The Global Economic Crisis and the Need for World Bank Reform

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The world has come to a line in the sand. Over one and a half billion people live in abject poverty today. Millions die each year of malnutrition or from treatable disease. This condition has existed for decades and yet help from the rich nations of the world has been inadequate, inefficient and achingly slow.

In the post-9/11 period (from 2001 to 2008), the world's largest donors said they would increase development assistance. In 2002, in Monterrey, Mexico, the richest countries pledged to raise aid levels to 0.7% of their gross national income. In 2005, in Gleneagles, Scotland, they again promised to send $150 billion in aid to Africa. However, at the end of 2008, the New York Times reported donor aid had declined 13% from 2005 to 2007. Commitments made in Monterrey had not been met. In fact, promises by most of the Monterrey participants were not even near 0.7%. And, the most egregious defaulter was the U.S. at 0.16%. Today, there is widespread agreement among most experts that Millennium Development Goals (poverty reduction and development targets the United Nations established in 2002 to be achieved by 2015) will not be met in key impoverished global regions.

The World Bank, as the key global development institution dedicated to reducing poverty, failed to convince donors during this period to meet their aid commitments. In my recently released book, The World Bank Unveiled: Inside the Revolutionary Struggle for Transparency, I note three reasons why this happened. First, significant analysis from a number of external experts suggests the Bank's lending had not been fully effective. Weak portfolio performance undermined appeals by the Bank to rich countries for more aid. Second, borrower countries found the Bank's lending "conditions" stringent, draconian and often creating unnecessary hardships on their populations. As a result, borrowers increasingly shied away from the Bank and sought private capital financing for their development needs. In turn, the Bank's portfolio's changed toward financing more projects in emerging markets rather than the countries with the greatest development needs. Finally, shareholders – donor and borrower countries – and stakeholders such as NGOs, community-based organizations and private citizens view the Bank as a monolithic society with a culture of secrecy, an aversion to transparency and a lack of accountability. As a result, shareholders and stakeholders hesitate to trust the Bank, the moral standing of the institution is weakened and its ability to advocate for policies it supports is undermined. The World Bank Unveiled links the Bank's lack of transparency with underperformance in the institution's lending portfolio and weak borrower confidence.

The global economic downturn that emerged in 2008 changed the development paradigm and has resulted in two important changes. First, a number of international agencies including the Bank itself estimate that the economic contraction is pushing as many as 100 million people back into abject poverty. Second, donor countries are revisiting their foreign assistance policies and without viable alternatives the G-20 in April, 2009 pledged to fund the Bank with hundreds of billions of dollars to help poor countries through the crisis. After years as an ineffective advocate on behalf of the poor, the Bank today is wealthier and more powerful than ever. The question moving forward is whether it will become any more effective.

The pressures on the Bank are enormous, both on a humanitarian level and from a political point of view. An ineffective Bank would be intolerable for the poor and found intolerable by donors, borrowers and civil society actors. Significant pressure from external sources in recent years has compelled the Bank to acknowledge a need to examine weaknesses in its internal governance. As the crisis broke in the fall of 2008, the Bank announced it would convene a commission to examine internal governance reforms. In October 2009, the commission led by former Mexican President Ernesto Zedillo offered recommendations.

Reform minded agents, included the Zedillo Commission, have focused primarily (but not exclusively) on the need for four basic changes at the Bank. These include: Changing the composition and size of the Board of Directors as well as increasing its expertise on the Bank's operational affairs; increasing public access to Board meetings and documents; giving emerging and developing country members a greater voice and vote power in operational decisions; and changing the process for selecting future Bank presidents so it is more open and merit-based. Will these reforms help? Certainly they will. They are all valuable because they make important adjustments in the top-level decision-making structure. They will also make the Bank's decisions more transparent and representative of its membership.

But will such reforms, if enacted, be enough? Based on my experiences of a more than a decade working at the Bank, I suspect not. The reforms noted above target the upper echelon of the institution's political framework. Policy decisions may be orchestrated from above, but they are implemented by the mid-level managerial corps. The relationship between these two groups is of paramount importance.

To best understand the Bank, one must grapple with its structural inefficiencies. There are a number of them, but the key one is that institution has three rigidly distinct and hierarchical layers: Senior management; mid-level management; and staff. Senior management sculpts visionary decisions and reforms to internalize, address and reduce geo-political pressures brought upon it by the Bank's member countries, external watchdogs, the media and the ever-evolving business and financial environment. As these external pressures have grown, the information revolution and heightened interconnectivity of the global economy have reduced the amount of time senior officials have to react. Historically, this has led management to engage in regular reorganizations.

To implement reforms, senior officials must rely on the institution's mid-level management. Concurrently, mid-level management is in reality a series of fiefdoms. Top-level officials don't have the time or expertise to delve into the administration of individual fiefs, so the way units are managed can be quite different from the prevailing mantra from above. This is because the Bank is governed by an internal culture that, hardened by more than six decades of existence, rewards managers for subservience, conservatism and adherence to the status quo. Maintaining the status quo is the principle strategy for advancement and accruing power. And, accruing power at the Bank can mean managing hundreds of personnel, holding the purse strings to billions of dollars and orchestrating decisions made by developing country governments and even global regions.

If loyalty is a central barometer for advancement, why wouldn't mid-level managers implement exactly those directives that senior officials request? The answer can be found in the fact that Bank reorganizations have been continual for almost a quarter century. Senior management routinely genuflects to the greater external pressures brought upon the institution by implementing new strategies to tack with the wind. Mid-level managers caught moving too far down the road in one direction can become suddenly vulnerable when the wind shifts. The safest strategy is to adhere to a time-honored tradition that moves little in any direction.

Therefore, to enact true change at the Bank, reforms must address an internal culture that propagates the wrong incentives. I would seek the following reforms:

The Bank has several key internal accountability mechanisms that have been enacted during its history to address different sorts of concerns or inequities. These include the Independent Evaluation Department (IED), the Inspection Panel and the Conflict Resolution System (CRS). In all these cases, the Bank's senior management retains ultimate control over the process or of whether recommendations arising from each mechanism will be implemented. This creates an inherent conflict of interest. The Bank cannot be judge and jury over instruments designed to measure whether the institution adheres to its own rules, regulations or code of ethics. Not surprisingly, calls to move these accountability mechanisms outside the Bank have been fiercely resisted by management. Losing control over these processes to independent evaluators leaves the Bank vulnerable when inequities arise. Keeping control allows management to muffle problems before they become public.

Let's examine two. A key variable for measuring success is best known inside the institution as the "approval" culture. Managerial success is measured by the volume of outputs: The amount of projects approved and lending disbursed. Personnel who are successful in getting projects accepted by the board climb through the hierarchy. This often translates into safe projects, but significant research (both externally and internally) suggests it does not translate into insightful or successful lending. In fact, a number of analyses suggest the failure rate of Bank projects is significant. The Bank has defended itself from such criticism by stating that its project success rates are strong and improving. The Independent Evaluation Department (IED) is the branch of the institution that evaluates lending success. To be sure, IED has offered critical analysis of the Bank's lending effectiveness in recent years. But its recommendations are not always implemented by management and its personnel are part of the institution. IED staff seeking to move to other units in the Bank can often experience a kind of unofficial excommunication, so the pressure to reduce or blunt criticism is omnipresent. This pressure would disappear if the project evaluations were conducted by an independent unit outside the Bank. Moreover, if evaluations conducted emphasized analysis of how projects fared five and ten years after implementation rather than shortly after disbursement of funds, the approval culture that dominates the Bank would begin to dissipate.

The CRS system was designed to provide staff with opportunities to address grievances with supervisors. As noted, management has jurisdiction over CRS decisions. Moreover, when staff has managed to win a decision historically this has translated into modest monetary penalties and abusive managers have rarely been penalized. As a result, abuses of authority and personnel continue because whistleblowers and staff have little confidence in the objectivity and legitimacy of the system. Putting CRS-related decisions in the hands of independent arbitrators with the authority to impose binding and sufficient penalties would weaken the institution's culture of fiefdoms, increase managerial accountability and give staff tangible protections from managerial abuses.

A third important reform would be to revise the managerial selection process. The Bank recruits and promotes technocrats and academics who have excelled in their fields. The institution reputedly has more PhDs and individuals with credentials of academic excellence than any other organization in the world. But does this translate into excellent results? Internal and external Bank surveys have found its managerial cadre well educated but overly technical, excessively arrogant and highly bureaucratic. The institution needs a more holistic approach to finding managers or promoting from within that places greater emphasis on leadership and entrepreneurial skills. This would revitalize the institution's personnel that staff surveys over the last two decades have indicated work in fear and are mired in complacency.

A fourth reform, albeit an unorthodox one, would be to create a seat on the board for a civil society representative. This would increase civil society's inclusion and participation in the Bank's policy making as well as reduce and de-politicize NGO criticisms of the institution. Alternatively, it would also increase civil society's accountability for Bank decisions. It should be acknowledged that the establishment of such a seat would create its own political hurdles: Such a person would need to represent civil society interests of both the North and the South.

A fifth reform would be to reconfigure the World Bank Institute (WBI), the pedagogical arm of the institution, from one that imposes institutional viewpoints on development theory and practice upon developing country government officials to an open-learning model that not only tolerates but fosters contradictory views. Former Bank economist Daniel Ellerman's research notes development agencies such as the Bank have traditionally served as library storehouses dispensing knowledge nuggets. Instead, he suggests the Bank should serve as a knowledge broker offering a variety of experiences and allowing recipients to decide which nuggets of knowledge fit. Ellerman believes that in the current information revolution the library storehouse model, the one on which WBI is based, will lose influence over time. So do I.

A final reform would be to re-establish a transparent Internet-based broadcasting medium to which development practitioners inside and outside the Bank have easy and affordable access. I built such a platform in the early 2000s called B-SPAN, but it was largely disassembled by key bureaucrats opposed to transparency and wedded to maintaining a monolithic culture. Such a medium would provide a platform for discussion and debate on development ideas, theories and practices. The Bank would benefit because it would have a venue attracting global attention (and business) and allow it to market itself as the place to come to for information and expertise. The rest of the world would benefit by having unprecedented access to development knowledge from an institution that had once been secretive and insular.

The reforms I have suggested are not being discussed by those "officially" involved in the reform process. Nevertheless, I am convinced they are ones that will have a dramatic impact on improving the Bank's efficiency and effectiveness in reducing global poverty. Decisions about what reforms the Bank will accept and enact are expected at its annual spring meetings in April 2010. The world, and particularly the developing world, will be watching.

David Shaman worked at the World Bank for 12 years where he co-created and managed B-SPAN, the World Bank's webcasting station for development. He is the author of "The World Bank Unveiled: Inside the Revolutionary Struggle for Transparency", where he documents the experiences described above.

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