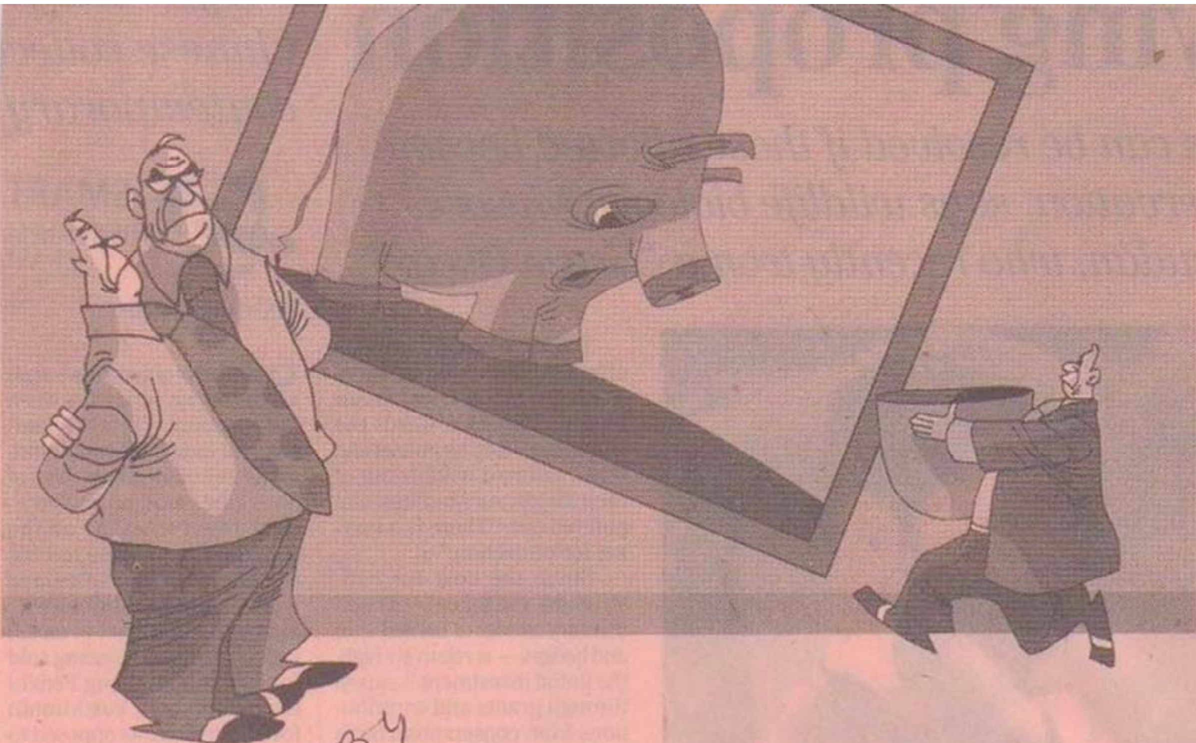

Illustration by BINAY SINHA

WBS 4

Reforming the World Bank — Not so easy!

What is required is a radical reworking of business processes and incentives to which staff respond, says JOHN BRISCOE

India, China, Brazil, South Africa and other middle-income countries (MICs) are appropriately using the financial crisis to push for reform of the governance of the Bretton Woods institutions and, in particular, for changing the voting shares of countries on the Boards of the IMF and World Bank. The logic of such reform — Belgium and the Netherlands having the same weight as China — is indisputable. But, in the case of the World Bank, such changes alone will not fix much.

To understand why this is the case, it is necessary to understand both what has happened and why. In terms of "what", a vast gap has opened between the practices of countries that have successfully grown and reduced poverty (the MICs) and the priorities of the World Bank (and the aid community more broadly). The MICs have focused heavily on getting basics — such as infrastructure and agriculture — right, in setting priorities and in sticking to these priorities. The Bank (and other donors), on the other hand, has given little attention to basics, has increasingly put the social cart before the economic horse, and constantly invented new "flavours of the month". Consider two examples — infrastructure and agriculture. All now-rich countries invested heavily in infrastructure during their high-growth periods. Starting in the 1980s "green and red" NGOs, supported by aid officials from rich countries, relentlessly attacked the Bank's work on infrastructure and modern agriculture. The results were bizarre. For example, Bank lending for cheap, renewable hydropower fell by 90 per cent over the course of the 1990s, and Bank lending for agriculture fell by 75 per cent over the past 25 years. The MICs found this ridiculous and continued to invest in infrastructure and agriculture (and consequently grew and reduced poverty). The poor, aid-dependent countries suffered enormously.

To understand the "why", it is important to note that although 75 per cent of Bank disbursements are in the form of hard (IBRD) loans, about half of its budget comes from rich-country donors (partially in the form of "trust funds" but mostly for the Bank's administration of IDA, its soft-loan window). Discussions at the IBRD Board (where MICs will now have a greater voice) are not nearly as important as the behind-doors, permanent IDA negotiations. For example, consider the emotive issue of dams. Rich countries have developed 80 per cent of their hydro-capacity; Africa has developed 3 per cent. The US has 6,000 cubic meters of storage capacity per person; India has 150 and Ethiopia 40. MICs find this gap immoral and took this position at the Board. The US government representative on the Board (during the Clinton administration) did not speak up in the Board discussion, but immediately thereafter phoned the responsible VP to say "if this is the position of the Bank, rest assured it will be difficult to get more IDA".

What this means is that changes in the voting shares on the Board of the Bank will have little influence. What is required is a fundamental re-engineering of the business processes and incentives to which staff respond.

Requirement No. 1 is a major overhaul of the suffocating plethora of rules ("safeguards") which have been put into place over the last 20 years. These distort priorities, make any controversial project cannon-fodder for single-issue protest groups, and impose enormous time and transactions costs on poor borrowers who have no financing choices.

Requirement No. 2 is to reform the draconian and conflict-of-interest-ridden independent "Inspection Panel" which enforces these rules.

Requirement No. 3 is to dismantle the groups of staff who live off the transactions costs imposed by each of these rules.

Requirement No. 4 is to put a firewall between rules which govern IDA (where donors can impose what they wish) and IBRD (where the Bank's borrowers sit). More broadly the MICs should use their new-found clout to force the World Bank culture to change from one in which managers and staff are pre-occupied with sins of commission (which are punished severely) and where sins of omission are ignored.

The author, Gordon McKay Professor of Environmental Engineering at Harvard University, was with the World Bank where his last assignments were as Senior Water Advisor in Delhi and Country Director for Brazil in Brasilia.