dis-integration, because the basis of legitimacy of a political organization is its ability to reflect inconsistencies—its ability to appear to conform to, respond to many of the inconsistent norms and demands in order to assure its survival, to make itself into a Christmas tree on which the external entities can hang out their ornaments with its blessing. The action requirements and the political requirements run against each other—the dis-integration needed by the political part of it impairs the integration needed by the action part.
- *Self-fuelling external criticism:* The organization must present itself as (mainly) an action organization, concerned with efficiency and consistency, because the political organization (excluding now organizations like political parties that are political in the narrow sense) has little legitimacy when *presented* as a political organization. But this leaves it open for external entities (such as NGOs, General Accounting Office) to expose the inconsistencies as the result of incompetence of management and staff, or worse than incompetence, the result of conspiracy, manipulation, dishonesty. Yet many of those same external entities are the source of the inconsistencies to which the organization must respond, and no-one is going to expose *their* hypocrisy. The governments and NGOs who make their support contingent on the organization reflecting back their concerns are unlikely to make allowances for how the organization deals with the inconsistencies they themselves force upon it, including the fact that their demands are almost always additive—“do more of this, more of that”. On the contrary, some of them—especially the NGOs—are dedicated to exposing and rooting out hypocrisy, decouplings, disjunctions, and holding the organization to account for its sins; not least because for this virtuous activity they are rewarded with foundation grants and other monies to continue their good work. They do not have to reconcile

the inconsistencies between what they each demand the organization to say and do; that is not their problem.

- *Conflict between senior managers and operatives:* the organization's senior managers have to cope with complaints and crises emanating from the dense array of Part I entities whose support is important to the organization's legitimacy and revenues; while the operators face the situational imperatives of the Part II governments which are the organization's borrowers. Managing the organization requires a delicate balance between taking complaints from Part I entities seriously (and so avoiding their accusation of the organization being unaccountable), and supporting the operators responding to the situational imperatives of the Part II governments, perhaps by rejecting the complaints and facing the charge of unaccountability from the Part I entities. Therefore an action-cum-political organization is likely to experience a high degree of conflict and distrust between senior management and operators.
- *Goal proliferation:* The same considerations encourage the organization to proliferate its goals, intentions, programs, decisions, without being much constrained by what it can plausibly deliver, because as a political organization its statements of ideology, goals, programs are valuable in themselves, regardless of where they lead; they signal its *good intentions*, its intentions to do what important external nonborrower entities, which can influence its revenue base, want it to do. Specifically, the governance mechanism contains a basic "moral hazard" that encourages goal multiplication. Moral hazard is a term derived from the insurance industry and appropriated by economics to refer to a situation in which a person insured against a certain type of loss takes less care to avoid that loss—the householder with house insurance takes less care to prevent fire, the car driver with accident insurance drives more recklessly (or so economists assume to be a general propensity of human kind). In the case of the type of organization being considered here, the moral hazard stems from the fact that the preponderance of power is held by the Part I countries, who do not borrow and who therefore face no risk of having to meet the costs and pay the political price of the conditions they require borrowing countries to meet. They each have no particular incentive to restrain their demands or subject them to any test of consistency. (On the other hand, the organization does have some defenses against the escalating demands of Part I governments and other Part I entities. First, its constitution, which provides strong normative justification

for the organization, and those of its member states who wish to use it, to resist demands that it say or do things construable as “political”, as affected by the “political character” of a member state. Second, the imperative to lend, to find borrowing governments willing to borrow on the organization’s terms. Third, the need to remain well reputed in western capital markets.)

- *Multinational management cadre and low-trust behavior:* The multinational composition of the Bank’s management cadre itself poses difficulties. With less shared, tacit knowledge of how others can be expected to behave, the organization tends to reach a low-trust equilibrium. This, at least, is what is suggested by the fact that few multinational corporations have mixed nationality managements. They tend to recruit board members and senior executives from home country nationals—and few from developing countries. Even within the European Union, despite many cross-border mergers and acquisitions, few companies are even bi-national in their executive management structures. According to one study, “The advent of a single European market and a single currency were seen by many as heralding a new era of pan-European companies. Companies have set up cross-border ventures, attempting to combine the cultures of several countries. Few have remained that way. Several companies that started out as British-French joint ventures...are now dominated by French executives, with the UK managers playing a junior role.”<sup>6</sup> Royal Dutch/Shell and Unilever are rare examples of trans-border companies that have stood the test of time. Their management structure is explicitly bi-national—British and Dutch in both cases—rather than multinational. Both groups have separate UK and Dutch executive management structures. This leaves only the United Nations, the World Bank and other such multilateral public organizations struggling to make culturally highly diversified management structures work.
- *Inconsistency between US expectations of how the Bank should be managed, and expectations of other member states and many non-US staff:* The predominance of the United States in the governance of the organization, and the organization’s location in the United States, exposes it to the full force of peculiarly American assumptions about political power and its regulation. Americans more than citizens of the other prosperous democracies distrust

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<sup>6</sup> Michael Skapinker, “Worlds apart: Despite a wave of mergers and acquisitions, the long-predicted global corporation remains a distant ideal”, *Financial Times*, March 1, 2001.

political power, are fearful of centralized government, contemptuous of bureaucracy, and seek to fragment, divide, and control it (these concerns tending to eclipse concerns to improve administrative capacity).<sup>7</sup> As James Wilson says, “Americans always entertain the suspicion that the government is doing something mischievous behind their backs and greet with outrage any indication that important decisions were made in a way that excluded any affected interest, no matter how marginal. Americans define their relationship with government in terms of rights and claims and are prepared to hire lawyers or complain to the newspapers at the slightest hint that a right has been violated or a claim ignored.”<sup>8</sup> American political culture and its legislators support a regulatory regime that is, compared to those of the other prosperous democracies, legalistic and adversarial, rule-bound, with little discretion accorded to the regulators to accommodate the needs of particular industries or localities, and rooted in the assumption that compliance depends on penalties. (Without the power to impose penalties employers would “laugh at you when you came into the plant”, said an OSHA [Occupational Safety and Health Administration] inspector; not something their European or Japanese counterparts would say.<sup>9</sup>)

This kind of regulatory regime, combined with the larger division and fragmentation of public power, provide ample access points through which even small NGOs with a foundation grant and a catchy name can wield influence. Hence regulations and policies are constantly being contested--“Policy making in the United States is more like a barroom brawl [than a prizefight, as in Europe].”<sup>10</sup> From the point of view of the bureaucracy, it makes no sense to try to keep proceedings secret, informal, flexible; on the contrary, it makes sense to seek refuge in “objectivity”, in rules, in formal methodologies for rationalizing decisions, in treating everyone the same, in insisting that the full rigor of the law fall upon violators.

In Europe and Japan, by contrast, government agencies are expected to have friendlier, more accommodative, more flexible, more secret relationships with business or other clients, and NGOs are less numerous and less influential. Much the same holds for many developing countries.

In our intergovernmental organization the preponderant external entities are based in the United States, and a majority of

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<sup>7</sup> The popularity of principal-agent models in American political science, and the unpopularity of literature on administrative capacity, is a reflection of this broader culture.

<sup>8</sup> Wilson, *Bureacracy*, p.304.

<sup>9</sup> Quoted by Steven Kelman, cited in Wilson, *Bureacracy*, p.295.

<sup>10</sup> Wilson, *Bureacracy*, p.299.

the staff, including in the management cadre and the board of directors, comes from outside the United States. This is a recipe for misunderstanding and conflict between the organization and the US entities, and inside the organization between those operating on US assumptions and those operating on other assumptions, over the most basic issues of relationships with borrower governments, compliance within the organization, and the like.

An organization of this kind is far from the metaphor beloved of management theory—a great ship of the seas under the command of captain who sets the direction and speed for his subordinates to implement. It is more like a ship of the seas pushed and pulled by tugboats each trying to make it go in a different direction. Or more like Gulliver.

If the organization does survive for a long time—decades--we might infer that it is coping with its difficult-to-reconcile tasks tolerably well, that it is managing to give both the Part I and the Part II members enough of what they want. On the other hand, this inference has to be qualified by the very low mortality rate intergovernmental organizations of any size and prominence, which in itself suggests that survival of such organizations may be largely independent of benefits—whether of the action or political kind. Inertia looms large.

The intensification of civil society, the proliferation of NGOs whose power rests on their ability to use information and symbols to change the context in which other actors make decisions, the proliferation of corporate codes of conduct and citizens' charters, the holding of organizations to account--all these rising trends tend to raise the quotient of "political" to "action" organization in the world at large and cause more and more organizations, whether private, public, or intergovernmental, to face similar management difficulties, even while both standard management theory and agents of accountability like NGOs persist in judging organizations by the standards of the action model. It is remarkable that we have next to no theory about how to manage action-cum-political organizations and how to judge them; and still less for those of them that are intergovernmental organizations.

In the absence of normative guides that accept decoupling and hypocrisy as a necessary (up to a point) part of a successful management strategy, the employees, the external friends, and the external foes are likely to experience the organization as variously a confusing, frustrating, noncompliant, nonaccountable, out-of-control, or puppet-on-a-string kind of place. Specifically, the professional staff, who approach their work with a high level of intellectuality and public service ethic, are likely to be confused, frustrated, and depressed. The professionals assume that their job is to produce action in the end, and the organization presents itself to the outside and to the inside as an action organization. They as well as the external entities expect an orderly alignment of ideology, goals, procedures, decisions, actions, and feedback. Yet

the logic of the political organization makes it impossible to maintain this orderly alignment. Having to relate to both logics—of action and of politics—at the same time and having their professional judgment constantly curbed by their managers’ propensity to manage by monitoring their adherence to standard operating procedures that may lead them to act against their better professional judgment damages their morale and makes them distrustful of senior management.

### *The Decoupling and Hypocrisy Strategy*

Organizations that have to produce action that yields products that clients/customers want (for example, project designs and conditions, backed by loans), and have at more or less the same time to produce “politics” in order to respond to norms and demands in the external environment, often try to create two sets of structures and processes, one for action, one for politics, which are to a degree separated or decoupled from each other.

The decoupling can be made in several ways. First, it may be done hierarchically, between operational units and senior management, with mostly different people in both but critical linkage roles between them (such as “regional vice president”). Deconcentration—the movement of operational staff out of headquarters and into offices near the site of their scattered operations—is a spatial version of this decoupling strategy. By loosening the links between individual units themselves and between each of them and the center, deconcentration (or even more so, decentralization) helps to isolate senior management’s talk directed at the external entities from the organization’s actual operations.

Second, the decoupling may be between formal organization and informal organization, with the same people behaving and talking differently in different contexts. Informal organization is “the way things really get done around here”. Formal organization is where the rituals are carried out—the consultations with NGOs that have no effect on subsequent actions, the sophisticated regional environmental strategies that make no impact on the choice of projects, the information collected and never used, the declarations that environmental protection is central to the organization’s purpose, the meetings between the leaders of the organization and leaders of world religions to discuss unresolvable problems, and even in the more routine operations, the meetings that end with “That was a productive meeting” (rather than “We have decided X, Y, and Z”) and whose participants then ignore the calls they themselves have just made for more cooperation and trust.

Third, and closely related, a separation may be made between inside and outside. Management presents the organization, its goals and its staff to the outside in one way (“quality is job one”, “environmental considerations are central to our Country Assistance Strategies”), and conveys quite different

signals inside (“move the money”, “screw the NGOs”, “throw the women-in-development calendar in the rubbish bin”).

These are the kinds of things that can be done to make it easier for the organization to balance the conflicting demands on it as an action organization oriented to the Part II countries and as a political organization oriented to the Part I countries.

### *Trends Over Time*

As the organization grows in employee numbers and in the diversity of nationalities, and as it comes under more scrutiny from a denser and (for reasons unrelated to the organization) more distrustful authorizing environment, so it becomes more tightly regulated by standard operating procedures, its activities and commitments multiply, conflict and distrust between staff and senior management increases, and the staff becomes less satisfied with it as an organization. The organization may undertake “reinventing government” reforms under the banner of rationality, modernity, responsiveness to clients/customers. But the reforms are partially undercut because the more distrustful of its political superiors, once they begin to pay attention, are likely to insist that the organization demonstrate that it is following all the publicly-sanctioned rules, of which they themselves are the chief proliferators. It becomes increasingly difficult for managers to justify leaving (highly professional) operators alone to run things as they see fit in terms of excellent results—because the results are in doubt or open to controversy.

## THE WORLD BANK’S AUTHORIZING ENVIRONMENT

The Bank, like the IMF, was a child of the Cold War. Cold War geopolitics locked them into the founders’ intention that they should lend only to governments, and shaped which governments they did and did not lend to, sometimes in ways that violated their ostensibly “non-political, development mission”. The overriding if largely unspoken objective was for the Bretton Woods twins to demonstrate that non-communist countries grew more prosperous than communist ones. Provided they kept within Cold War parameters the major powers, notably the United States, gave them considerable latitude to make technical judgments about stimulating economic growth, and—in the case of the Bank—to be deeply involved in creating capacity in directly productive sectors like agriculture, industry, energy, transportation.

From its start of operations in the late 1940s until around about 1970—that is, until the early years of Robert McNamara’s presidency--the Bank was a “professional” organization. It was small (several hundred professional staff in

1970, compared to around 5,000 today).<sup>11</sup> It recruited professionals—mainly white Anglo-American males, plus South Asian males educated in Anglo-American universities--by a highly meritocratic process and gave them latitude to operate according to high professional standards, or as high as the situation of the borrowing countries would allow. As today, the outcomes of what they did were difficult to observe. But their professionalism was expected to ensure that they did not shirk or subvert the goals of the organization. In this sense the World Bank was similar to a mental hospital. The hospital managers can learn what the medical staff is doing but cannot easily observe the results of many kinds of treatments, either because the results may be events avoided (suicides) or because the results may accrue in the distant future. As the Bank grew in size and as McNamara imposed his Fordist management techniques, the Bank began to codify its work and procedures and expand its rule book.

The lightness of the pre-1980s authorizing environment, the general deference to the Bank and acceptance of its right to make decisions, is shown by the following story:

A prominent US Congressman, Henry Reuss (Democrat of Wisconsin), criticized the Bank's forestry projects and asked the US General Accounting Office to make an investigation. A year later, in 1974, the report was released and Reuss' office issued a press statement drawing attention to its findings, which were critical of the Bank. (The report concluded that the World Bank in three of its tropical forestry projects in Malaysia, Kenya, and Zambia, failed to prescribe "any specific measures to insure the environmental integrity" of the forests.) A senior Bank official, sent a copy of the press release in advance, contacted Reuss' office to protest about an inaccuracy. He spoke to a staffer who conceded that the press release gave a false impression, but it "was already in the mails and could not be changed....He added that *he was sure no damage was done since he did not expect anybody to pay much attention to the release*. He also expounded at length upon the very friendly relations that existed between Rep. Reuss and Mr. McNamara and said they had no intention of doing the Bank's work any harm".<sup>12</sup>

Before the 1980s, not only did the US Treasury and Congress not push environmental or other agenda-widening issues in their dealings with the Bank, their overall relations with the Bank were cordial and unassertive compared to what was to come. NGOs, many fewer in number and slighter in power, largely ignored the Bank. There were few private consulting firms or banks who might have resented competition from the Bank.

Since the mid 1980s the men and women of the US Congress who call for reports on the Bank's work speak in a more demanding, less accommodating tone than Representative Reuss; to say nothing of the much more numerous and now more international NGOs, some of whom hang on every negative report about

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<sup>11</sup> These figures are for the World Bank Group, including IFC, and they include long-term consultants. See Kapur, Lewis, Webb, *The World Bank*, vol. 1, p. \_\_\_; Human Resources Vice Presidency, *Annual Review of Human Resources FY1999*, World Bank Group, August 1999. CHECK

<sup>12</sup> Memorandum, J. Burke Knapp to files, April 16, 1974, emphasis added. A copy of the press release, from which comes the first quote, is attached to this file.

the Bank. (As of the mid 1990s there were roughly 2,500 international NGOs based in the OECD countries which claim to operate development programs in low-income countries or to advocate increased support for international development, up from a handful in 1960.<sup>13</sup>) As INGOs have become more powerful actors, as the US administration has become more devoted to the principle of *conditional* cooperation in multilateral organizations (“We’ll cooperate provided we get to set the rules and make the decisions that you have to follow”), as private sector consulting firms and banks multiplied and came to resent the Bank’s competition, and as sectors of western industry tried to stop the Bank from helping to develop competitors in developing countries, so the Bank has faced a much more hostile external environment, has had to become more political, and to change drastically the content of its development assistance.

Post Cold War “globalization” ideology, with its celebration of free markets and the private sector, has supported the conviction that most directly productive activities—investment in industry, agriculture, energy, transportation and the like—should be designed and developed by the private sector. Hence the engine room of development is now occupied by private firms, including banks and consulting firms, who see no reason why the World Bank or bilateral aid donors should give them competition or support the growth of competitors. So the budgets for “foreign development assistance” have fallen drastically, and at the same time the political space for public entities like the World Bank or aid agencies promoting investment in directly productive activities has shrunk. “Foreign development assistance” is increasingly used not for “economic” development, but for “social” development, governance, cultural artifacts, girls’ education and environmental protection. It is striking how little emphasis the World Bank’s Comprehensive Development Framework, promulgated in 1999, gives to economic growth and to investment in sectors like industry and agriculture. This suits the interests of western firms just fine; and it suits the interests of western NGOs just fine, too, since they get a bigger role in social development and environmental protection than in the more hard-nosed directly productive activities. But it is almost certainly bad for development in the sense of capital accumulation and technological innovation, bad for the prospect of developing countries catching up with the living conditions in the prosperous democracies, for which purpose investments based on considerations beyond short-term profit maximization are needed.

*The US Dominance of the Bank’s Authorizing Environment: The Qinghai Project*

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<sup>13</sup> Colette Chabbott, “Development INGOs”, in *Constructing World Culture: International Nongovernmental Organizations Since 1875*, (eds.) J. Bolli and G. Thomas, Stanford University Press, chapter 9.

The American attitude towards the Bank in the post-1980 period—to treat the Bank as part of the external infrastructural power of the US state, and to shift it out of directly productive activities and into the areas in which US NGOs are most active—is seen in the drama of the Qinghai project. The Qinghai project was one of three projects in three separate projects of western China, collectively called the China Western Poverty Reduction Project. I shall not go into the details here except to say that the Qinghai component proposed to build a small (40 meter) dam and irrigation system in central Qinghai and resettle there, voluntarily, about 60,000 dirt-poor farmers from the eroding hills of eastern Qinghai. In April 1999 Tibetan and Bank-watching NGOs, mostly based in the United States, launched a great campaign to stop the project in the run-up to consideration by the Board of Directors, on grounds that the project would bring Han Chinese from across China into Tibet and further eviscerate the Tibetan people and Tibetan identity. Cries of “World Bank Supports Chinese Genocide in Tibet” rang out. In June 1999 the Board decided that the other two provincial components should proceed while the Qinghai component should be investigated by the Independent Inspection Panel. This was against the wishes of the US Executive Director, who wanted the Bank to withdraw from the Qinghai component. The campaign against the project continued after the Board decision. All the Part II Executive Directors<sup>14</sup> supported the Bank’s involvement in the Qinghai component. They argued—correctly in my view<sup>15</sup>—that the NGOs and the US government had misrepresented the project; that it had much less to do with Tibet and Chinese government policy in Tibet than the campaigners claimed, and that its environmental and social costs would be much less than they claimed.

The US Congress reacted with Wilsonian indignation at the Board’s failure to reject the project. In the name of universal moral principles, the Senate passed a bill recommending that the US government cut the \$803 million it had pledged to pay to IDA (the Bank’s soft-loan fund for very poor countries) to \$785 million. After the Board’s vote the House proposed to cut the contribution to only \$576 million. (Both Houses of the US Congress must agree each year to appropriate money already authorized for IDA.) The House committee explained, “In last year’s report the Committee strongly urged the Administration to oppose further IDA loans to the People’s Republic of China in light of its current strong economic performance and its abysmal human rights record. China was finally graduated from IDA on June 30, 1999, but the World Bank’s Executive Board scrambled to provide a graduation present to China in its final days of eligibility by approving a controversial credit that is believed by many credible experts to threaten the remaining Tibetan and Mongolian inhabitants of the project area. Because of the budgetary situation and the China

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<sup>14</sup> The Executive Directors are representatives of member governments, who comprise the Board of Directors.

<sup>15</sup> Wade, “A move to the good in China”, Personal View, *Financial Times*, July 3, 2000.

decision, the Committee is unable to provide the full amount requested for IDA12.” (Note that the US budget was in sizable surplus.)

The House committee continued, “The Bank’s June 1999 approval of the China Western Poverty Reduction Project indicates that the institution continues to face a gap between policy and practice. The apparent rush to move the project approval before China’s IDA eligibility ended on June 30<sup>th</sup> is an example of lax enforcement of social safeguard policies. The Committee directs the Secretary of the Treasury and the US Executive Director at the World Bank to work with the Bank management to create an incentives framework that includes *punitive measures when staff are shown to have violated social and environmental safeguard policies.*”<sup>16</sup>

The committee also lent its full support to the Inspection Panel. “It is aware of the recent attempts by certain members of the Bank’s Executive Board to reduce the Inspection Panel’s effectiveness. Future [US] support for the World Bank Group by the Committee may be linked to the Inspection Panel’s ability to function in an unimpeded and effective manner.” (The Bank’s Inspection Panel was established at US insistence in 1993 against strong opposition from all of the Part II countries and some of the Part I countries, and with only lukewarm support from all except the Dutch; the Panel’s operation—in the spirit of the American regulatory regime--has been the single most divisive issue in the Board ever since.) In the end, the House agreed to a US IDA appropriation somewhat higher than the committee had proposed.

Later, in September 1999, Representative Christopher Cox presented a bill to Congress based on the China Western Poverty Reduction Project, that illustrates the same unilateralist mindset of the US government towards the Bank. It was called the “Ecosystem and Indigenous Peoples Protection Act”. The press release boasted that the bill “will reduce U.S. foreign aid *and* help the environment”.<sup>17</sup> It continued,

“U.S. tax dollars sent to the World Bank are presently used to subsidize environmental destruction.

- In June 24, 1999, the World Bank voted—*over U.S. objections*—to provide \$160 million to build a large dam in Tibet. The project will result in the forcible displacement of more than 4,000 indigenous peoples, and—according to environmental groups—will result in considerable ecological harm, including flooding and desertification of local areas. Yet, the World Bank did not even conduct an adequate environmental assessment before approving the loan.

- While the U.S. Executive Director properly voted against this project, the World Bank will nevertheless use tax dollars from U.S. citizens to help pay for the loan. As Friends of the Earth has pointed out, this recent Tibet loan ‘is just one example of the type of flawed investment the World Bank continues to support with U.S. taxpayer dollars.’”

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<sup>16</sup> United States House of Representatives, “Foreign Operations, Export Financing, and Related Programs Appropriations Bill, 2000, 7/23/99, emphasis added.

<sup>17</sup> Press release, “Support Cox Bill that will reduce U.S. foreign aid and help the environment”, September 15, 1999.

The bill would provide, first, for *automatic* reduction of US payments to the World Bank “if the World Bank approves a project that is likely to result in substantial environmental harm or significant involuntary resettlement”, or if the project “will violate an environmental or social policy of the World Bank Group”, or if the US Executive Director votes to oppose the project and the Bank proceeds to fund it. The amount of the reduction would be equal to the US share of the project’s cost.

The bill would require, second, that the US cut its payments to the World Bank

“if the institution has not developed and implemented a ‘pay-for-performance policy’ which requires *salary or pay reduction, or termination of employment*, for any employee of the institution who is involved in the preparation, appraisal, or implementation of any project or activity which, if conducted, would violate any environmental or social policy of the World Bank Group.”<sup>18</sup>

The bill was not passed by the Congress in the end, but it shows a common opinion about the Bank among US Congress members and US NGO leaders that shapes the context in which the Bank works. US entities intervene in the Bank like those from no other country, in the same adversarial, legalistic way of the US regulatory system.

In the end, following the Inspection Panel investigation,<sup>19</sup> and following another firey Board meeting at which the US again urged the Board to require the Bank to withdraw from the Qinghai component and all the Part II Executive Directors strongly supported the Bank’s involvement in the project, the government of China withdrew the project from the Bank rather than put its approval to a Board vote.

### *US Motives*

The US has good reason, of course, to try to bring the Bank more firmly under its discretionary control while maintaining the appearance of multilateralism. For one thing, the US wants to use Bank resources to substitute for the dramatic shrinkage of the US aid budget. The US aid budget was 115 percent of the Bank’s loan commitments in 1969-71, and just 25 percent in 1997-98; or only a fifth of its relative size 30 years before.<sup>20</sup> For another, the US wants to use Bank resources in order to shift the risks of excessive US private bank lending away from US citizens/taxpayers and onto the rest of the world: it wishes the Bank to lend to a region or a country facing difficulties in repaying

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<sup>18</sup> Cox bill to 106<sup>th</sup> Congress, First Session, draft dated September 17, 1999, sec. 1308, emphasis added.

<sup>19</sup> The panel’s report left no stone unthrown in its criticism of the Bank and (implicitly) the Chinese government; yet provided not even prima facie evidence that the project as designed by the Bank and the Chinese government would carry high environmental costs. Inspection Panel, “Panel Report and Recommendation”, April 28, 2000, pp.161 plus annexes. I was employed as a consultant to the panel.

<sup>20</sup> Devesh Kapur, “From shareholders to stakeholders: the changing anatomy of governance of the World Bank”, in *Re-inventing the World Bank*, (eds.) J. Pincus and J. Winters, Cornell University Press, 2001.

loans to US banks, so that the Bank loans can be used to repay the US banks while the risks of default are shifted into the whole of the Bank's members.

This helps to understand why the World Bank has been of high salience to the foreign policy interests of the US government particularly since the 1980s. But the US has to keep its role in the Bank within the constraint of maintaining the appearance of multilateralism, because multilateralism confers more legitimacy on the Bank as “honest broker” in dealing with developing countries than if it was officially part of the US government.<sup>21</sup>

## THE BANK'S RESPONSE TO THE AUTHORIZING ENVIRONMENT (I): BROADER SCOPE, MORE PROCEDURES

The relentless expansion of the Bank's scope of work over the 1990s, and especially in the second half of the 1990s, much of it under the banner of “partnerships” and “civil society” engagement, may be understood, in part, as an attempt to build a broad constituency of support precisely so that the Bank is not completely beholden to the US government and a narrow range of US “gotcha” NGOs. But as is implied in the model of a “political” organization, much of the expanded scope of work is largely rhetorical and aimed at satisfying external Part I entities rather than intended to have any effect on the goods and services delivered to the borrowers in return for loans; as for example the World Faith Initiative, to bring religious leaders together from around the world to talk about development and ethical questions; as well as much of what the Bank says under the rubric of governance. (Some of the initiatives are also helpful for the president's campaign to win the Nobel Peace Prize.)

Not only has the Bank broadened its scope of work to make it a “one stop” shopping center for development; it has also multiplied the steps that must be undertaken in project preparation, raised the compliance standards, added various in-house quality control units, intensified the quality control procedures. President McNamara, famous for his methodologies of choice, was sometimes nicknamed Mr Both for his unwillingness to make choices. But by the standards of present-day senior management he was ruthlessly selective.

For example, senior management recently discussed the work of one of the Bank's new quality control units, the Quality Assurance Group (QAG). Staff laid out a strategic plan to broaden its focus away from projects and include Country Assistance Strategies, program development, network operations—on the plausible grounds that if these “upstream” things are not working well a “downstream” project, even if good on its own terms, may be doomed. The staff also said that QAG must be kept small and lean. Therefore it should reduce the frequency of its standard project reviews by about half. The relevant senior

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<sup>21</sup> Wade, “US Hegemony Over the World Bank: The Fight Over People and Ideas”, typescript, May, 2001; Wade, “Making the *World Development Report 2000: Attacking Poverty*”; Ngaire Woods, “The challenges of multilateralism and governance”, in Chris Gilbert and David Vines (eds), *The World Bank: Policies and Structure*, Cambridge University Press, forthcoming.

manager's response? "I like the new things. But don't chop the old things. Do them both."

Meanwhile, more and more sectors have come to be covered by specific "operational directives", each often running to 20 or more closely packed pages. Operational staff complain of being "OD'ed [overdosed] on ODs [operational directives]. As the number proliferated—greatly constraining what a project officer could do—staff pressed for the directives to be "reformatted" so as to separate out the mandatory core from material that was more advisory, so that Bank staff, borrowers, and external agents would know exactly what the Bank requires. The reformatting exercise was also prompted by an internal examination of the reasons for the deterioration in the performance of Bank-supported projects. The report of the internal task force (the Wapenhans Report),<sup>22</sup> finished in 1992, confirmed much of what the NGO critics had been saying about the disconnect between the Bank's policy statements and their actual implementation. However, the reformatting, begun around 1992-93, has proved more difficult and taken much longer than expected, several of the policies still not being completed by 2001. The NGOs have tended to press for enlargement of the scope of what is required to be done, for more legal exactitude, and less room for staff interpretation or discretion. The Legal Department staff tend to agree with the NGOs. The operational staff of course want more discretion.

In 1997 the Bank coined the term "safeguard policies" to refer to a set of environmental and social policies, covering environmental assessment, natural habitats, forestry, pest management, resettlement, and indigenous peoples. (To these seven policies were added others on dam safety, projects on international waterways, and projects in disputed areas, making 10 safeguard policies in all. The Bank has no overarching social assessment policy that defines the social requirements associated with Bank-supported projects; currently, social policies refer only to resettlement and indigenous peoples.) The use of a single term, "safeguard policies", for what had formerly been seen as seven rather separate policies helped to clarify what the Bank had to make itself responsible for doing: not just comply with discrete bits of policy, but comply with a whole family of things which had as common denominator that non-compliance on any one of them could get the Bank into big political trouble, now that NGOs had their spotlights firmly trained on the Bank.

As it brought the 10 previously discrete directives under a single umbrella the Bank also established an organization of safeguard advisors, point-people for each safeguard policy to whom project officers up and down the Bank could go for advise on how to comply with the policy. In addition, the Bank established an internal high-level auditing unit with several staff (separate from QAG) specifically to investigate project compliance with the safeguards.

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<sup>22</sup> *Effective Implementation: Key to Development Impact*, Report of the World Bank's Portfolio Management Task Force, November 3, 1992 (the Wapenhans Report).

## THE BANK'S RESPONSE TO THE AUTHORIZING ENVIRONMENT (II): DECENTRALIZATION AND MATRIX BARGAINING

The Strategic Compact between the Board and the management—by which the management would “renew” the Bank in return for the Board granting a three year increase in its administrative budget, starting in mid 1997—called for a major reorganization. The new design was inspired by the earlier “Reinventing Government” initiative in the United States,<sup>23</sup> and drawn up in close consultation with McKinsey and Company. To many staff the intensification of procedural requirements and audits going on at the same time seemed to contradict the aim of the “renewal” organizational reforms to foster entrepreneurialism; but such a trade-off was always denied by management.

The design called for radical “decentralization” out of Washington DC to offices in “the field”—in the borrowing countries. Both staff and budgetary control would be shifted to the field. By 2001 this radical shift in the geographical locus of power has been largely implemented. (Decentralization is more accurately described as “deconcentration”, in that the country director in the field can be overridden on all subjects by the regional vice president in Washington.)

Presented simply as a way for the Bank to serve its borrowers better, the decentralization strategy also makes sense as something that action-cum-political organizations tend to do as the political pressures emanating from their authorizing environment increase. As we saw, decentralization makes it easier for the more action-oriented components of an action-cum-political organization to say and do things that satisfy the borrower government, while the more political-oriented components (back in Washington DC) say and do things that satisfy the political constituencies which monitor them.

Another major structural change was matrix management. The regional vice presidencies are now divided into country departments, the director of which has control of virtually all the budget for the Bank's work in that country or cluster of countries. But the director has few staff. Almost all the operational staff—the people who do the work of project preparation—are in sector departments, which have little budget of their own. The staff of the sector departments have to negotiate with the country director on the terms on which they will take responsibility for preparing a project in the director's country. In this way the country director is able to give the staff who work on projects for his or her country a quiet indication of how much to comply with which operational directives. Compliance becomes a matter of bargaining, taking into account the situational imperatives of working in that country and also the risks of the project being spotlighted by a Bank auditing unit or an NGO.

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<sup>23</sup> Frank Thompson and Norma Riccucci, “Reinventing government”, *Annual Review of Political Science* 1998, 1:231-57.

Indeed, the Bank's environmental protection criteria have always, since their explicit introduction in 1989, been the subject of negotiation, in this case between the environmental specialist appointed to an environmentally sensitive project and the project officer. On the face of it, the environmental specialists have great power, ever since 1987 when the Bank—under intense pressure from the US Congress, Treasury and NGOs—introduced an operational directive that gave them sign-off authority on projects, which meant that a project could not go forward for Board approval until they had signed off on it to say that it satisfied the Bank's directive on environmental protection. The same reorganization of which this was a part removed sign-off authority from all other subjectmatter advisors. So relatively speaking the environmental specialists had much authority. In fact, however, they were employed in an arrangement by which they had to sell 42 weeks of their year to project officers, to help in the design of projects. If they could not regularly notch up 42 staff weeks of sold time they risked termination. This gave them a strong incentive not to deploy their sign-off authority "toughly", because once reputed as tough they would be in less demand from project officers. (Essentially the 1997 reorganization took the employment condition of the environmental specialists and generalized it across the whole of the Bank's operational staff, managers excluded.)

This is another way that the Bank was able to decouple internally. It could point to a cadre of environmental specialists and to the operational directives that gave them (in contrast to all other specialists) sign-off power, which the Part I entities were demanding, while giving enough real power to the project officers to ensure that they could adjust to situational imperatives in the borrowing countries.

### THE BANK'S RESPONSE TO THE AUTHORIZING ENVIRONMENT (III): POLITICIZATION OF PERFORMANCE MEASURES

How has the rising ratio of politics to action and the rising density of standard operating procedures affected the Bank's performance? There are no measures of the Bank's performance that survive much scrutiny, measures that would enable one to say with confidence that the Bank is performing better or worse than other relevant organizations.<sup>24</sup> At most one can track Bank performance across time to see whether it is improving or declining or steady.

What is clear, though, is that all the criticism of the Bank from the United States, and the efforts to "renew" or "reinvent" the Bank, have made the Bank much more sensitive to its performance indicators, because these are what its critics are monitoring and because the renewal efforts say that employees must be held accountable for results.

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<sup>24</sup> However, the regional development banks sponsor projects in the same sectors and in the same countries as the Bank. For reasons that are not clear, the Bank does not make comparisons between its projects and comparable projects of the regional banks, and nor, it seems, do they. One wonders why not.

Each year the Bank's Operational Evaluation Department (OED) writes an *Annual Report on Development Effectiveness* (ARDE). The report presents the results of OED's evaluation of the satisfactoriness of Bank projects (including program and structural adjustment loans). Satisfactoriness is judged in terms of (1) "outcomes" (as judged at the end of disbursements, in terms of "whether the project achieved most of its major relevant goals and with few shortcomings"), (2) "institutional development" ("the extent of improvement in the ability of an agency or a country to use its human and financial resources effectively and to efficiently organize economic and social activities prompted by the project"), and (3) "sustainability" ("whether the project will last over its intended useful life").<sup>25</sup>

From the late 1980s up to 1997 around one third, sometimes more, of Bank-supported projects had "unsatisfactory" development outcomes at exit (end of disbursements), according to OED evaluators. Over half (53-59 percent) were either unsatisfactory at exit or judged to have low sustainability, right up to 1999. Close to two thirds of projects were judged not to have had "substantial" institutional development impact.

The Bank's critics attach great significance to these figures. "Shocking that so many projects fail," they say. For its part the Bank celebrates even tiny percentage improvements. But in truth the meaning of the figures is quite unclear. By what criteria can one say that a "failure" rate of one third—assuming that the figure is based on defensible criteria and evidence—indicates "poor" performance? Compared to what? Private banks? Private firms? Other multilateral development banks? Would a failure rate of only 10 percent indicate better performance, and a failure rate of 1 percent indicate outstanding performance? (Recall IBM founder Thomas Watson's dictum, "If you want to be more successful, increase your failure rate.") Critics of the Bank don't bother with these questions. That the questions have no persuasive answers signifies that the Bank's development performance is very difficult to measure in a way that survives scrutiny.

Why is it that small movements in performance indicators mean very little, even though they are treated as very significant in the Bank and the watchdog community? The problem is that the values of the indicators—especially outcomes at exit—may go up and down from one year to the next for reasons quite unconnected to performance. For example, they are much affected by the relative mix of (a) program or structural adjustment loans, (b) investment (project) loans, and (c) technical assistance loans. Adjustment loans are much more likely to be rated satisfactory than investment loans, and investment loans are more likely to be rated satisfactory than technical assistance loans.

Adjustment loans are normally tranching, and the money for the second tranche is given only if the conditions for the first tranche have been judged to have been satisfactorily met. Therefore if the second tranche is given—and the

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<sup>25</sup> 1999 *Annual Review of Development Effectiveness*, Operations Evaluation Department, 1999, appendix 1.

loan makes it into the set of loans whose performance is being evaluated--the loan is almost automatically declared to have been 100 percent satisfactory. Also the “exit” point for adjustment loans is defined as the time when the money is handed over; yet the next day policy decisions may be made that make the loan’s intended impacts unachievable or unsustainable. So the outcomes are judged over a very short time period.

Investment loans, on the other hand, have to be able to show some action on the ground for them to be judged successful. Technical assistance loans--for relatively small amounts of money, with high supervision costs, and going in large part to states with relatively low institutional capacity--tend to be the least successful of all.

Therefore, the performance measures may go up and down for reasons to do more with the mix of loans than for reasons to do with the performance of each type.

The fact that small movements are treated as very significant by important external entities throws a strongly political imperative into the apparently technical business of performance measurement. Consider again the Bank’s performance over the 1990s. The decadal low point occurred in FY1994, when only 64 percent of projects were given satisfactory outcomes at exit, down from 68 percent in FY1990. (The decadal low point reflected projects initiated in the years immediately following the 1987 root-and-branch reorganization.) In FY1995 the figure jumped back to 68 percent and rose slightly the following year.<sup>26</sup>

At the start of the Strategic Compact in 1997 senior management highlighted its promise to raise the proportion of projects with satisfactory outcome ratings to 75 percent or more and keep it there. The 75 percent figure became almost sacrosanct (though by what rationale no one could tell, except that it looked good.)

The satisfactory-at-exit figure jumped from 69 percent in FY1996 to 74 percent in FY1997. The 75 percent target looked to be easily in reach. And the sustainability figure, having hovered between 44 and 48 percent satisfactory through the 1990s, jumped from 48 percent in FY1996 to 53 percent in FY1997. Senior management claimed the upturns as the fruit of the Wolfensohn presidency (which started in June 1995), though the claim was completely spurious. Most of the projects were prepared some years before 1995 and the more recently prepared big adjustment loans were to high quality crisis-affected Asian borrowers like South Korea.

Then came a shock: the trend went into reverse. The “satisfactory at exit” figure fell to 72 percent in FY1998, and to 70 percent in FY1999. The project “sustainability” figure also fell from its FY1997 peak. Indeed, the percentage of projects satisfactory by both measures—exit and sustainability—was between 41 and 47 percent all through the 1990s, or less than half of all projects.

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<sup>26</sup> 1999 Annual Review of Development Effectiveness, Operations Evaluation Department, 1999, appendix 1.

Given the adverse use that would be made of this information by the US watchdog community, and given senior management's infamous propensity to shoot the messenger of bad news, OED management worried about how to present the news that the FY1999 figures were lower than, not better than the FY1998 ones. After weeks of discussion they agreed on a plan.

- *Take the emphasis off percentage of projects and put it on percentage of disbursements.* The results are reported both in terms of the proportion of projects with satisfactory ratings and the proportion of total disbursements with satisfactory ratings. OED gives principal importance to the project measure, on grounds that it is more reflective of the workmanship of project preparation and of things like institutional development since it treats small projects equally with large and therefore also gives more weight to Bank work in Africa. The disbursement measure gives more weight to structural adjustment loans, to jumbo loans such as those to the high-performing Asian countries during the Asian crisis of the late 1990s, and to big projects in high-performing countries like China.

The disbursement figures look much better than the project figures in terms of absolute level, and they show an improvement between FY1997 and FY1998 (while the projects-at-exist figures show a fall). The percentage of disbursements judged satisfactory at exit rose from 77 percent in FY1996 to 78 percent in FY1997 to 82 percent in FY1998. But they also show a *fall* to about 78 percent in FY1999.

- *Highlight the “institutional development” measure.* Only a modest proportion of projects or disbursements was ranked as having made “substantial” institutional development impact (between 35 and 40 percent). But the proportion did improve after 1997 from around 37 percent to 40 percent in FY1999—and the improvement between FY1998 and FY1999 could be used to offset, presentationally, the falls in the other two measures. OED had not previously given much attention to the “ID impact” measure, because the evaluators knew that it was based on even more subjective judgment than the others, and the percentage changes were much too small to carry significance. But now the 3 percent improvement between FY1997 and FY1999 allowed OED's results on development effectiveness to be given a sunnier face. Institutional development, OED now said, is arguably the most important thing of all, the “leading edge”. OED could say, more or less truthfully, that since the president came to office and initiated the Strategic Compact the Bank's projects have been performing better in terms of the leading edge.

The strategy worked. Senior management accepted OED's focus on the gains in ID impact, not on the fall in satisfactory outcomes and sustainability, and was pleased.

But then the US congressional commission on the Bank and the Fund (the Meltzer Commission) used the OED data on *project* outcomes and sustainability to make a strong criticism of the Bank, as part of its case (in the majority report) for a drastic downsizing of the Bank and its conversion into a handout agency for the poorest countries.<sup>27</sup> Senior management took the Meltzer criticism as a vote against itself, and became angry with the OED for providing Meltzer with ammunition. The Bank's External Affairs people tried to insist to whoever would listen that the *disbursement* figures rather than the project figures were the right ones to use. To which Meltzer replied, "Instead of overstating its performance or emphasizing misleading data, the Bank should concentrate on improving its inadequate effectiveness."<sup>28</sup> Meltzer provided no defensible grounds for concluding that the Bank's effectiveness was inadequate; he simply asserted it as self-evident fact.

The story has a further twist. It may be suggested as a general law of organizations that where the top of the organization is averse to hearing bad news and vindictive to those who bring it, then if one evaluation unit of the organization brings bad news another evaluation unit is likely to come forward and say, "No, the news is good", especially if the second evaluation unit is more directly under the control of management than the first. The threat of this happening again is likely to make the first evaluation unit more cautious in bringing forward bad news the next time around.

This is what happened in the Bank. The Quality Assessment Group (QAG), which is much more under the control of senior management than OED and still new enough to need to prove its value-added, came up with the good news that a "leading indicator analysis" had shown that the proportion of satisfactory projects was soon to zoom up to 80 percent. Senior management seized on this figure, praised the QAG, and heaped more scorn on the OED. OED became even more anxious to make sure that its reports always stressed the good news, as in "good progress has been made but challenges remain".

OED was able to show the next year that the percentage of projects with satisfactory outcomes at exit went up to 77 percent in FY2000, from 70 percent the year before. By happy coincidence 77 percent brings the average during the Strategic Compact period up to a tad below the magic 75 percent. So victory was declared: the Strategic Compact succeeded in hitting the target of 75 percent of projects satisfactory-at-exit. Now "outcomes at exit" can again be given primary place among the indicators.

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<sup>27</sup> US Congress, International Financial Institutions US Advisory Commission [the Meltzer Commission], *Report*, Washington DC, 2000.

<sup>28</sup> See Caroline Anstey, Letters, *Financial Times*, 3 May 2000 (Anstey is a senior member of the Bank's External Affairs vice presidency); and Allan Meltzer's reply, "Dollar-weighting overstates Bank's success", Letters, *Financial Times*, May 16, 2000.

In short, there are no measures which permit the Bank's performance to be compared meaningfully with other organizations. (The same is true of many other organizations that survive for long periods.) The outcome indicators that are used can only be used for tracking performance over time; but even here their meaning is not clear. And the heavy veil of politics through which meaning is given to them means that one cannot, as an analyst, trust them.

On the other hand, we can at least say that these measures are better than one used by Professor Allan Meltzer to show the overall ineffectiveness of the Bank. "The facts are clear and simple to relate", he says. "Between 1987 and 1998 the number of people living on less than \$1 a day, the Bank's measure of extreme poverty, remained the same. The proportion of the population declined modestly from 28% to 24%. This is not much of an accomplishment for an expenditure of about \$200 billion current dollars".<sup>29</sup> Put aside his casual dismissal of a 4 percent of world population fall in the proportion living in poverty, which seems not a bad result for \$200 billion (if the figures are to be believed, which is doubtful).<sup>30</sup> The main point is that attributing world poverty outcomes to the actions that the Bank does or does not undertake is absurd, and should earn any student of economics a failing grade. The Bank is a minnow in world capital markets; its gross lending has been running at less than a tenth of private capital flows to developing countries.

Client surveys would, of course, be potentially useful sources of knowledge about Bank performance. The Bank has undertaken client surveys since the mid 1990s (more in some regions, such as Africa, than in others, such as East Asia). But oddly enough this information seems to be treated as top secret, except in broadest brush terms. One would think that a organization in trouble would give a great deal of importance to informing operational managers and staff about the results of client surveys, with a view to finding ways to improve the clients' responses. In fact, the Bank does not, for reasons that I do not know.

## THE WORLD BANK IN CRISIS

### *The Failure of the Political Strategy*

The surprise is that the various political strategies just described—including scope-broadening, procedures-intensifying, decoupling through decentralization and matrix bargaining, massaged presentation of performance measures--seem *not* to have worked. When the Bank is under attack, as during

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<sup>29</sup> Allan Meltzer, "The World Bank one year after the Commission's report to Congress", Hearings before the Joint Economic Committee, US Congress, March 8, 2001.

<sup>30</sup> Sanjay Reddy, professor of economics at Barnard College, is researching the basis on which the Bank claims that the number of people living on less than the equivalent of US\$1/day remained constant at 1.2 billion in 1987 and 1998. He finds that the figure results from noncomparable methodologies in the two years, rendering the 1.2 billion of uncertain validity; and that the methodology used for the later year probably biases the number downwards.

the Qinghai case, virtually no-one—none of the groups with whom it has its much publicized “partnerships”—will stand up to defend it. (Yet as mentioned, there were strong grounds on which the Qinghai project should have been defended.) For most of the external entities, there is nothing to be gained and much to be lost by defending the Bank openly. Other Part I governments follow the American lead, most of the time. And the borrower governments, too, keep publicly quiet when the Bank is under attack.

### *The Precipitous Fall in Lending*

The Bank’s lending was unsustainably raised by the demands of the Asian crisis of 1997-99. Since then lending (excluding from IDA, the soft-loan fund) has collapsed to the level of the early to mid 1980s. CHECK Oddly, given that lending is its very lifeblood, the Bank knows little about its own lending demand function—or if it does, it does not publicize the results even internally. So the precise reasons for the fall in demand are by no means clear. But client surveys show that the “hassle costs” of dealing with the Bank, as compared to alternative sources of long-term finance (such as regional development banks or private banks) loom large, especially among the middle-income countries, which have better access to private capital markets.<sup>31</sup> Among the hassle costs the procedural requirements—including for environmental assessments that may go far beyond the country’s own national requirements, and for beneficiary consultation and participation requirements drawn from a model of American democracy—loom large.

### *Internal Crisis*

As of the late 1990s and 2000 the sense of the Bank-in-crisis has become pervasive inside the organization. The vice president of one of the regions said in a letter to staff in late 2000,

“We face a crisis. But it is not a mere budgetary crisis. It is fundamentally a crisis of business performance and credibility.... The quality of our portfolio is worse than when we set out as a renewing Region three years ago.... We keep failing to deliver promises we make... We cannot yet pin-point, measure and monitor simply and meaningfully those outcomes that are driving our work.... we would be facing bankruptcy if we were in the private sector.”

A former chair of the Staff Association, known as a “moderate”, wrote to a senior manager in 2000,

“ I still do hear from a lot of friends, most of them officer level or managers.... In 20 years at the Bank, I have never seen anger at the level in the Bank today. The mood is as bad as it was in 1987 and 1997. I am hearing this from people who have a

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<sup>31</sup> Report of task force on lending to middle income countries. CHECK

history of being supportive of management (they were supportive of the policy of constructive engagement that I followed as SA Chair). If senior management wishes to practice denial, I dare them to have a Staff Survey right now, this month. The staff who are talking with me are mad about just about everything.”

In the case of commercial firms, there are real and measurable links between the commitment of employees, the quality of client service, and the company’s revenues.<sup>32</sup> In the case of the Bank, the commitment of the employees is probably an important influence on the quality of the Bank’s service to its clients, even if client service is less directly determining of the Bank’s revenues than in the case of a commercial firm (because of guaranteed loan repayment regardless of project effectiveness).

So what do the employees think of the Bank? The organization has undertaken periodic Staff Attitude Surveys since the early 1980s. Two broad conclusions can be drawn from the whole set of eight surveys. First, staff show a relatively high level of satisfaction with the work itself and with their immediate workgroup, all the way from the early 1980s to today. Second, they show a relatively low level of satisfaction with the institution, especially in its hierarchical and supervisory aspects and in its career aspects. The level of satisfaction has tended to *fall* over time, being lower in the 1990s than in the 1980s and lower in the second half of the 1990s than in the first half.

One of the questions asks respondents to rate the “mutual trust between senior management and staff”. Senior management refers to the president and the next rank down (currently, five managing directors). Over all eight surveys, the proportion of favorable responses hit a maximum of 44 percent, in 1984. Over the 1990s the proportion of favorable responses averaged 25 percent; in 1999 it was 18 percent. In some regional management groups (comprised of roughly 25 sector directors [each responsible for around 50 professionals] and country directors [responsible for millions of dollars of lending]) the proportion of favorable responses—the proportion which rated mutual trust between themselves and senior management favorably—was less than 10 percent. These are extraordinarily bad results, indicating serious dysfunction, and getting worse, not better.

The results speak of a pervasive distrust beyond the workgroup. On the face of it, the results are consistent with the earlier argument about employee morale in action-cum-political organizations, which can be expected to be lower than in more action oriented organizations. Action-cum-political organizations, as we saw, are likely experience more conflict between (senior) managers and operational staff than in action organizations, because the senior managers are driven by the constraints set by complaints and pressures from politically influential constituencies, the operational staff are driven by the situational

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<sup>32</sup> For example, Anthony Rucci, Steven Kirn, Richard Quinn, “The employee-customer-profit chain at Sears”, *Harvard Business Review*, January-February, 1998, pp.82-98.

imperatives they face in dealing with the clientele. As the Bank's politics to action ratio has increased, staff morale has tended downwards.

The rising national diversity of the staff—and rising difficulties of trust at the same time as the need for trust rises—pushes in the same direction. So too does downsizing and the method of downsizing: in the 1987 reorganization, all the staff were terminated and had to be individually re-employed, with a loss of some 600 jobs. In the 1997 reorganization, the 600 or so staff of management rank were terminated and had to be individually re-employed. During the three year Compact period some 500-700 staff were declared redundant (roughly 7 percent of the total). But net staff numbers increased during the Compact period, as managers assumed that the increase in budget under the Compact would be made permanent rather than, as intended, cut back to 1997 levels at the end of the three year period. So at the end of the Strategic Compact, when the Board insisted that the budget be cut, another 200-300 people had to go. For most of the Part II staff, termination meant having to leave the United States almost immediately, uprooting families and facing a drastically lower living standard in their home country, and understandably the Part II staff did everything possible to avoid the axe falling on them. The waves of downsizing in the Bank have fueled morale and motivational problems for those who remain, and fuelled a strong sense of anger.

But something else is going on to generate persistent low trust. Consider the following events, described by a social scientist brought in to advise the Bank on ways to improve the personnel evaluation system.

“I went to a meeting called to present the results of the largest project ever undertaken by the bank. It was posted as a bank-wide seminar. Many people came, perhaps seventy-five. There were four panelists who each presented an aspect of the project. Of the four, one was critical and also was the only one to discuss the facts at a concrete level of observation, rather than in macroeconomic terms. Instead of talking of gross dollars loaned, he discussed what had happened to the local trained staff of the project, and how the project had increased the income of some of the richer farmers but hurt the situation of the poorer. After the meeting he was called by his boss and severely criticized: ‘You were supposed to an advocate for this kind of project, not a critic.’ Yet it had been announced as a staff seminar on analysis of the project.”

Again:

“I was invited to attend the meeting of one vice president and his top staff. They discussed how they could be helpful to the rest of the bank. ‘Let’s ask them’, said one. ‘Great idea.’ So they formed a committee to go meet with the regional vice presidential staffs. I was then able to attend the meeting of one regional vice president and his staff while they considered how to handle the upcoming meeting. ‘Let’s give them a list of topics that will keep them out of our main projects’, said one. They made up the list and I was able to attend the meeting of the two groups. With great formality and apprent friendliness they went through it. ‘What would be helpful?’ ‘These would.’ ‘Oh excellent.’ ‘Thank you.’ ‘Thank you.’ I then went to the meeting where the [first] group reported back. ‘We met and had an excellent discussion, frank and open, and here are the topics that interest them for us to work on with them.’”

These events occurred not in 1999, or 1992, or 1986, but in 1975.<sup>33</sup> Low-trust management—where managers treat their staff like prey, as in the first case, and where colleagues deceive each other for the purpose of *not* cooperating across organization units, as in the second—is a long-standing feature of the Bank, and no-one, to my knowledge, has come up with a good explanation.

## WHAT TO DO ABOUT THE WORLD BANK?

My earlier remarks about necessary deception were qualified by “necessary up to a point”. Perhaps any organization has an optimal amount of unforthrightness or deception, given its authorizing environment. Below the optimum it suffers from lack of legitimation by important external entities because it does too little by way of reflecting back their norms and agendas. Above the optimum it suffers from falling legitimacy as external entities and wayward staff expose the (now much greater) density of deception and as the deception interferes with coordinated action.

We possess no calipers to tell us when an organization is operating at optimal deception. But I suspect that the Bank is well into the zone of too much deception. And it may be that the Bank is above the optimum not only for “structural” reasons to do with the authorizing environment but also because of poor strategic choices by senior management. After all, the Bank did set itself up for Allan Meltzer’s mismeasurement of its performance when he said the Bank had failed because the number of people on less than \$1 per day had remained the same between 1987 and 1998. The Bank invites this sort of jeer by claiming that *it* does significantly reduce world poverty, and (by implication) that it can even *eliminate* world poverty if everyone else works to its directions.

### *Narrowing the Focus*

My argument ends up supporting a now commonly heard suggestion, especially from inside the Bank: that it should draw back from the idea of being a one-stop shop for development, ready to “sell” or endorse practically anything that anyone thinks somehow meets the elastic criterion of “important for development”.

- It should focus more narrowly on the heartland of development: on (a) those things that directly improve the “investment climate”, and (b) those things that increase investment in “human capital”.<sup>34</sup>

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<sup>33</sup> Douglass Carmichael, “Participatory study of work at the World Bank”, paper to American Anthropological Association meeting, December 6, 1980.

<sup>34</sup> But note that this development focus would lead it back into areas from which it has withdrawn in its attempt to focus on “poverty alleviation”—areas such as higher education, important for the uptake of information and communication technologies.

- It should therefore develop role playing exercises for senior managers which require them to practice saying to the US government and other external entities, “X may be important. But it is not central to our operational mission as defined by (a) and (b) above. Therefore we won’t deal with it—but we’ll help you contact some relevant organizations who do deal with it.”
- It should make clear its limitations, its constraints. It should not say or imply that it can solve the development problem or eliminate poverty, not even in “partnership” with other development banks. It should take the line, “We cannot solve the development or the poverty problem, but we are trying our best, we are doing good where we can.”
- It should commit itself to the principle of forthrightness, by narrowing the grounds for “unavoidable deception” and broadening the range of “unacceptable deception”.

### *Broadening the Scope to Deal With Global Public Goods*

The advantages of more selectivity being said, there is another argument for broadening the scope in a direction where the Bank has been conspicuously quiet. The world needs a world bank that addresses global problems like ocean pollution, atmospheric degradation, nuclear waste, and the like. But oddly enough, the World Bank is a world organization only in the scope of its country membership; it is not a world organization by virtue of tackling problems that cannot be dealt with by individual national governments. It has said little about global environmental degradation.<sup>35</sup> Even odder is the Bank’s near-silence on major features of the *world* economy. It has devoted only a tiny amount of analytical resources over the years to trends and causes of *world* income distribution,<sup>36</sup> or to world inflation; or even to the several ways in which developing countries are disadvantaged in terms of access to the emerging global ICT (information and communication technologies) regimes.<sup>37</sup>

Presumably the Bank has said very little about rapidly widening world income inequality--though this is deeply implicated in poverty, migration, social unrest, and other major development issues--because (1) the Part I countries do

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<sup>35</sup> Its co-responsible role for the Global Environmental Facility, together with UNDP and UNEP, is a partial qualification.

<sup>36</sup> The Bank produced an important data set on national income distributions, but has done little with it beyond cross-sectional analysis (such as the relationship between national income distribution and economic growth). Bank management has given little support to work on the trends and causes of world income distribution. But two important in-house papers have been written, largely on the researchers’ own time: Branko Milanovic, “True world income distribution, 1988 and 1993”, Policy Research Working Paper 2244, Development Research Group, World Bank, November 1999; Yuri Dikhanov and Michael Ward, “Measuring the distribution of global income”, paper to First Global Conference on Human Development, United Nations, New York, July 1999. See Wade, “Winners and losers”, By Invitation, *The Economist*, 28 April, 2001, pp.79-82.

<sup>37</sup> Wade, “How to harness information and communication technologies (ICT) for wealth creation in developing countries, and what donors can do to help. Or, when are development fads beneficial?” Paper prepared for OECD/UNDP conference on the Knowledge Economy, OECD, Paris, March 5-6, 2001.

not like attention being drawn to the architecture of a world economy in which they are disproportionate beneficiaries, and in which development--in the sense of a reduction of the gap in living standards between developed and developing countries, as distinct from the narrow sense of poverty alleviation, which directs attention away from the size of the gap--is a *failing* project; and because (2) the Bank cannot get far with a body of work unless it is approved by the Board, which means that a country or group of countries must be prepared to back it. A World Bank which addressed *world* economic and environmental issues would collide with politicians and business groups in western capitals of the kind who think that the Kyoto treaty on greenhouse gases should properly be rejected on the grounds that it imposes less stringent controls on developing countries than it does on them, causing their economies to lose competitiveness against the developing countries.<sup>38</sup> Imagine the reaction of the US Congress if the World Bank were to direct attention to America's insatiable appetite for consumption over the interests of the globe, as a world development bank should properly be doing.

### *Curbing the Dominance of the US*

The Bank's heavy dependence on the US Treasury, Congress, and advocacy NGOs is a mixed blessing. On the positive side, it keeps the US interested in the Bank, despite the unilateral instincts of the Congress; and the US is the biggest shareholder, so its continuing interest is important to the Bank's survival. On the negative side, the Bank's politicization—the attempt to please a widening array of (rich country) constituencies, the rising ratio of political organization to action organization, the rising density of procedures and monitoring—has gone much further than it would have gone had the Bank been based anywhere else. As I have said, the Bank has been a convenient target for US politicians and NGOs to garner public support by making demands upon it, *with no domestic downside*. Buoyed by the Wilsonian confidence of leading in the name of universal moral principles they have not only demanded that it do new things and add new requirements; they also demand that it be reorganized, downsized, its administrative budget cut—without any serious analysis to justify the demands. For reasons that are not clear, senior management in the second half of the 1990s has shown itself only too willing to respond. Budgets have been cut, and cut again.<sup>39</sup> And off the top of the cut budgets senior management has imposed “taxes” to fund mandates that the Board refused to fund. So the Bank can present itself to its many critics in the organizations that contribute to IDA, the soft-loan fund--above all, the US Congress and the US Treasury—as having made itself into a tighter, leaner organization, doing more with less, therefore worthy of their support.

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<sup>38</sup> Amity Shlaes, “When domestic law arrives by the back door”, *Financial Times*, April 3, 2001.

<sup>39</sup> “The World Bank's budgetary woes: tasting its own medicine”, *The Economist*, December 2, 2000.

Of course, one can always squeeze a bit more out of any business, for a time (as the UK's privatized Railtrack and New Zealand's privatized TransRail have shown to awful effect). In the case of the Bank, its responsiveness to US-led pressure to cut costs and expand work has seriously affected staff morale. The staff find themselves under even more intense pressure than before, because they have less resources with which to do more work. The question—and here we come back to those secret client surveys—is whether the clients have noticed a fall off in service, and whether the reputation of the Bank—in the eyes not of President Chirac or the Vatican but of the borrowers—has taken a dive. If so, does this help to explain the lack of *overt* Part II support for the Bank in the face of Part I attacks, and the fall off in lending?

The in-your-face unilateralism of the new George W. Bush administration in Washington underscores the need for the Bank to become less beholden to American entities. In the context of the broad G7 agenda, the European G4 states (Germany, France, Italy, Britain) are slowly forming mutual consultation procedures and agreeing on common positions *before* each discussing with the Americans, as they used not to do.<sup>40</sup> Perhaps this will trickle down to more European willingness to take responsibility for the Bank.

Will the Europeans be prepared to compensate for US cuts in its IDA contributions by increasing Europe's contribution (with a corresponding increase in Europe's share of Bank contracts and a cut in the US share), so giving the Bank more autonomy from US demands? Will the Europeans be prepared to press for selection of the president by procedures that meet at least minimal standards of good governance, and to challenge the American monopoly? Be prepared to press for a shift of some major headquarters functions out of the US; for now that the Bank has deconcentrated its operations to country offices there is no good reason why, with current ICTs, all the headquarters functions should remain concentrated within a stone's throw of the White House and the Treasury? To press for doing away with the residential Board, and shift the Bank to the corporate norm of a board of directors that meets to review strategic issues every few months—and that is therefore less greedy for detailed interventions in the Bank's operations?

### *Raising the Part II voice*

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<sup>40</sup> “Most of the world's major powers—even our friends—have made it a central theme of their foreign policies to build counterweights to American power. In fact, their efforts in this direction constitute one of the main trends in international politics today. Americans seem strangely oblivious to this....at present Europe seeks to define its identity at least in part by differentiation from the United States. A common theme of European rhetoric, even of the friendliest of our allies, is that it is time for Europe to make itself an equal of the United States, to be a counterweight to it.... Europe is the continent where the balance of power was invented; for most nations the fact of a single predominant power triggers a reflex to build counterweights. Probably we [Americans] should not take it so personally....It is a law of geopolitics—something that should be a surprise only to those who do not know geopolitics.” Peter Rodman, “The world's resentment”, *The National Interest*, Summer 2000, at [www.nationalinterest.org/issues/60/Rodman.html](http://www.nationalinterest.org/issues/60/Rodman.html). Caio Koch-Weser, the senior official of the German Finance Ministry appointed in 1999, has been particularly active in forging a norm of consultation among the European G4 before each of them talks to the Americans. He was previously a managing director of the World Bank.

But in the end the World Bank is for the borrowers, not for the creditors, and it is they who have to develop well-oiled consultation and coordination mechanisms among themselves. One of the few positive fallouts from the Qinghai drama was the small boost it gave to coordination among the Part II executive directors—a small boost from almost zero. Their coordination is handicapped by their small share of the votes. But they could make much more use of the norm of consensus. If many of them speak in a consistent direction their views are difficult to ignore. For this to improve things they also have to have good ideas and be well informed about the issues which come before the Board.

Several things might be done.<sup>41</sup>

- The Part II executive directors (EDs) should have terms of not less than 4 years and not more than 6 years.
- They should establish a collective screening mechanism to vet not only prospective EDs but also the occupants of the five or six positions in the ED's office—just to ensure that some minimal standards of competence are met, that the positions are not treated as sinecures or dumping grounds.
- They should establish a quick-response technical support group, perhaps made up of a *network of academics and consultants* outside the Bank, whom they can draw on for help in formulating ideas—to compensate for the lack of help most of them get from their own capitals, in contrast to the abundance of help that most of the Part I EDs get from their capitals.
- They should pay much more attention to their role in the appointment to key positions where they are meant to have a joint role, notably the General Counsel, the General Secretary, and members of the Inspection Panel. It is dispiriting to see how uninvolved the Part II EDs (and most of the rest of the Board) have been in recent appointments of this kind, with results, in some cases, deeply prejudicial to the Bank. Of course, the most important appointment within their responsibility is the president. The Part II EDs should determine that no future Bank president shall be appointed by the opaque procedures of previous ones.<sup>42</sup> They should challenge the American monopoly of the position.
- They should assert more forcefully the norms of state sovereignty, recognizing that the Bank has every right to press them to follow their own laws but less right to press them to follow operational policies it has been forced to adopt by Part I conditions on IDA funds.
- They should formulate a defensible set of principles by which the Bank collaborates with different kinds of NGOs, bearing in mind that the

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<sup>41</sup> For suggestions concerning the Part II voice in the IMF see Peter Evans and Martha Finnemore, "Organizational reform and the expansion of the South's voice at the Fund", paper for the G24 Technical Group Meeting, Washington DC, 17-18 April 2001.

<sup>42</sup> Devesh Kapur, "Who gets to run the world?", *Foreign Policy*, Nov/Dec 2000, pp.44-50.

principle of state sovereignty has to be balanced against the more sanguine view of NGOs-in-development found in the OECD countries and therefore in the World Bank than in either the developing countries or the UN organizations (which are staffed by more non-OECD citizens).

- They should require that the procedures of the Inspection Panel be redrawn so as to meet the Bank's own criteria of good governance. For example, the panel should not be both prosecutor and judge; and the staff should not be required to appear before it for tape-recorded interviews without representation and without even the opportunity to see the transcript of their interview, while knowing that the panel can write its report in a way that identifies them as culpable (though not by name) and liable to be fired, and knowing that the panel will identify only the foot soldiers and lieutenants, not the higher ups.

### *Operational Policies as Guidelines*

There will be no end to the vicious circle of excessive deception unless the Bank redefines its operational policies and the criteria of compliance. Take Qinghai again. China has a well-established implementation record in projects of this broad type. The Inspection Panel blasted the Bank (and implicitly the Chinese government) for poor documentation in the environmental assessment work. It is true that the documentation did not meet the Bank's requirements. But the Chinese committed themselves to install a serious monitoring agency, which would repair the weak parts as the work on the project unfolded over several years; complete with panels of internationally recognized experts acceptable to the Chinese and the Bank (something that the Chinese government had never accepted in the past). This is consistent with the Bank's celebrated principle of "country in the driving seat". The Inspection Panel was unmoved: compliance is compliance, and it must be 100 percent.

This is impossible. The general principle should be that where implementation capacity is high, the country should be "in the driving seat", and environmental and social assessments should be able to be sequenced in the way that the Chinese proposed for Qinghai. Where implementation capacity is low, more emphasis should be placed on up-front blue-print plans. But the Bank's operational policies require the latter for all countries, and therefore provide the grounds for defensible hypocrisy at the operational level—for approving environmental assessments even knowing that the documentation is not perfect, because implementation capacity is known to be high. The problem is that this hypocrisy is defensible to those of good will, but not to those looking to score knock-outs.

Put more generally, the Bank's operational directives should not set single obligatory standards for all. They might comprise a statement of very general principles (such as, in the case of the "indigenous peoples" policy, that the Bank is committed to the principle of protecting the identity of ethnic minorities rather

than to the “melting-pot” principle of fast assimilation); then a statement of Bank procedural requirements; and then the operational policies should be differentiated by region or country or per capita income stratum.<sup>43</sup> They should allow some flexibility for the Bank’s professionals to work with client governments to upgrade existing practice. They should explicitly recognize that when a Southeast Asian country has produced A1 environmental assessments for Bank projects for years and still today has virtually no citizens who can do environmental assessments on their own because the ones for Bank projects were done by imported Part I consultants, this constitutes Bank *failure*. The government of Qinghai province was at the very start of the learning curve; it had never done a World Bank-assisted project before, and this should have affected the Inspection Panel’s judgment.

Or take the Bank’s governance agenda. China again provides a case in point. Its governance is woeful by the standards of the Bank’s governance agenda. Many people outside the Bank, especially in the US, think this deficiency is sufficient grounds for the Bank to press its governance agenda on China, including such things as totally independent parties to do social assessments and indigenous people’s plans. If China does not agree, the Bank should not operate there, they say. But if the Bank is to be a multilateral development organization and not an instrument of US foreign policy and human rights NGOs the key question has to be: “Has ‘inadequate’ governance by our standards inhibited the reduction of poverty?” If the answer is yes (as perhaps in Indonesia), the Bank has grounds for pressing its governance agenda. If the answer is no (as in China, and also in pre-mid-1980s South Korea, Taiwan, Singapore, and Hong Kong), the Bank has no grounds. This is another illustration of why the Bank should not insist on the same requirements of all borrowers.

Of course, flexible guidelines make the judgment of compliance and accountability more difficult, which is not a trivial matter. The key point is this: in return for dropping the pretence that it is insisting on the same standards of environmental assessment, participation, resettlement and indigenous people’s protection from China, to India, to Argentina, to Laos and East Timor, the Bank must be transparent—more forthright--about what it is accepting as adequate in each case, and why. This would go a long way to soften the political imperative to “excessive” deception and break the vicious circle.

But to repeat, there will be no movement in any of these directions unless the borrowing governments concert their actions for a change and thereby become a counterbalancing force in the Bank’s authorizing environment. And there may not be much movement unless the headquarters’ operations functions are moved out of the United States, and out of its legalistic and adversarial regulatory system which makes the needed flexibility impossible.

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<sup>43</sup> An effort to move in this direction was made in the early 1990s for indigenous people’s policy, where not having regional definitions leads to nonsense--as when the same definition is used for the Amazon and China. But the effort languished in the absence of management support.

END