Taylor & Francis
Taylor & Francis Group

The State of the World Bank

Author(s): Robert Wade

Source: *Challenge*, JULY-AUGUST 2010, Vol. 53, No. 4 (JULY-AUGUST 2010), pp. 43-67
Published by: Taylor & Francis, Ltd.
Stable URL: https://www.jstor.org/stable/40722653

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at https://about.jstor.org/terms

Taylor & Francis, Ltd. is collaborating with JSTOR to digitize, preserve and extend access to *Challenge*

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

How Are We Doing?

The State of the World Bank

Robert Wade

As the preeminent global development organization, the World Bank has been adapting its products, governance, and ideas to reflect the dramatic changes in its economic and political environment—but not rapidly enough. It continues to push the questionable Washington Consensus idea that integrated global markets for labor and capital are the best route to economic development, and it continues to transfer resources almost entirely through credit and debt. Still, it needs to be defended as one of the few powerful yet truly global economic forums we have.

In April 2010 Robert Zoellick, president of the World Bank, gave a speech hailed by some as the most important speech of a bank president since Robert McNamara's in 1973, when McNamara set poverty reduction as the bank's new mission. Zoellick's main point

---

ROBERT WADE is a professor of political economy at the London School of Economics and the 2008 winner of the Leontief Prize in Economics. *This article builds on several earlier papers, including "What the World Bank Should Do,"* Challenge *(September-October 2007), and "The Multilateral Economic Organizations Under Stress: Feature Review of Ngaire Woods,* The Globalizers: The IMF, the World Bank and Their Borrowers," New Political Economy *12, no. 1 (2007), and others.* *The author is indebted to discussions with Ngaire Woods and Jakob Vestergaard and to World Bank observers who requested anonymity, including present and past officials.*

Challenge, vol. 53, no. 4, July/August 2010, pp. 43–67.
© 2010 M.E. Sharpe, Inc. All rights reserved.
ISSN 0577–5132 / 2010 $9.50 + 0.00.
DOI: 10.2753/0577-5132530403

This content downloaded from 149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

was the end of the third world, the end of the distinction between developed and developing countries.

> If 1989 saw the end of the "Second World" with Communism's demise, then 2009 saw the end of what was known as the "Third World." We are now in a new, fast-evolving multipolar world economy—in which some developing countries are emerging as economic powers; others are moving towards becoming additional poles of growth; and some are struggling to attain their potential within this new system.[1]

In effect, Zoellick was saying that we are at the end of the Truman era—which began in the early postwar years when President Harry S. Truman called on the West to take up the challenge of using "our" knowledge and resources to deliver development to the rest of the noncommunist world. The advent of "a new, fast-evolving multipolar world economy" requires deep changes in the way the World Bank itself operates, Zoellick said, and he sketched the sort of changes he had in mind to equip the bank for the new multipolar world economy, with its dramatic shifts in bargaining power and coalitions across the old developed/developing country division.

Indeed, the World Bank seems to be going from strength to strength. It has steered itself safely through the global economic turmoil of recent years, and its main lending arm (the International Bank for Reconstruction and Development, IBRD) *tripled* its lending commitments to middle-income countries in FY2009. The bank projects IBRD lending commitments of $40 billion in FY2010, rising to $60 billion in 2014.

At the spring meetings in Washington, DC, in April 2010, the bank's member states approved a large increase in the bank's subscribed capital from $190 billion to $276 billion, the first general capital increase in over twenty years. Of that increase, $5.1 billion is to be in the form of paid-in capital, bringing the bank's cash on hand to $40 billion. Separately, the bank is asking for some $50 billion for the next three-year replenishment of its soft loan arm, the International Development Association (IDA), up from $42 billion in the 2008 replenishment, to start in 2011.

The proposal for a general capital increase was strongly supported

This content downloaded from
149.10.125.20 on Ffff:ffff on Thu, 01 Jan 1976 12:34:56 UTC
All use subject to https://about.jstor.org/terms

by the emerging market economies, including Argentina, Brazil, China, India, and Russia. By pledging their willingness to help fund the increase, they signaled strong support for the bank, in return for a bigger share of voting rights and for changes in its mode of operations in line with their wish to borrow at lower transaction cost.[2]

On the other hand, some of the rich nonborrowing (Part I) countries were less enthusiastic about the capital increase. They would have to bear most of the cost just when they faced severe fiscal constraints at home and just when they would also face losing voting share as the borrowing (Part II) countries gain share in return for bigger financial contributions. The governments of the United States, the United Kingdom, and France cast doubt on the bank's claim that it needed a general capital increase in order to avoid having to cut back lending in the next several years. U.S. Treasury secretary Timothy Geithner expressed a reservation widely shared among the Part I countries when he said, "Donor countries are facing severe financial constraints at home . . . [so] we will be seeking critical institutional reforms in any consideration of additional resources."[3]

In the end the doubting Part I countries gave way, at least in part. The changes will make China the bank's third-largest shareholder, after the United States and Japan and ahead of Germany. Countries like India, Brazil, Indonesia, and Vietnam have also gained more representation.

From the bank's point of view, the big increase in lending commitments, the general capital increase, and the active support of its emerging market borrowers (even though they are best placed to walk away and borrow under their own name) are all good news. They fit Zoellick's picture of the World Bank successfully adapting to a more multipolar world economy in which the rich countries no longer call the shots.

More Good News

As Zoellick reported, the bank is launching proposals for major reforms in structure, products, and modes of operation.[4] In February

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

2010 the management sent three direction-setting papers to the Board of Executive Directors (representatives of member states). The first two constitute a pair titled "New World, New World Bank Group, I: Post-Crisis Directions and II: Internal Reform Agenda" (February 2, 2010). The third, from the bank's Knowledge Strategy Group, is titled "Transforming the Bank's Knowledge Agenda: A Framework for Action" (February 3, 2010).

One prominent nongovernmental organization (NGO) bank watcher says, "The Bank is remaking itself in the most dramatic fashion I've ever seen. Perhaps since 1960? But few people [in NGO land] are watching because the foundations pay them to look at single issues (for example, climate financing)."

Here a touch of skepticism is in order. The documents claim that the bank is at the start of fundamental changes, but are less than revealing about what they are. They contain a high fluff-to-substance ratio, as in "The gist of this reform agenda is the recognition that to respond better to both the long-term development challenges and the changes wrought by the global crisis, *the World Bank Group must become more efficient, more effective, and accountable*. . . . [T]he drivers of reform [are] the need to get closer to the client, to enhance our financial services and to better disseminate knowledge and expertise."[5]

Again, "Invigorating the Bank's instrument mix will enable us to align better with government programs and priorities, to be a better partner for other donors and multilaterals in the field, and to be faster and more flexible."[6]

One has heard all this many times before, in much the same words, going back at least as far as the reorganization of 1987 under President Barber Conable. What reform documents of this kind rarely grapple with are the trade-offs: words like "faster" and "more flexible" trip off the page as though their substance is self-evidently more desirable than "less fast" and "less flexible."

But cut away the fluff, and it does look likely that the bank is in for another big decentralization within the next few years—"another," because the bank substantially decentralized in the Wolfensohn reorganization of 1997–98. As a result, some 60 percent of its 5,200

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

regional staff are now based in their respective regions rather than in Washington, DC, and operate from offices in 120 countries. The future decentralization will move still more people out of Washington headquarters and put them in newly created regional hubs, perhaps five or six around the world, such that the staff would be no more than four to six flying hours away from their countries of operation. Some of the country offices will be shrunk or closed and staff brought up to the regional hubs. (To give a sense of the size of some country offices, the one in Hanoi has about 130 staff, of whom about 25 are "headquarters" staff and the rest local recruits. The office in Jakarta is bigger.) Expect lots of jockeying around the siting of the regional hubs.

This further decentralization would require big changes in the bank's handling of knowledge and expertise (for example, to ensure that the more decentralized staff remain in touch with global knowledge) and associated changes in the bank's matrix organization, its IT system, human relations (staffing) system, and budget system.

The bank is also changing its loan products. It is cutting the proportion of ring-fenced project loans (for dams, urban infrastructure, and the like). It is raising the proportion in the form of budget support for countrywide policy and institutional reforms, known as "development policy loans" (DPLs), close to the old "structural adjustment" loans; and also for sectorwide "results-based investment loans" (RBIL), close to the old "sector adjustment" loans. DPLs and RBILs disburse larger amounts of credit more quickly than project loans. Already, roughly 50 percent of FY2009's IBRD loans and 25 percent of IDA loans were in the form of budget support.

Closely related, the bank is relying more heavily on what it calls "country systems," meaning that the loans are subject to the borrowing government's own standards for financial management and procurement and the country's own environmental and social safeguards. To be more precise, the bank assesses each country's "country systems," and the more equivalent they are to the bank's, the more the bank relies on the country's own fiduciary and safeguard systems, thus cutting its own inputs into lending operations. Where the assess-

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

ment finds a low degree of equivalence, the bank is meant to prescribe "gap-filling" measures.

These changes are in line with what the Part II countries want from the bank, especially the emerging market economies. Bank management supports the changes because they lower the transaction cost of borrowing from the bank, helping it to compete against proliferating public and private competitors. The two papers referred to earlier, "New World, New World Bank Group," implicitly recognize the competitors and strike an unaccustomedly modest note when they refer to the bank as "a premier development institution with global membership," rather than "*the* premier development institution."

On the face of it, these changes can be construed as a desirable response to the growing economic weight and governance rights of the bank's middle-income borrowing governments. They show the bank to be responsive to its borrowers' preferences and no longer simply the instrument of the United States and a handful of other Part I governments. (Note, however, that several Part I governments, including those of the UK and Germany, have also been pushing the shift to budget support.) And they show the bank to be more trusting of (some of) its borrowing governments.

The management justifies the changes as a way to strengthen what it calls the "culture of implementation support" and weaken the excessive "culture of supervision and compliance." It said recently, "The Bank needs to create a culture of implementation support in which teams spend a greater proportion of available resources helping clients to address implementation issues, quickly resolve problems, and build capacity. Unfortunately, many of these activities have been crowded out by fiduciary and other demands on staff time."[7]

Finally, more good news comes from the Staff Attitude survey of November–December 2009, which shows that 89 percent of the staff say they are proud to work at the World Bank (same as in 2007), and 84 percent say they rate the World Bank highly as a place to work compared to other employers.

In short, the mostly good news is that:

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

- the bank faces a booming demand for its resources and services, at least as long as the global economic crisis lingers;
- middle-income borrowers, far from walking away, have supported a general capital increase and a bigger role for themselves in its governance;
- the bank is planning to undertake substantial structural reforms, especially to further decentralize operations in order to bring the staff into more permanent contact with their regions;
- the bank has already been changing its lending operations so as to do less ring-fenced project lending and more "flexible" lending—countrywide development policy loans (or budget support) and sectorwide results-based investment loans (RBIL), and within project lending, so as to give more responsibility to the borrowing governments to maintain fiduciary, environmental, and social standards;
- the staff express generally favorable opinions about working for the bank;
- the organization has been vested with responsibility for administering many billions of dollars in special multilateral "climate investment funds" (CIFs) and is angling to get still more.

Is there a crisis at the World Bank? On the evidence so far, no.

Bad News

However, there is also bad news from the World Bank, some of it the good news seen from another party's perspective. The first bad news is that the IDA, the bank's soft-loan arm for low-income countries, is in "quiet crisis." Many low-income countries are suffering from a deadly combination of food and fuel price hikes; falls in remittances, exports, tourism, and foreign direct investment; increased expenditure to offset climate weirding; and last but not least, falls in cheap credit. Facing another decade of slow economic growth, they are desperate to get more concessional finance. Yet IDA disbursements in FY2009 were static, at around $9 billion, even though demand is high and

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

loan commitments increased from $11 billion in FY2008 to $14 billion in FY2009.[8]

Indeed, half the bank's lending commitments in 2009 went to only twelve countries, and they were not ones badly affected by the global economic crisis (top five in descending order: Indonesia, Brazil, Mexico, China, and Poland). At the same time, most of the International Monetary Fund's (IMF's) lending went to the European area and less than 5 percent to Africa.[9] The result is that the smaller low-income countries have received little financial support from either of the two public-sector global lenders, despite being badly hit by the global crisis.

Second, the increase in voting shares to developing countries and the increase in the bank's capital are both much smaller than the headlines suggest—which can be construed as bad news for developing countries but good news for the developed countries. In effect, the developed countries successfully stemmed a push by the large developing countries for a significantly bigger role for themselves and a significantly bigger capital increase (which would have permitted bigger increases in lending). For example, the new voting shares in the IBRD do give China plus India plus Brazil a bigger share than the Netherlands plus Belgium plus mighty Luxembourg for the first time ever, but only slightly more, 11.8 percent as compared to 9.1 percent.

Third, the switch away from project lending to country-wide development policy lending or sector-wide results-based investment lending, and from emphasis on country compliance with the bank's safeguard system to the country's safeguard system, diminishes the bank's oversight. It also diminishes the bank's role as global pacesetter in fiduciary, social, and environmental standards—standards that have been elaborately constructed over the past twenty years or so. The safeguards only apply to the bank's project lending, not to country-wide development policy loans. The bank's shareholders have not yet decided whether the safeguards will apply to the sectorwide investment loans.

Indeed, some NGO critics say that the bank is becoming just like a commercial bank, not in how it raises money but in how it spends it.

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

They stress that bank management's invocation of "achieving development results" as the rationale for the twin shifts carries the dubious implication that "development results" can somehow be treated as separate from compliance with the bank's own financial management, procurement, environmental, and social standards.[10]

A five-volume study produced by the bank's Independent Evaluation Group (IEG) in 2009 found systematic failure of mechanisms to curb fraud and corruption (F&C) in IDA lending to low-income countries.[11] The IEG found the failure so significant as to constitute a violation of IDA's Articles of Agreement.

Moreover, the IEG's 2009 "Annual Report on Development Evaluation" reviewed projects that closed in FY2007 and 2008 and found that only 37 percent of them had been subject to monitoring and evaluation (M&E) during implementation that could be rated as "high" or "substantial," leaving 63 percent with "modest" or "negligible" M&E.[12] Yet IEG has also found a strong correlation between the adequacy of M&E and project performance after exit. These findings query how far the bank should go in shifting from a culture of supervision and compliance.

The U.S. Senate, with much input from NGOs, has been targeting the bank's apparent laxity on monitoring fraud and corruption for several years. A new report from the Foreign Relations Committee on March 10, 2010, urged the United States and other donors "to be firm in demanding that needed reforms are secured before committing additional funds [for example, in the general capital increase]."[13]

The underlying argument is that the bank, as a taxpayer-supported organization, should be setting high standards of globally responsible lending, as distinct from lowering its standards so as to compete with other lenders, including China and other Asian investors, which provide closer to no-strings-attached, no-questions-asked macro-finance.[14] The World Bank should remain a pace setter, a model of high standards for other lenders to follow. Ratcheting up world standards is part of the core rationale for a multilateral development bank.[15]

So the push to lower the costs of doing business with the bank, partly by shifting toward budget support and "country systems," is seen as

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

good news by many borrowers but as less good news by the United States and some other Part I governments, and as outright bad news by many bank-watching NGOs (though some, like Oxfam, support it). The fog of euphemism in the "future directions" papers, mentioned earlier, can be understood as tactical hypocrisy, the response to conflicting demands from multiple constituencies. The fact that the papers were presented to the Board in February is no accident, because the negotiations for the next replenishment of IDA were set to start in March 2010, and the donors have been demanding such a statement of the bank's plans (as implied by the quote from the Senate Foreign Relations Committee).

The fourth worry has to do with the bank's leadership. Robert Zoellick became president in 2007 on a wave of relief at the forced departure of Paul Wolfowitz. He made a good first impression, as someone who was smart, who listened, made decisions, and was not obsessed with corruption as the big issue of development, as Wolfowitz seemed to be.

This good first impression has faded. Zoellick is widely seen as personifying an unfortunate combination of smart, arrogant, prone to temper tantrums, shy, and 100 percent secure in his own judgments. He tries to be both top leader and top manager—while giving the impression that he hardly needs to hear others' views and that the people who work for him, including the managing directors and vice presidents, are second-rate. The managing directors complain that he hardly talks to them, and they wonder who if anyone he is talking to. He has thrown temper tantrums with senior staff as he demands they change conclusions that make the bank—and him—look bad. He treats the Board with disdain, preferring to deal directly with more senior people in the capital cities.[16]

Zoellick has given the impression over the past year that he is not much committed to boosting the World Bank—that his career interests lie elsewhere and not in multilateral development circles. A common response of senior bank officials when asked about Zoellick is, "He's not here." He is seen as a lame-duck, one-term president (finishing in 2012), because the Obama administration will not nominate him

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

for a second term (he was a protégé of the Bush administration), and the board would not approve him if it did.[17]

In this light one can understand an adverse trend in the Staff Attitude Survey results. Asked to respond to "All things considered, the World Bank Group has changed for the better in the past year," 58 percent agreed in the survey of 2007 (during Zoellick's honeymoon), but only 41 percent agreed in the survey of 2009.

Fifth and closely related, the composition of the management group below the president leaves much to be desired. Zoellick has made personal appointments to very senior positions, bypassing the bank's recruitment procedures. He has given heavy weight to nationality, gender, and perhaps conservative politics, and noticeably less weight to qualifications for the job. So he has announced that he wants gender parity in management by 2012—an admirable goal but one that will certainly lead to the appointment of unqualified people.[18]

For example, the post of vice president of human development (which covers the vital health sector) has been vacant for many months. There is a strong candidate waiting in the wings with all the right qualifications—but wrong gender and wrong nationality, and Zoellick insists the appointee must be an African woman, whom he can't find. Likewise he has appointed people to some of the most important vice presidencies without a search, people who could not plausibly be described as intellectually or managerially outstanding.[19]

Another piece of bad news is that the proposed reorganization has been designed with remarkably little input from the staff, with the staff kept largely in the dark about why it is necessary and equally little consultation with interested parties outside the bank. One mid-level staffer who has been closely involved in the World Bank Staff Association said, "We don't know what these reforms are in aid of. There has been no study of just what the problems of the matrix organization are. The strange thing is that there is a Web site where we can communicate our views—but without having a picture of what the management is thinking."

Finally, the bank's strong pitch for not only administrative but also governance control over the new climate investment funds is

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

strongly supported by the United States, Japan, and some other Part I governments, and also by Brazil, Mexico, and some other middle-income countries. But most developing countries want governance to be vested in the UN system, not the bank. The executive secretary of the UN Framework Convention on Climate Change, in a speech at the annual meetings of the bank and IMF in October 2009, said that "developing countries are by and large dissatisfied with the existing governance system [vested in multilateral development banks]. They have pointed out . . . that it doesn't safeguard their needs; they don't have an equitable voice in it; disbursement is too slow; and the international financial system is fragmented."[20]

He could also have mentioned another common complaint—that the climate funds are given to developing countries mainly in the form of *loans.* Since the manmade part of climate change was caused mainly by industrial countries, offering loans to poor countries is like the person who drives his car into your house and then offers you a loan to clean up the damage.

In short, the bad news from the World Bank includes:

- the quiet crisis of no increase in IDA lending to the poorest countries in FY2009, and none likely in the next several years despite high demand from low-income governments;
- big increase in lending commitments to middle-income countries, most of which are not among the worst hit by the global economic crisis;
- very small increase in the shareholding of large developing countries, and a capital increase big enough only to sustain the same level of lending as in the years just before the global crisis;
- IEG's finding that IDA is out of compliance with its Articles of Agreement and its operational policies on fraud and corruption, and is significantly defective in six other areas;
- decline in bank focus on supervision and compliance in spite of IEG's finding that 63 percent of projects that closed in 2007–8 received only "modest" or "negligible" levels of monitoring and evaluation during implementation;

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

- reduced use of environmental and social safeguards;
- weak leadership at the top;
- appointment of non-outstanding people to top positions on the president's say-so;
- lack of engagement with the staff or civil society groups about the future direction of the organization (though public consultations on investment lending reform are planned);
- excessive role in governing the billions of dollars in climate investment funds, undercutting the UN system in the name of "efficiency" and—not incidentally—protecting the interests of the rich countries. (On the other hand, the UN system is hardly a model of transparency or accountability.)

Is the World Bank Rethinking Its Development Agenda?

Some evidence over the 2000s suggests that the bank has been softening its 1980s and 1990s official view based on the one-size-fits-all Washington Consensus policy agenda. For example, in 2005 it published *Economic Growth in the 1990s: Learning from a Decade of Reform.* The preface says that the central lesson of the 1990s is that

> there is no unique universal set of rules. Sustained growth depends on key functions that need to be fulfilled over time: accumulation of physical and human capital, efficiency in the allocation of resources, adoption of technology, and the sharing of the benefits of growth. Which of these functions is the most critical at any given point in time, and hence which policies will need to be introduced, which institutions will need to be created for these functions to be fulfilled, and in which sequences, varies depending on initial conditions and the legacy of history. Thus we need to get away from formulae and the search for elusive "best practices," and rely on deeper economic analysis to identify the binding constraints on growth. (p. xii)

On the face of it, this is a significant change from the "We know what you should be doing before we get off the plane" spirit of the Washington Consensus; or from the idea of the Knowledge Bank as "We have the knowledge, and our task is to get it out to you." The

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

report even challenges, obliquely, one of the bank's central thrusts over the 1990s and 2000s for public administration reforms: "most of these interventions [to promote judicial reform] produced little change, *as did the attempted reforms of other public sector institutions during the 1990s.*"[21]

Another sign of rethinking is the recent paper by the bank's chief economist, Justin Lin, a Chinese national.[22] Titled "New Structural Economics: A Framework for Rethinking Development," it argues that industrial policy (shifting relative prices in favor of some activities ahead of others) has a potentially positive role in developing countries, provided it remains limited to helping firms exploit the economy's existing comparative advantage—as distinct from helping to create a new comparative advantage.[23] This is progress of the "crossing the river one stone at a time" kind, because the bank's official view since the 1980s has virtually banned discussion of industrial and technological upgrading as a core development process that might be accelerated by industrial policy. The official view assumes that the task is "to make markets work better," as though economic growth is a function of the scale and efficiency of "the market" and as though whatever industrial and technological upgrading that results from generic market-improving measures must be optimal. Perhaps reflecting the boldness of Lin's argument in the context of the official view, the paper highlights Lin's Peking University affiliation, not his World Bank affiliation.

These are small signs of rethinking, but most of the evidence suggests it has not gone far. Even the pragmatic tone of *Economic Growth in the 1990s,* cited earlier, should not be taken to represent bank-wide thinking. The report was a one-off, and it is quite possible that most operational staff have never read even the preface. The 360-page report continues the bank's long-standing neglect of "industrialization" and "technology" (it makes just one reference to "industrial performance," one reference to "industrialization," no reference to "industrial policy," and glancing mention of technology on five pages). Apparently, the lessons from the 1990s do not include lessons about industrialization, industrial policy, or

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

technology policy, which from a Schumpeterian perspective should be central.

In any case, new talk is easy; the test is new action. Here the bank continues to push a fairly hard Washington Consensus or neoliberal agenda, despite having failed comprehensively to warn about the dangers of the buildup of financial fragility in the world economy during the 2000s.

For example, over the past year it has continued to promote the development of private financial markets as the central resource-allocating mechanism. It has made loans to governments in order for them to cut public housing and expand subsidized private mortgage finance, seeming to ignore the way that earlier loans of this kind helped to generate speculative housing bubbles (for example, in eastern Europe). It has even found the solution to the downside risks of financial liberalization to lie in encouraging its borrowers to allow more foreign banks (read: American and European) into their financial markets. The bank claims that foreign banks provide more stability, more efficiency, and new technical skills that spread to domestic banks. Therefore a sector with more foreign banks has less need for government regulation.

The global economic crisis has hardly dented the bank's confidence in its prescription for opening the financial sector to foreign participants. For example, the bank has not revisited its earlier championing of Hungary's opening to foreign banks, which saw foreign banks' share of total banking assets rise from 29 percent in 1995 to 85 percent in 2000 to 94 percent in 2005. The foreign banks lent mostly in foreign currency, to the point where by March 2009 about two-thirds of housing loans and three-quarters of personal loans were in euros or Swiss francs. The onset of the global economic crisis caused a sharp fall in the exchange value of the forint, the domestic currency, which fell 40 percent against the euro between August 2008 and March 2009. As local debt exposure and banking distress soared, Hungary accepted a $16 billion IMF loan in November 2008, accompanied by sharp cuts in public spending and real wages.[24] If the Hungary case has not prompted rethinking, what might? What about the fate of

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

public pensions that were privatized at the bank's insistence, only to collapse in value with the onset of the economic crisis?

But the most far-reaching evidence of the bank's continuing to push the neoliberal one-size-fits-all agenda for developing countries is the Country Policy and Institutional Assessment (CPIA) formula. The formula sets out criteria by which bank staff are to score each borrowing country's policies and governance. It uses sixteen indicators, grouped into four clusters: economic management, economic policies, social inclusion, and governance.

The score allocates concessional credit to low-income, IDA-eligible countries according to their closeness or distance from the ideal country model hardwired into the formula; and it also influences bank operations in middle-income countries. By the mid-2000s, countries whose CPIA score put them in the top quintile were receiving over *five* times as much per capita IDA loans as countries in the bottom quintile. The use of the formula, starting in the mid-1990s, marks a shift in emphasis from supplying finance in return for promises of reforms (as in the "structural adjustment loans" of the 1980s and 1990s) to supplying finance in return for already achieved reforms ("performance-based loans"). The World Bank has promulgated this shift throughout the whole Western donor community.

The bank's Independent Evaluation Group has recently finished a detailed assessment of the CPIA, and—in a remarkable testament to its independence from the senior management of the bank—reached damning conclusions.[25] It says,

> The literature offers only mixed evidence regarding the relevance of the content of CPIA for aid effectiveness broadly defined—that is, [mixed evidence] that it represents the policies and institutions important for aid to lead to growth.[26]

The report is critical of the fact that the governance component is so overweighted as to get—through opaque double-counting—two-thirds of the total weighting. And that the trade indicator "reflects a one-size-fits-all approach to trade liberalization that is not supported by country experience." And that the financial sector indicator assumes that a lightly regulated financial sector, with open opportunities for foreign banks,

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

is best for development. And that the labor market indicator gives the highest score to countries with the least worker protection.[27]

The IEG report calls for a complete overhaul of the CPIA, in view of the ambiguity of evidence that its Washington Consensus criteria for good policies and good institutions do indeed capture the factors that promote economic growth. In response to it, the president went barking mad. As U.S. trade representative, Zoellick had earlier pushed for global free trade and capital movements, except when constituencies important to the Republican Party (such as cotton farmers) might be hurt.

Most of the evidence suggests, then, that beneath the headline declarations of a more "pragmatic" bank, the old bank chugs along with much the same ideal model of developing-country policies and institutions and much the same agenda of liberalizing all markets and cutting the size of the state as the core prescription for higher growth and faster poverty reduction. It is unembarrassed by the ambiguity of the evidence and uninterested in assisting states to take a more active role in industrial diversification and upgrading.[28]

Does the New World Need the World Bank?

The case for boosting the World Bank rests on the fact that (1) it is a bank, unlike the UN, bilaterals, and NGOs, so it can raise lots of money and put its money where its mouth is; (2) it pools knowledge from around world and is less ideological than the IMF, is more rigorous than the regional development banks, and does not depend on consultants to supply it with knowledge.

These two assets make a strong case for member states to ensure its future. But the more fundamental case is political: the World Bank provides an apex *global* forum where representatives of most of the world's states interact to reach agreement on the content of a global common interest—including the common interest in the interaction process itself. That the process is imperfect by a mile is obvious. But much better that the World Bank and regional development banks exist than that developing country governments and other entities

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

engage in an international "society only held together by the relations and feelings arising out of pecuniary interests," in J.S. Mill's words.

The more uncertain the times, and the bigger the power shifts in the interstate system as the governments of China, Brazil, and India become more assertive and the European nations lose their claim to retain a status disproportionate to their economic weight, the more important are such well-established public international forums where state representatives regularly interact. In particular, it is vital to integrate the newly assertive states into multilateral forums where they have a voice but also have to play by agreed rules.

Think of the world of the first half of the twentieth century as a baleful countercase. That world shows what happens when institutions able to provide some limits on private profit-seeking and bilateral power relations are weak or absent. The resulting uncertainty easily morphs into mass insecurity and collective fear, which create desperation and envy, which easily fuels a politics of extreme left or extreme right.

The World Bank and the regional development banks were established by those who experienced the calamities of World War I, the Great Depression, the rise of fascism and communism, and World War II, in the spirit of "never again." The larger Bretton Woods architecture was intended to buffer market forces so as to enable resource allocations to be made in line with more public objectives than could be achieved when there was a presumption that "government failure is more costly than market failure" and that the optimum degree of market freedom was close to the maximum degree.

As the generation that experienced the calamities of the first half of the twentieth century retired, a new generation with short memories and schooled in "scientific" self-adjusting equilibrium economics came to power determined to undo the Bretton Woods restrictions on the scope of private profit-maximizing and wealth accumulation. It reoriented national and international economic policy, including in the World Bank, to expand the scope of the market more than to moderate it and to help firms and individuals profit from risk more than protect them from risk (as in the push for the hard Washing-

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

ton Consensus microeconomic agenda). Ironically, many critics on the Right nevertheless called for the World Bank to be abolished on grounds that its role as a source of capital and knowledge had been superseded by the private sector. Why should private banks and private consulting firms face subsidized public sector competition on an unlevel playing field? From time to time, critics on the Left have also called for the World Bank to be abolished ("50 Years Is Enough" was one of the slogans), on the grounds that it was failing to comply with its own market-buffering, environment-protecting directives.

The global economic crisis has weakened the credibility of the World Bank's official view, and the economic uncertainty and turbulence of the coming decade will preclude its credibility being restored any time soon. New thinking about development will emerge as states like Brazil, India, Indonesia, and South Africa, which these days are at the center of many international issues, seek to expand their influence by positioning themselves between the United States, China, and Europe. The World Bank is one of the appropriate forums in which to play out this new great game. Will these new states challenge or endorse the deep Washington Consensus agenda—to establish a global market for labor and capital and thereby boost returns to the owners and managers of capital? Will Africa like the change when King US/EU shares power with King BRIC?

Next Steps

For all the words in the above-mentioned papers on "the new world and the new World Bank Group," neither they nor other bank documents provide an overarching strategy or vision that answers two fundamental questions: (1) What is the main focus of the World Bank? And (2) how it should be managed to deliver services in line with that focus?

Other questions and solutions should follow from the answers to these steering questions.

Lacking such a strategy, the bank attempts to please everyone, resulting in continual mission creep. It needs a strategy that identifies

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

its core comparative advantage as "sustainability" in its fiduciary, environmental, and social dimensions. It should sell itself as the global center of excellence in investment sustainability. The issue is how to translate this theme into operations in a way different from the way it is done at present: in the form of layer upon layer of bureaucratic checks, with operational staff checking boxes and managers checking the checkers.

The bank now has a vast safeguard apparatus with several agencies and hundreds of staff overlapping each other: the Independent Evaluation Group, the Internal Auditing Department, the Integrity Vice President, the Inspection Panel (these are known as the four Is), and more. The cost of this "below the line" apparatus is high and rising, while the budget for the operational work is static as the workload rises. Something has to give.

There needs to be a serious review of the whole field of operational requirements and standards—an accountability of accountability. Cost in terms of money and staff time is one consideration. The financial management and procurement requirements impose the most costs on borrowing governments, as the bank joins dozens of other development assistance organizations each with different reporting requirements to be met by host governments. The environmental and social safeguards, in contrast, are probably relatively cheap. The requirements and safeguards must also to be assessed in terms of their effects in shrinking the scope for host and bank staff to exercise their own judgment for fear of running into one or another of the regulatory constraints. At present, many staff members complain that they are overwhelmed by safeguards and directives and have become highly risk averse. And always, the accountability mechanisms should be assessed against development outcomes, particularly the effects on these outcomes of weakening specific accountability mechanisms.

The job description of the president should be defined in terms of leading, as distinct from managing. That means developing a management team around the president, as Zoellick has not done, and subjecting the selections to tests of merit. The member states should collectively agree that no nationality should have a monopoly on the

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

position of president, and institute procedures for global selection. Though the United States will not be able to appoint an American as the next president, it will continue to have a decisive say and would be well advised to be looking for its favorite "foreigner" for the job.

The current board of twenty-four executive directors (just expanded to twenty-five), consisting of middle-ranking officials of member governments meeting in almost continuous session—receiving some 100,000 pages of documents per year, it is estimated—should be restructured and refunctioned. There is no good case today for a residential board (as there was in 1945, when air travel was limited). And the question needs to be raised as to whether the board should consist of much more senior figures, fewer in number, meeting less frequently, focused on strategic issues, and with authority to make binding decisions without having to refer back all the time to capitals.[29]

The current financial crisis has underlined the dangers of debt. But in all its sixty-plus years, the bank has deployed only debt instruments for transferring resources (aside from the World Bank Group's private-sector arm, the International Finance Corporation). Today, its core financial thinking remains fixed in the middle of the twentieth century. Its financial complex is famously, or notoriously, conservative—not only in terms of the bank's own funding (which has stood it in good stead in the current crisis), but also in terms of delivery to clients. The bank needs to be more innovative in its financial products; in particular, to develop equity or quasi-equity instruments, such as debt repayment linked to GDP growth or export growth or some other similar variable linked to ability to pay. There is no question of the difficulties of developing equity-like instruments, which help to explain why the bank has not moved in this direction already. One of the key challenges is how to hedge such risks, using some combination of credit default swaps, commodity futures, and the like. But as long as the bank is limited to debt instruments, it must either cut lending to heavily indebted countries or risk pushing them into unsustainable debt—just when the world economy must move away from its dependence on debt. Internally, the bank's financial complex should be clearly split between a part that deals with the bank's own funding

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

and a part that deals with its resource transfer instruments—and the latter should be charged with much needed innovation.

Finally, the bank's move toward further decentralization in the form of regional hubs fits with the emergence of stronger regional economies in much of the world. But it also raises the prospect of weakening its *global* focus even more than at present. Indeed, looking across the array of international organizations, it is striking how most of them have nation-states as their primary members and treat the world economy and world polity as an aggregate of nation-states and national economies. Yet the global economic crisis has highlighted the inconsistent growth paths of the four main economic powers—the United States, Japan, China, and the eurozone—and the absence of mechanisms for coordination between them. Coordination could take the form of major changes in global economic architecture, such as a mechanism for coordinating exchange-rate changes and for penalizing current account surpluses symmetrically with deficits (a revised Bretton Woods). Unless action is taken this time, we risk a repeat of what happened after the East Asian crisis in 1997–98, when the initial worried discussion of a "new international financial architecture" (NIFA) evaporated once it became clear that the crisis would not rebound into the heartland of the world economy, and was replaced by a proliferation of *voluntary* standards of best practice in bank supervision, data dissemination, and the like. No new constraints on the behavior of financial actors were introduced.[30] The relieved resumption of business as usual, despite the warning of instability inherent in the basic architecture of the world economy, paved the way for the asset bubble of the 2000s.

At present there is no international organization with authority and intellectual heft where such arrangements can even be discussed, and certainly not the present World Bank, whose member states block it from seriously discussing anything they do not like. (To take one example, the bank has long neglected national and global income and wealth inequality, in part because states like China and Russia insist that "inequality" is a political concept that the bank, as an apolitical organization, should not become involved with.) The

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

question is whether the World Bank can be reformed to give a part of it sufficient autonomy from the short-run national interests of its member states, so that it can lead a global discussion about a new global economic architecture, one that might better accommodate the needs of developing countries than if sponsored by the G7 states and also would curb the ability of the owners and managers of capital to call the shots in capital–labor and capital–state relations. If not the World Bank, where?

Notes

1. Robert Zoellick, "The End of the Third World?" address delivered to Woodrow Wilson Center for International Scholars, Washington, DC, April 14, 2010.

2. Bretton Woods Project, "Expert Panel Calls for Sweeping Bank Governance Reform," *Bretton Woods Update* 68, November 20, 2009.

3. Ibid.

4. See Nancy Alexander, "The World Bank Reboots," Heinrich Boll Stiftung-North America, May 2010, www.boell.org/downloads/Alexander_The_World_Bank_Reboots_5-27-2010.pdf.

5. World Bank, "New World, New World Bank Group II," paragraph 7, emphasis in the original. Note the "commonsense" framing of the task as "we the Bank" disseminating knowledge and expertise to "them."

6. Ibid., paragraph 16.

7. World Bank, "Moving Ahead on Investment Lending: Reform, Risk Framework and Implementation Support," September 3, 2009, 16.

8. Bretton Woods Project, "Bank Accused of Neglecting Poorest Countries," *Bretton Woods Update* 68. The Pittsburgh G20 leaders summit in September 2009 called for a crisis-response window to accelerate disbursements to needy low-income countries. This marks the first time the G20 has taken a role in governing the IDA.

9. The IMF by some measures has had a better global economic crisis than the bank. For example, it has received a much bigger boost in its lending resources, and it has made more progress in the use of new financial instruments. On the other hand, its main borrowers have been those that experienced a sharp financial crisis posing systemic risks, mainly in the European area. In South and East Asia it has only two programs—Mongolia and Sri Lanka—and looks on with envy as the World Bank gets the business. Korea preferred to arrange Federal Reserve swap lines rather than enter the IMF's Flexible Credit Line. Demand for Fund resources is low in Asia because, first, memories remain of excessive Fund conditionality in the Asian crisis of 1997–98; second, borrowing from the Fund is thought to confer a stigma of failure, unlike borrowing from the bank; and third, countries needing balance-of-payment support, like Indonesia, have been able to borrow from other Asian-based sources. More bad news came from Turkey, which broke off negotiations for a big loan from the Fund in early March,

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

on grounds that the Fund was insisting on excessively tough fiscal conditions. A few weeks later Turkey announced a $1.3 billion loan from the World Bank for financial restructuring, "stealing" the IMF's business. See Bretton Woods Project, "Rethinking the IMF," *Bretton Woods Update* 70, April 15, 2010.

10. Nancy Alexander, Beatrice Edwards, Anne Perrault, and Bruce Rich, "Evaluation of World Bank Finds Evidence of Failure to Control Corruption: 'Significant Deficiencies' in Compliance with Charter," March 2010, http://boell-pakistan.org/downloads/WB_Corruption.pdf.

11. The report describes many country systems as "weak to nonexistent" (Independent Evaluation Group, "Review of IDA Internal Controls," April 2009; http://web.worldbank.org/external/default/main?contentMDK=22142204&theSitePK=1324361&piPK=64252979&pagePK=64253958/).

12. Independent Evaluation Group, "Annual Report on Development Effectiveness: Achieving Sustainable Development," World Bank, 2009, p. 27.

13. "The International Financial Institutions: A Call for Change. A Report to the Committee on Foreign Relations, United States Senate," March 10, 2010, 111th Congress, 2d sess., S. Prt. 111–43, p. 1, http://foreign.senate.gov/imo/media/doc/55285.pdf.

14. But "no-strings" aid needs qualification. China does impose conditions on its loan recipients. The informal conditions include muzzling voices critical of the Chinese government and suppressing expressions of support for Tibet, Uighurs, and Taiwan; and also purchasing goods from firms selected by Chinese officials, often firms owned by "princelings," relatives of senior Communist Party officials.

15. This is a theme of Alexander, "The World Bank Reboots."

16. A former senior official said about the paper as a whole, "I agree with most of what you said," but went on to make one qualification. "I think Bob is more open to advice and able to move than you record. True, you need to time your advice well. In my experience with him, advice is best given and taken in very small settings."

17. Zoellick was a member of the small neoconservative group of Bush foreign policy advisors who styled themselves as the Vulcans, which also included Paul Wolfowitz. Zoellick's closeness to the Bush administration and his ability to get things done were demonstrated in his role as number two in the high-powered team headed by James Baker that worked to ensure Bush's victory in the thirty-six-day Florida vote-recount saga in 2000.

18. This sentence provoked sulfurous rejection from some readers, such as, "Would you make this absurd statement if 'race' replaced 'gender'?"

19. Staff interpretation of one no-search vice presidential appointment places weight on Zoellick's and Wolfowitz's joint membership of the Vulcans during the Bush administration. In an earlier capacity the vice president supported Wolfowitz during an ethically testing time of his presidency, and Zoellick made him vice president partly as a reward. For a fascinating account of the inner workings of informal groups at the top of the Bush administration—especially their overriding loyalty to each other rather than to the organizations for which they worked; see Janine Wedel, *Shadow Elite* (New York: Basic Books, 2009).

20. Quoted in Bretton Woods Project, "Bank Wrestling for Control of Climate Finance," *Bretton Woods Update* 68.

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms

21. World Bank, "Improving Public Sector Governance," in *Economic Growth in the 1990s* (Washington, DC, 2005), p. 280, emphasis added.

22. The post—the key "ideas" post in the bank—has long been informally reserved for a U.S. citizen, but over the 2000s a British and a French economist were appointed to it. Lin is the first chief economist from beyond the G7 countries. He received his Ph.D. from the University of Chicago.

23. Justin Lin, "New Structural Economics: A Framework for Rethinking Development," World Bank Policy Research working paper 5197, February 26, 2010. See also "Should Industrial Policy in Developing Countries Conform to Comparative Advantage or Defy It? A Debate Between Justin Lin and Ha-Joon Chang," *Development Policy Review* 27, no. 5 (2009).

24. Howard Stein, "Financial Liberalisation, Institutional Transformation and Credit Allocation in Developing Countries: The World Bank and the Internationalisation of Banking," *Cambridge Journal of Economics* 34 (2010): 257–73.

25. Bretton Woods Project, "IEG Calls for Overhaul of World Bank's Lending Criteria," *Bretton Woods Update* 69, February 15, 2010; Elisa van Waeyenberge, "Selectivity at Work: Country Policy and Institutional Assessments at the World Bank," *European Journal of Development Research* 21 (September 2009): 792–810. Waeyenberge concludes her assessment, "The CPIA perpetuates significant (and particular) [World Bank] influence over the policy space of [low-income countries] (794), and it steers World Bank lending "to promote the further adoption of the traditional (neo-liberal) reform agenda, with now a broader reach than was originally the case under structural adjustment" (806).

26. The analytical foundation of the CPIA and its set of ideal policies and institutions was bolstered by research by Burnside, Dollar, and Collier, based in the World Bank's research department. The World Bank–commissioned external evaluation of World Bank research, chaired by Angus Deaton, singled out this research as of particularly poor and advocacy-led quality. "Much of this line of research appears to have such deep flaws that, at present, the results cannot be regarded as remotely reliable" (A. Banerjee, A. Deaton, N. Lustig, K. Rogoff, "An Evaluation of World Bank Research, 1998–2005" [Washington, DC: World Bank, 2006], p. 53). See also Robert Wade, "Globalization, Growth, Poverty, Inequality, Resentment and Imperialism," in *Global Political Economy*, ed. John Ravenhill, 3d ed. (Oxford: Oxford University Press, 2011).

27. However, in April 2009 the World Bank announced changes in the labor market indicator in countries' business environment, used in its *Doing Business* reports. A new "worker protection" indicator will give countries points for well-designed worker-protection schemes. The change goes with a shift toward a closer institutional relationship between the bank and the ILO, up from near zero in the past. See Nigel Haworth and Stephen Hughes, "Decent Work and the ILO: Extending the Agenda," University of Auckland, March 2010.

28. See Robert Wade, "After the Crisis: Industrial Policy and the Developmental State in Low-Income Countries," *Global Policy* 1, no. 2 (May 2010): 1–12.

29. This proposal is from Ngaire Woods. For a short summary of the governance reforms proposed by the Zedillo Commission, see *Bretton Woods Update* 68.

30. Robert Wade, "Financial Regime Change?" *New Left Review* 53 (September/October 2008): 5–21.

This content downloaded from
149.10.125.20 on Fri, 28 Jan 2022 18:24:29 UTC
All use subject to https://about.jstor.org/terms