THE HARDEST JOB IN THE WORLD

FIVE CRUCIAL TASKS FOR THE NEW PRESIDENT OF THE WORLD BANK

AN AGENDA FOR THE NEXT WORLD BANK PRESIDENT
PREPARED BY A CENTER FOR GLOBAL DEVELOPMENT WORKING GROUP

NANCY BIRDSALL AND DEVESH KAPUR
CO-CHAIRS

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The final report of the Working Group represents a strong and meaningful policy consensus, though all Working Group members do not necessarily agree with the details of every recommendation. Working Group members participated as individuals, not representing any organizations with which they are affiliated.

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Preface

The Center for Global Development has a special interest in the World Bank. Compared with the Bank, we are a small institution. But our mission is virtually the same—to reduce poverty and inequality, to maximize the benefits of globalization for developing countries and their poor, and to improve people's lives. That is no accident. I am myself a former World Bank staff member who looks back with pride and satisfaction on the opportunity the Bank gave me to contribute (modestly, for sure) to that grand mission, and almost all of my colleagues here have similar experience and missionary zeal about the great development project. With the advantage of complete independence, we do research and engage actively on how the rich world and the global institutions—including the World Bank—can better affect the poor world. At our launch in November 2001, we were honored by the presence of James Wolfensohn, then in his sixth year as World Bank president, who framed it very well indeed, saying, in all good humor, that he hoped we'd be tough on him and on the Bank.

It was natural then, when we learned in February of James Wolfensohn's departure from the Bank, to begin thinking about the risks and the opportunities his successor would face. I asked a small group of distinguished colleagues—from the private sector, academia, civil society, and the governments of rich and developing countries—to join a working group to discuss and make recommendations addressed to the new president. I was fortunate to persuade Devesh Kapur, a non-resident fellow of the center (now at Harvard) and the co-author of the authoritative book on the World Bank's history, that he should join me in chairing the group. Without his help, his insight, and his patience, this report would not be what it is.

Members of the working group met three times. First in February 2005, shortly after the candidacy of Paul Wolfowitz was announced. Second in March and finally in late April. This report would not have been possible without their willingness to contribute their time, their energy, and most important their good wisdom and good judgment to our deliberations. Along with Devesh, I thank them enormously for their interest and dedication, their insights, their issue notes, and their continuous stream of thoughtful comments on working drafts. Many others who could not participate in the group also provided input and comments. We especially thank Masood Ahmed, Jessica Einhorn, Ravi Kanbur, Maureen Lewis, Johannes Linn, Peter McPherson, and John Sewell.

Our thanks go also to three others. Kemal Dervis, a non-resident fellow of the center, was named the administrator of the United Nations Development Programme in the middle of our deliberations. He played a key role in shaping our deliberations from the inception of the group, especially on issues of the Bank's role in global economic governance. John Hicklin, a visiting fellow at the center on leave from the International Monetary Fund,

participated in the group's discussions and consultations in his personal capacity and provided thoughtful comments on a range of issues. The perspective offered by David Peretz, formerly a senior U.K. Treasury official and executive director of the Bank and the Fund, was also invaluable.

Finally, my own thanks go above all to my companion-in-arms and special assistant Milan Vaishnav. He is at the beginning of what will surely be a long and successful career. He brought his own good questions, political insights, and instinctively good judgment to our project, as well as critical attention to detail and timeliness. He was, above all, patient with my bad habit of last minute changes at late hours. Without colleagues at the center, especially Lawrence MacDonald and his superb team, and Gunilla Pettersson, Milan and I could not have crossed the finish line.

Readers of our report will see that Working Group members started from a shared assumption: that the world needs a strong World Bank. A central challenge of the twenty-first century is securing sustainable growth and poverty reduction in the developing world, where five of every six people live today (and eight of every nine will live in less than 50 years). The Bank is perhaps the world's single best-placed institution to address that challenge. To do so effectively, the Bank needs to change however, adapting quickly its mid-twentieth century policies and habits to the greatly changed global environment.

Our Working Group focused not on internal management issues but on the structural changes—in mandate, instruments, pricing, and its own governance—that are critical to a revitalized Bank. We look to Mr. Wolfowitz to take bold leadership in pushing for those changes through cajoling and consensus-building with the Bank's member governments. We look to the Bank's many constituents, including civil society groups concerned with social justice around the world, to support him in pushing for those changes. The challenge now belongs to him in exploiting the potential of what we call, with good reason, the hardest job in the world. We hope this report helps guide him in that challenge.

Nancy Birdsall
President, Center for Global Development
June 1, 2005

Executive Summary

THIS REPORT SETS OUT FIVE CRUCIAL TASKS FOR THE WORLD BANK PRESIDENT TO tackle over the next five years. They are tasks for which the president—through a combination of charm, cajoling, and horse-trading—must corral the Bank's recalcitrant collective of member governments, including its single largest shareholder, the United States, to take action – action critical to securing the Bank's credibility, legitimacy and effectiveness for the twenty-first century.

The five tasks are informed by a set of guiding principles on which members of the Working Group agreed (see box).

Guiding Principles for the New President

- *The Bank's mission and in-country priorities.* The Bank's agreed mission (reducing poverty through equitable growth) provides no real guidance on country-specific priorities. It is time to end the confusion between what is good for development in general and what the Bank itself should do in a particular setting. In today's complex donor system, the Bank need not do everything everywhere. It should take leadership on the idea of partnership with a country's own and with other international efforts.
- *Equitable growth and political savvy.* Rich-country support for the Bank demands that the Bank's engagement and financing in borrowing countries leverage policies be pro-poor and supportive in general of a more secure and sustainable global system. But such "leverage" cannot rely on the detailed conditionality of a "nanny Bank." It must rely on Bank staff's being politically savvy—sensitive to a country's political constraints and to the opportunities of responsible leaders to push reforms. That implies a premium on systematic analysis of local politics and institutions—and on increasing Bank-wide research and analysis of country governance.
- *The Bank as development's brain trust.* The Bank's singular comparative advantage is its staff's broad-ranging knowledge and experience on the full range of technical, sectoral and economic issues of development. The resulting brain trust cannot be unbundled from the Bank's financing role, however. It is lending that triggers and supports policy dialogue and advice to countries, and it is the income from lending that helps finance the brain trust.
- *The Bank's governance: toward greater legitimacy and effectiveness.* The Bank's legitimacy and effectiveness going forward require that its borrowers be better represented in its governance. It should undergo a transformation from a development agency to something closer in spirit to that of a global "club" in which today's developing-country beneficiaries, not only its rich-country benefactors, have a keen sense of ownership and financial responsibility.

The five priority tasks are:

- Revitalize the World Bank's role in China, India, and the middle-income countries.
- Bring new discipline and greater differentiation to low-income country operations.
- Take leadership on ensuring truly independent evaluation of the impact of Bank and other aid-supported programs.
- Obtain an explicit mandate, an adequate grant instrument, and a special governance arrangement for the Bank's work on global public goods.
- Push the Bank's member governments to make the Bank's governance more representative and thus more legitimate.

Revitalize the World Bank's Role in China, India, and the Middle-Income Countries

Borrowing from this group of countries has declined dramatically, because of the high "hassle" costs of dealing with the Bank and because of their increasing (though at times uncertain and costly) access to private capital markets. Their reduced borrowing puts at risk the Bank's maintenance of its global expertise, its ability to leverage equitable and sustainable policies, and its net income over the long run. To remain relevant for these countries, whose participation in the global club matters for global progress, the Bank must transform the way it does business. The new president should:

- Ask the shareholders to review the charter to determine if the provision that International Bank for Reconstruction and Development loans be guaranteed by a sovereign borrower has stifled the Bank Group's ability to catalyze private investment, lend to municipal and other nonsovereign entities, support deepening of local capital markets, and in general respond more effectively to the changing demands of its key borrowers, especially for its more active and strategic involvement in catalyzing local and foreign investment.
- Find ways to sharply expand the range of financial products and instruments now available to borrowers, such as products and instruments to hedge against commodity and other risks, better use of the guarantee function, and, by the Bank itself borrowing in local currency or in a mix of emerging market currencies, making it possible for countries to borrow from the Bank in their own currency.
- Create a new loan product that would visibly reduce hassle costs for creditworthy countries with reasonably good performance in economic management and an adequate record of enforcing environmental and other safeguards.
- Introduce differential pricing among International Bank for Reconstruction and Development borrowers, tied strictly to per capita income (not to credit rating), to encourage less borrowing for the right reason—ushering in de facto "graduation" without any arbitrary rule-based loss of access.

- Explore other pricing or product innovations that would create incentives for borrowers to make their own public revenue collection and expenditures more progressive (without sacrificing growth).

Bring New Discipline and Greater Differentiation to Low-Income Country Operations

Support for an expanded Bank role in low-income countries is broad-based. At the same time there are widespread doubts about its past effectiveness in these countries, many of which have weak governments and limited absorptive capacity, and failing to grow much in the past, acquired unsustainable debt burdens. The new president should:

- Signal support for a much more differentiated approach depending on each country's governance, in terms of the size and types of transfers, with longer-term commitment periods for the best-performing countries and much more flexibility in reducing transfers ("exit") when progress stalls, while maintaining robust administrative spending to sustain policy dialogue and engagement and technical assistance in all countries independent of the size of transfer programs.
- Urge the shareholders to formalize a third, fully grant-based window for countries with very low per capita incomes, for example, below \$500; most of these are countries whose poor record of growth implies little capacity to take on debt.
- Work with the International Monetary Fund on an agreed role of the Bank in signaling the adequacy of a country's "development" approach and on a facility to protect selected International Development Association countries against external shocks.

Take Leadership on Ensuring Truly Independent Evaluation of the Impact of Bank and Other Aid-Supported Programs

Although the Bank has improved its level of transparency through its research and the increasingly frank and systematic work of its internal evaluation department, neither fills the need for credible, truly independent assessment of the impact of development investments. Echoing calls from the Meltzer Commission, the Overseas Development Council Task Force on the Future of the IMF, and the Gurría-Volcker Commission for independent evaluation across donors, the Working Group recommends that the president:

- Take leadership in working with the board to support the creation of an independent evaluation entity financed and governed by a consortium of public and private donors and recipient country, to complement current internal audit and evaluation activities.

Obtain an Explicit Mandate, an Adequate Grant Instrument, and a Special Governance Structure for the Bank's Work on Global Public Goods

Over the years, the Bank has been drawn into the financing and provision of a multitude of global programs ranging from the environment to public

health. The result is a situation in which the Bank has a set of ad hoc global programs without a clear mandate from its shareholders and without the grant instrument needed for its more effective engagement in provision and financing of high-priority global public goods. The Working Group recommends that the president:

- Call on the shareholders to develop a clear mandate for the Bank's role in the financing and provision of global public goods.
- Initiate and maintain an ongoing dialogue with the regional development banks, the United Nations, and other relevant agencies to develop the proper division of labor for respective work on global and regional public goods.
- Call on shareholders to create a Global Public Goods Trust Fund to finance the Bank's work on global public goods, based on agreed annual transfers from the Bank's net income and on contributions from nonborrowers. Propose a governance structure for the trust fund ensuring at least 40 percent representation of middle-income and emerging market economies (whose borrowing contributes to net income) and 10–20 percent representation of International Development Association countries.

Push the Bank's Member Governments to Make the Bank's Governance More Representative and Thus More Legitimate

The Bank's own governance fails to adequately represent the contribution and the interests of its borrowing members. The lack of adequate representation is undermining its legitimacy and puts its effectiveness at risk. Yet there is no issue that has been as impervious to change. The president should:

- Request that the governors of the Bank discuss and formalize a mechanism for choosing the Bank's next president that is credible, rule-based, and transparent.
- Support establishing two additional seats on the board for African countries, pending a larger consolidation to fewer restricted board seats.
- Ask the Bank governors to call for an independent and public assessment of voting shares and board representation, including assessment of the merits of double-majority votes on selected issues and taking into account discussion in the current quota review at the International Monetary Fund of its quota allocation.
- Ask the governors to commission a time-bound independent review of board functions and responsibilities, with an eye toward increasing its overall effectiveness in holding Bank management accountable.

The Hardest Job in the World

Paul Wolfowitz assumes the presidency of the World Bank at a key moment for the Bank and for the development community. The Bank, as the world's premier institution for development, is to play a big part in the success of a revitalized global consensus—formalized in 2000 by more than 150 heads of state at the United Nations—to halve global poverty and to reach many other Millennium Development Goals by 2015. Why? Because of its financial strength and because of the breadth and depth of its staff's expertise on a wide range of development issues.

Conflicting demands from multiple quarters make it impossible to keep all constituencies happy

But the Bank faces some real challenges in adapting its internal governance structure and instruments—put in place 60 years ago—to dramatic changes in the global economy and in the relative power and needs of its shareholders. The rise of China, the creation of a European Union, the dramatic increase in private capital flows to developing countries, the new risks of AIDS and global terrorism—all are telling examples.

As a public institution, the Bank relies on the financial and political support of its government members—and, in the new global environment, of many other constituencies and "stakeholders." Yet conflicting demands from multiple quarters make it impossible to keep all constituencies happy.[1] It is thus an easy target. Those on the left accuse it of protecting privileged insider financial and corporate interests—and perpetuating the influence of the United States and other G-7 members rather than the world's poor people and their civil society supporters. Those on the right accuse it of misusing public resources in emerging markets where private markets could operate better—and creating aid dependency in the poorest countries where its loans have contributed to unsustainable debt.[2]

The poorest countries, especially in Sub-Saharan Africa, have called on the Bank to dramatically increase its operations to help them meet the Millennium Development Goals. Yet inside as well as outside its walls, there are serious concerns about its effectiveness in the many poor countries whose state systems are still weak or, worse, corrupt. Meanwhile Bank operations are declining in China, India, and the big middle-income economies, as they borrow less and less. But the Bank's mainstream lending to these countries is what sustains its in-house expertise and helps finance its administrative budget, some of its poor country programs, and many of its nonlending activities.

Ironically, because of its financial resources and its in-house management and expertise, the Bank's members expect it to respond to multiple demands to do everything, from assessing post-conflict reconstruction needs in Kosovo and Iraq to developing a pilot program for trading carbon emission rights across borders, to coordinating closely with other donors and the United Nations on the Millennium Development Goals. Simultaneously, its management is accused of "mission creep."[3]

No surprise, then, that the Bank is under pressure. Its legitimacy, its credibility, its effectiveness, and its fundamental mission are all in question—as is its future stream of support and income. In his decade as president, James Wolfensohn managed several of those pressures quite deftly. But without agreement of the Bank's member governments to fundamental changes in its governance and the instruments at its disposal, he could not address them all.

The Bank's new leader needs to be ambitious. He faces an unusual risk—for all the Bank's strengths, merely continuing with business-as-usual risks undermining its future. He also faces an unusual opportunity—to provide global leadership in advancing the global development project. In the Bank's self-effacing bureaucratic parlance, global leadership is called "working with the shareholders"—the Bank's "shareholders" are the nations of the world.

The biggest challenge for the Bank's new president will not be managing the Bank but providing global leadership in the fight against poverty

This report defines a forward-looking agenda for the new World Bank president to tackle over the next five years. Its recommendations focus on five crucial tasks. They are tasks for which the president—through a combination of charm, cajoling, and horse-trading—must corral the Bank's recalcitrant collective of member governments, including its single largest shareholder, the United States, to take action—action to strengthen and secure the Bank's credibility, legitimacy and effectiveness for the twenty-first century.

Guiding Principles

The five recommendations in this report are informed by the following guiding principles.

The Bank's mission and in-country priorities

The Bank's mission is to reduce poverty in developing countries. The most effective path to poverty reduction is economic growth that is equitable enough to reach poor people. Growth should also be sustainable (in the environmental sense), and, to be sustained over time, driven by private sector investment. On these points there is no real disagreement.

But a statement of the Bank's mission does not alone provide guidance on its own operational priorities (where "operations" refer not only to loans and grants, but also to "dialogue" and advisory services). In today's complex donor system, the Bank need not and should not do everything everywhere. But without a clear mandate to set country priorities, history and habit suggest that Bank staff will continue doing just that—limited only by borrowers' willingness and ability to borrow.[4] Although the Bank naturally provides advice and loans in a wide variety of areas across countries, it needs to be clear on its own priorities within individual countries—often in the complicated context of other donor programs. That means ending the confusion between what is good for development in general (such as girls' education) and what is good for equitable and sustainable growth in a particular country at a particular time (where and when it might be rural roads that have the highest marginal benefit—even for encouraging girls' education). And it means setting priorities for what the Bank itself should do in each country; even when the Bank is the single agency with the broadest overall knowledge of a country's development needs (which is often but not always the case), it need not be the largest financier of development investments.

Compounding the lack of clear operational priorities in countries is a new round of uncertainty about the ingredients of growth that can reduce poverty. Under pressure from critics, Bank staff in the 1990s interpreted the "poverty" mission as a mandate to lend directly for poverty reduction. Combined with the pressures of safeguards against environmental abuse in infrastructure projects and the growing concerns about corruption in the procurement process for large projects, the poverty emphasis led to a shift of lending toward the social sectors. In the last year or so, in marked contrast, there is renewed talk of infrastructure as a priority, as a quicker path to "growth" (and through growth to poverty reduction) than social spending, and as less vulnerable to the bottlenecks that management and human resources limits put on rapid expansion of health and education systems.[5]

The development community has learned that no single recipe or set of priorities to achieve poverty-reducing growth can be applied across countries. On the one hand there is broad consensus on the prerequisites of sustained growth ranging from the importance of human capital, in particular health and education, of macroeconomic stability, and of institutions and governance. But chastened by heterodox China's spectacular growth, reformist Latin America's dangerous vulnerability to external volatility, and Sub-Saharan Africa's embarrassing accumulation of unsustainable debt, the development community and the Bank are less confident about how precisely to operationalize broad, widely agreed upon goals, in particular settings. Put another way, there is no longer anything that could be called a "Washington Consensus," nor across all Bank borrowers, any simple choice of encouraging more infrastructure versus more social investment.[6] There is, at best, a growing consensus that sound institutions—political and economic—matter and that institutions have to be invented locally, tailored to local political and social realities. That puts a premium on respect for and partnership with local efforts by Bank staff, and on the need for country-specific knowledge and expertise.[7]

The Bank should concentrate more on supporting healthy local economic and political institutions

Equitable growth and political savvy

The new emphasis on local institution building and local ownership raises an additional challenge for the Bank. Ownership and the loss of faith in any universal policy package imply that the Bank should become less of a "nanny" Bank, preoccupied with the detailed conditionality and structural reform demands that dominated lending in the late 1980s and much of the 1990s. It should instead concentrate more on supporting healthy local economic and political institutions. But local political ownership in developing countries (indeed in all countries) is not necessarily conducive to equitable or pro-poor growth. The Bank's engagement and financing in borrower countries is supposed to leverage policies that are equity-enhancing and public spending that is pro-poor. The result is tension between a nanny Bank exercising leverage and a politically naïve Bank overdoing country ownership.

The Bank's future effectiveness depends on managing that tension well. That implies much more attention to identifying and quantifying corruption

risks, interest group pressures, and other local political constraints (and opportunities). It means helping to lead multilateral efforts to combat bribery (such as the Extractive Industries Transparency Initiative). And it means setting operational priorities that take those risks into account.[8] It implies an approach that is both politically sensitive and politically savvy.

It also means increasing the resources for data collection, measurement, and analysis of corruption, transparency, the rule of law, the business environment, and so on across countries. All this is necessary for the Bank to be a global brain trust addressing the difficult politics (and economics) of growth that is pro-poor.

Strengthening the brain trust requires the Bank to retain its financing role

The Bank as development's brain trust

External resources are mainly fungible, and the Bank need not and should not be the primary source of development finance (either because other donors provide major resources in poor countries or because government revenue and private capital provide the bulk of resources in middle-income and fast-growing emerging markets). The implication is the need to distinguish clearly between the Bank's role in transferring financial resources and its particular comparative advantage: its singularly overarching overview of global opportunities, institutions, and constraints, and of borrowers' institutional and financial capacity. That overview is grounded in broad-ranging and deep staff knowledge and experience on technical, sectoral, and economic issues. No other institution has the same strength in the generation and diffusion of knowledge about the practice of development. (Indeed, as a "knowledge bank," creating and sharing across countries development experience and expertise, the World Bank itself constitutes a global public good—an institution that no one country today would have sufficient incentive to create or fund, yet from which all potentially benefit.)

The knowledge bank will be handicapped if not supplemented by two additional efforts. First, it must do more to create capacity for knowledge generation in borrowing countries. The Bank cannot be a substitute for independent policy thinking in borrowing countries—this tendency has fueled the perception of a parochial and arrogant institution. Second, it must make much greater efforts at disseminating knowledge—as a knowledge clearinghouse—for example, by such apparently basic steps as making its website more multilingual.[9]

The Working Group acknowledged that strengthening the brain trust requires the Bank to retain its financing role. The lending process often triggers and supports the policy dialogue and advice to countries, reinforcing the Bank's capacity as a brain trust. Advice not linked to finance too often ends up on ministry bookshelves. The income from lending also augments the resources to support the institution's advisory function.

The Bank's governance: toward greater legitimacy and effectiveness

The Working Group's recommendations look toward a transformation of the Bank from a development agency—in which some members are financial contributors and others are beneficiaries—to something closer in spirit

to that of a global "club." In a global club today's developing country beneficiaries, not only its rich country benefactors, would have a keen sense of ownership and financial responsibility. Such a transformation would recognize that the Bank cannot be effective and relevant in addressing major global economic problems if countries such as Brazil, China, India, South Africa and Turkey are not full members with corresponding rights and responsibilities.

The Working Group also noted that improving the Bank's governance was only part of the larger challenge of building a more legitimate and effective overall system of global governance, encompassing the Bretton Woods institutions, the regional banks, the World Trade Organization, and the United Nations. Improved World Bank governance should thus be seen as part of broader and deeper reforms of the existing international architecture. The World Bank and the International Monetary Fund (IMF), in particular, must work to build a more constructive and effective partnership, not only with each other but also with the United Nations.

A transformation of the Bank from a development agency to something closer in spirit to that of a global "club"

Five Crucial Tasks

Drawing on these guiding principles, the Working Group identified five crucial tasks for the new president. These tasks are not meant to be comprehensive. They are tasks where the president's leadership is needed to guide and shape decisions by the Bank's member governments and where the absence of leadership risks undermining the Bank's contributions going forward. The five crucial tasks are:

- Revitalize the Bank's role in China, India, and middle-income countries.
- Bring new discipline and greater differentiation to low-income country operations.
- Take leadership on ensuring truly independent evaluation of the impact of Bank and other aid-supported programs.
- Obtain an explicit mandate, an adequate grant instrument, and a special governance arrangement for the Bank's work on global public goods.
- Push the Bank's member governments to make the Bank's governance more representative and thus more legitimate.

Revitalize the World Bank's Role in China, India, and the Middle-Income Countries

The Bank's role in middle-income countries and in such low-income but fast-growing emerging markets as China and India can no longer be taken for granted. The majority report of the International Financial Institution Advisory Commission (mandated by the U.S. Congress in 2000 and commonly referred to as the "Meltzer Commission" for its chairman, Allan Meltzer) recommended that the Bank stop lending to emerging market economies and middle-income countries with ready access to private capital markets.[10]

Many of the Bank's fast-growing and middle-income borrowers seem to share this view. The long-term trend of their borrowing from the Bank is clearly down, especially from the exceptionally large outflows of the Bank

in the late 1990s during the financial crises that hit East Asia, then Russia, and then Brazil and Argentina. Bank staff and country officials generally take the view that the decline reflects reduced demand from borrowers, not reduced willingness to lend.[11]

Why lend to countries with access to private capital?

The Working Group concluded, in contrast, that the World Bank should continue to be active in middle-income countries and in such emerging markets as China and India.[12] There are at least three reasons: many of these countries' limited access to private capital markets, the legitimate interest of the Bank's rich members in encouraging pro-poor, equitable growth policies in middle-income and emerging market economies, and the logic and evident success of past "bundling" of policy advice with loans.

The World Bank should continue to be active in middle-income countries and in such emerging markets as China and India

Easing limited access. Even for the large countries that are deemed attractive to investors, private capital markets (internal and external) are still volatile and pro-cyclical. For the poorer middle-income countries (such as Guatemala, Kazakhstan, and Paraguay) as well as those where internal conflicts persist (the Philippines and Sri Lanka) and domestic debt is high (Brazil and Turkey), access to external capital is still largely limited to shorter-maturity loans. For these and other richer economies in this category access to internal capital is often costly due to relatively weak and shallow banking systems, small, illiquid local capital markets, and the risk that too much sovereign borrowing in thin domestic market will make banking systems more vulnerable.[13] In almost all of the Bank's middle-income borrowers, only time and performance—much more than a decade of steady, sound economic policies—and the visible resilience of economic and political institutions will induce domestic and foreign creditors and investors to accept lower returns for their capital in return for lower country risk.

Experience shows, moreover, that the cost and availability of funds in international markets can change abruptly, sometimes for reasons beyond the control of any country. In the process, economic growth, development strategies, and antipoverty programs may suffer setbacks. When global turmoil partially or completely closes market access, multilateral lending can assist in sustaining adequate public spending on education and health, in strengthening regulatory and supervisory capacity, and in developing social safety nets—as in Mexico in 1995 and the Republic of Korea in 1998. Since crises tend to hurt the poor the most through lost employment and income and interrupted education for children, assisting countries in coping with crises helps alleviate poverty and promote development. When the Bank maintains and even increases lending during periods of stress, it signals support for responsible development policies, and with relatively modest amounts helps rebuild market confidence.

In the meantime, longer-term and cheaper loans from the World Bank can encourage public investments with high social and economic returns that do not yield commercial returns to private agents (such as investments in education, health, rural infrastructure, bank regulation, and judicial reform)

and that otherwise might not find a place in national budgets. These are investments that, by supporting equitable growth in open market systems, create an environment that crowds in productive private investment.[14]

Promoting equitable growth. Even putting aside volatile, crisis-prone access to capital, advanced economies have an interest in reducing poverty in developing countries and in investing in human resources. The Working Group noted that more than two-thirds of the world's poor lives in middle-income and emerging market countries. China and India alone account for 45 percent of the total. Pro-poor and human development instruments yield high returns but only in the medium term, and countries with weak tax systems cannot easily translate the economic returns for a road into the tax revenue to repay short-term loans.[15] The social and economic decisions of middle-income countries affect the health and well-being of their own peoples, undermining or advancing such global goals as poverty reduction.

Moreover, the United States and other nonborrowing members have a substantial security stake in the institutional resilience of middle-income and emerging market economies. Their financial stability contributes to global financial stability. And their decisions—on commodity and energy use, international capital market borrowings, reducing corruption, and so on—affect the once-insulated residents of rich countries. For that reason nonborrowing members also have a legitimate interest in encouraging middle-income and emerging market economies to invest in programs that generate global and country-specific benefits.

Lending operations are a vehicle for supporting and rewarding policy reforms and development results . . .

Bundling policy advice with loans. Lending operations are a vehicle for supporting and rewarding policy reforms and development results. And there are good reasons to doubt that unbundling the financing from the "dialogue" about policy and results would always be effective (though it may make sense for some countries). The Bank does and should continue to charge for advisory services, proving the worth of its stock of expertise. However, political and social constraints in emerging markets, as well as technical complications, make it difficult to design and implement many reforms—for example of health, banking systems, bankruptcy law, and pension and unemployment programs. Officials from such countries as Brazil, Hungary, the Republic of Korea, Mexico, Thailand, and Turkey repeatedly cite the services bundled with Bank financing as a key reason for seeking Bank loans. They cite the leverage that the potential financing provides them within their own political settings as helpful in persuading and encouraging progress on their reform agenda. They value not only the dialogue on tough internal policy and budget choices that the lending process catalyzes but also the detailed, project, sectoral, and economic analysis by Bank staff.[16]

Services bundled with lending also support objectives of the global community: human development, protection of the environment, financial accountability, and standards of public procurement that curtail corruption and promote competition. For example when Bank financing supports general government expenditure, the accompanying dialogue and advice

promote better debt management and responsible budget management. Put another way, lending is the vehicle for the Bank, by supporting reformers within government, to influence governance issues (accountability of government, and greater representation of all citizens in economic decisionmaking) and contribute to strengthening democratic institutions in emerging market economies.

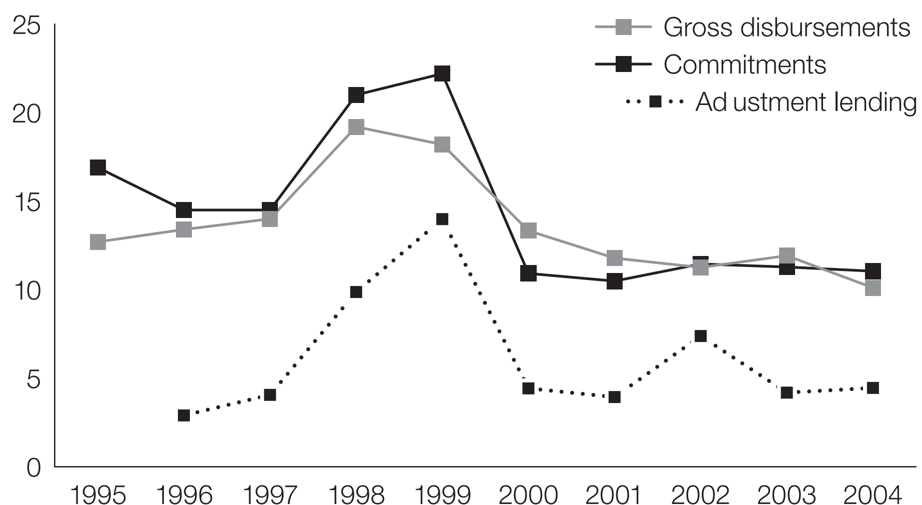
. . . and by supporting reformers within government, strengthening democratic institutions in emerging market economies

Then why are these countries borrowing less and less?

What lies behind the decline in the demand for Bank loans? Despite the below-market interest rates and long maturities of Bank loans, the trend in the last 15 years has been for middle-income borrowers to reduce their new borrowing from the Bank. In some cases, countries have prepaid loans whenever the cost of borrowing on the private market has been low. For fiscal years 1990–97, International Bank for Reconstruction and Development (IBRD) lending, measured by gross disbursements, was in the range of $15–18 billion (figure 1). There was a brief spike in response to the Asian financial crisis, but in fiscal 2004 lending dropped to the $10 billion mark. As a result, for many middle-income borrowers, net transfers from the Bank are now negative.

To some extent, this trend is healthy. Some one-time borrowers (Hungary, the Republic of Korea, Malaysia, Singapore, and Thailand) have graduated from Bank borrowing—though some returned when hit by the global financial problems of the late 1990s. To some extent, the emerging market economies' vulnerability to global financial volatility has led to a tougher standard on acceptable external debt-to-GDP ratios for such countries—as low as 40 percent—which has reduced demand for external borrowing in general. But developing countries should generally be net importers of capital not exporters. (The illogic of negative net transfers from the Bank is repeated and dramatized in the illogic of some emerging markets accumulating large dollar reserves.)

Figure 1 IBRD Lending, Fiscal 1995–2004
$ billions



It is also true that the Bank appears to be succumbing to the broader problems rather than compensating for them, and that officials of the middle-income countries and emerging market economies have additional reasons, more Bank-specific, for their declining demand for Bank loans. One is the limitations of the Bank's longstanding main product: the sovereign guaranteed loan, compared with the range of innovative financial products available in the private market. A second is the high "hassle" or transaction cost (not the financial cost) of borrowing from the Bank, compared with the small and declining difference in cost of borrowing from private markets in recent years.

The Bank could add more value for some of its borrowers by going up the credit-product value chain

Within the World Bank Group, the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the Foreign Investment Advisory Service (FIAS) do supplement the IBRD's sovereign-guaranteed loans with lending, equity investments and advisory services, primarily to private sector agents. But it is still an uphill battle to see any common strategic direction built into country programs of these various arms of the Bank Group. And the fact remains that the financial capacity and the balance sheet of the IBRD are much larger than those of the IFC, and the membership and the financial clout of MIGA and FIAS remain limited. As a result, the World Bank Group continues to lag behind in the range of its products, and the IBRD has limited means to make meaningful its allegiance to private sector growth, since its main instrument requires a sovereign guarantee.

For example, the IBRD does offer partial risk guarantees as well as loans.[17] But because the IBRD's financial policies require that these guarantees be priced and provisioned in virtually the same manner as loans, the guarantee is not as attractive to the countries as a loan, and demand for it has been close to zero. In addition, the Bank's guarantees also require a sovereign counterguarantee. But the requirement for a counterguarantee violates the reasonable requirement of responsible central governments to avoid backing up subsovereign borrowing.

Similarly, the IBRD cannot make loans to municipal and other subsovereign governments without a formal guarantee of the central government—which as with guarantees many governments now eschew, since such guarantees undermine the accountability of nonsovereign political entities and thus the healthy development of disciplined local government. (The regional development banks do not have the requirement for the sovereign guarantee built into their charters, and in the last decade they have begun to offer a broader range of products, including those for subsovereign and private borrowers. As a result, the World Bank Group may be losing its longstanding position of leadership in analysis and innovation.)

In short, credit products come in forms other than loans, and the Bank could add more value for some of its borrowers by going up the credit-product value chain (just as commercial players have done with their—more limited—appetite for emerging market risk). New credit products could also have more of an insurance element to them, insuring against such market-related risks as movements in interest rates, foreign exchange rates, and

commodity prices, which the private sector structures and distributes, but for which their credit appetite is limited.[18]

The "hassle" problem that discourages borrowing includes the long lapse of time between a government's initiating a loan request and getting the loan approved, the onerous administrative burden of preparing, negotiating, and implementing Bank-financed programs and projects, and the administrative and financial costs of dealing with the growing demands of the Bank—often pushed by well-meaning civil society groups in the advanced economies—that borrowers meet high environmental and other standards in the design and implementation of Bank-financed projects. Whether these standards are "too high" is a matter of controversy. That they raise the perceived if not actual costs of projects and can slow down their approval and implementation is undoubted.[19]

Major changes are needed in the operations of the Bank if it is to be effective and relevant in middle-income countries

Without the very large and fast-disbursing "adjustment" loans to countries during the Asian financial crisis, to Brazil in 1999, and to Argentina in 2000–01 to supplement IMF balance of payments support, the Bank's net income from its "bread and butter" loans would be even lower. Indeed, one reason countries prefer adjustment loans is that they dramatically reduce up-front "hassle" costs, and they eliminate the resource and reporting burden of the "counterpart" funds that countries are usually required to provide from their own budgets for conventional projects. With the requirement for such counterpart funds, the Bank also compromises its effectiveness as a countercyclical lender, which would otherwise help countries minimize the social costs of economic downturns.

Why does it matter?

The demand for borrowing from this set of countries may on current trends remain low and fall further—despite the benefits to the borrowers and despite the legitimate security and development interests of nonborrowers in the Bank's continuing engagement with those countries. Over the next decade, a rapid exit of more creditworthy borrowers poses three additional risks to the Bank: a severe adverse selection problem in the Bank's portfolio, reduced net income, and lost opportunities for the Bank to transfer experience from middle-income countries to low-income countries as they develop.

The Bank's own cost of borrowing might rise slightly if its creditors saw greater portfolio risks, reducing the financial benefits to the very countries still in most need of Bank financing. Equally problematic for all the Bank's members would be a reduction in its net income—its income from the spread between its cost of borrowing and the interest earned on its loans. Low demand from the Bank's IBRD borrowers risks undermining not only its potential positive role in middle-income countries but also the financial strength on which its other roles—in low-income countries, in transferring cross-country experience, in providing advice, and in supporting the provision of global public goods—at least partly depend (figure 2). It also risks reducing the ongoing internal learning and knowledge-generating role of Bank staff, who learn in an active lending program.

We conclude that major changes are needed in the operations of the Bank if it is to be effective and relevant in this group of countries. Our

recommendations to the new president for China, India, and the middle-income countries are as follows:

1. Ask the shareholders to begin a systematic and careful review of whether the charter requirement that IBRD loans be guaranteed by a sovereign borrower has stifled the Bank Group's ability to respond to the changing demands of its key borrowers.

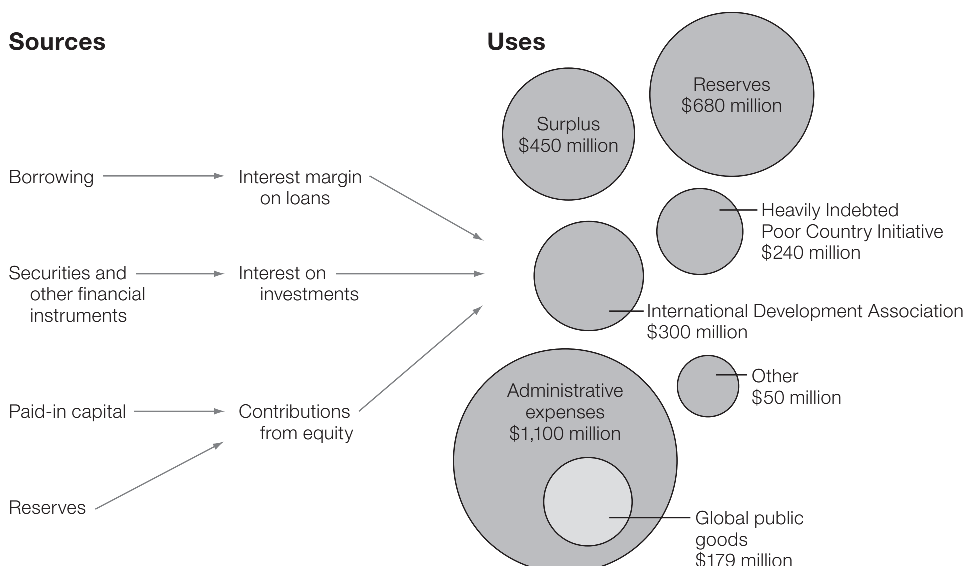
   Could it be that the separate balance sheets of the IFC and the IBRD, for example, have discouraged the development of new products to catalyze private sector investment in middle-income and emerging market economies? Does the IBRD charter make it too difficult for the Bank to lend to municipal and other subnational and other subsovereign government entities?

   Whether or not the outcome of any such review would lead to structural changes, the Working Group believes it would open the door to new thinking about the medium-term instruments that the Bank and other multilateral development banks need to be responsive to the key problems and changes in the global economy.

Find ways to sharply expand the range of financial products and instruments now available to borrowers

2. Find ways, within current constraints, to sharply expand the range of financial products and instruments now available to borrowers. It is widely acknowledged that the Bank has been extremely innovative when it comes to its own borrowings and investments. But it has been anything but innovative in its own product offerings, which remain almost entirely concentrated on the single-priced sovereign guaranteed loan. Examples of possible new products and related new approaches include:
   - Risk management products and instruments to hedge against commodity risk. (In emerging market economies the private sector has little appetite for providing these services, and the Bank could step in to fill a clear void.) Risk-sharing loan contracts could tie the rate of

Figure 2 IBRD Net Income: Sources and Uses, Fiscal 2004



interest on sovereign loans to commodity export prices, especially for countries heavily dependent on primary commodity exports.

- Leveraging the Bank's financial strength and shedding the undue conservativeness that have made Bank guarantees no more attractive than loans, while tightening the distinction between guaranteeing political risk, which the Bank should do, and commercial risk, which it should avoid.
- Borrowing in local capital markets to help strengthen these markets and lending in the local currency (ideally long-dated, fixed-rate, and indexed to local price levels so that the debt cannot be inflated away) to help borrowers avoid the currency risk that borrowing from the Bank usually entails.
- Developing other products to help borrowers reduce their currency risks. The Bank could, for example, borrow in a synthetic unit whose value was determined by a basket of inflation-indexed emerging market currencies, and sell bonds denominated in this unit to international investors. The Bank would cover itself against exchange risk by on-lending the borrowed money to countries in their own currencies (on an indexed basis, in the proportions that make up the basket).[20]
- Working with the IMF to explore still other possibilities, for example, on how Bank lending could contribute to refinancing the sovereign debt of overindebted middle-income countries (at marginally more than the Bank's borrowing rate and ideally in a country's own currency), in return for continuing, monitored progress on disciplined macroeconomic priorities.[21]

Create a new loan product that would visibly reduce hassle costs for selected borrowers

3. Create a new loan product that would visibly reduce hassle costs for selected borrowers.

   The effect of the profusion of project safeguards and program conditionalities on quality may be driving away some borrowers, particularly from interest in large infrastructure projects. For borrowers with reasonably good performance in economic management and an adequate record and regulatory effort in procurement, environmental protection, and human rights, the Bank should move to a more arm's length relationship. The Working Group recommends that the Bank develop a new instrument that would greatly reduce the hassle cost for creditworthy countries that are vulnerable when, for example, new investments require resettling of people in new locations.

   An existing facility—the "deferred drawdown option"—is a start in this direction, but has not been attractive to borrowers because it is not clear that it would be sufficiently automatic. We recommend that the Bank develop few and well defined standards of eligibility, developed in consensus with all members, and that the list of countries with eligibility for one-stop access be updated periodically. Terms of eligibility could be revisited and redefined every three years or so. The reduction in the "hassle factor" would not only increase the demand for Bank loans—even assuming a higher borrowing rate for eligible countries—but would also reduce the Bank's administrative costs.

The latter savings, as we argue later, would yield substantially greater social returns if deployed in the financing of global public goods.

Not all middle-income countries will meet the eligibility requirements for such hassle-free lending, and we are certainly not suggesting that only countries that are high-performing be eligible for any loans (as with the U.S. Millennium Challenge Account). The Bank should continue to take risks in middle-income countries where resources have a reasonable probability of being used effectively and where conventional monitoring and conditionality can increase that probability.

Add a degree of differential pricing among IBRD borrowers, tied strictly to per capita income

4. Add a degree of differential pricing among IBRD borrowers, tied strictly to per capita income (not to credit rating), recognizing that the implicit benefit to less creditworthy borrowers is already larger than to more creditworthy ones.

   A marginally higher rate for richer countries with better credit ratings would encourage less borrowing for the right reason—ushering in de facto "graduation" without any recourse to arbitrary rule-based loss of access.[22] It would also, like the facility proposed earlier, create incentives within the Bank to reduce hassle costs for the somewhat better-off middle-income countries—some of which are now fully capable of preparing and managing large loans for electricity distribution, agricultural research, and health systems.

5. Explore other pricing or product innovations that would create incentives for borrowers to make their own public revenue collection and expenditures more progressive (without sacrificing growth)—and that would encourage investments with a high payoff for global public goods.[23] Starting from a country borrowing rate based on per capita income, loan charges could be reduced for large ramp-ups in expenditures on financially high-risk but clearly pro-poor sectors, such as basic education and health, rural roads, training recipient country nationals, and other long-term capacity building.

   In most middle-income and emerging market economies, there is no tradeoff between the government's fiscal behavior being more equitable and at the same time more efficient. Indeed, fairer and more equitable revenue and expenditure patterns would be more efficient—for example, because public spending on health and education of reasonable quality increases worker productivity, and because reduced tax evasion and lower trade and payroll taxes are both pro-poor and growth enhancing.[24] Because resources are fungible, clear rules on the increment to the proportion of government budgets to be eligible for this kind of incentive would need to be developed. This approach would also require clear rules of country eligibility.

Bring New Discipline and Greater Differentiation to Low-Income Country Operations

Support for a strong and even expanded Bank role in low-income countries is broad-based. This is especially true for Africa, particularly in the

context of the 2005 UN Millennium Review Summit (which will evaluate progress toward the Millennium Development Goals) and the United Kingdom's call to address Africa's problems at the 2005 G-8 Summit in July. Reflecting that support, rich-country contributions to the Bank's International Development Association (IDA) window increased from $13 billion in the 13th replenishment to $18 billion in the 14th, and bilateral foreign aid commitments from Europe and the United States have surged in the last several years.

The Bank should take more of a lead in helping donors discriminate across low-income countries

Discipline and differentiation

Broad support for the Bank's engagement in helping low-income countries achieve the Millennium Development Goals should not obscure concerns about the Bank's and other donors' effectiveness in those countries. These concerns range from the difficulty of avoiding imposing ideas and recipes (as reflected in the view that Poverty Reduction Strategy Papers still reflect countries' expectation of what the Bank wants more than their own priorities) to the difficulty the Bank and other donors have in "exiting," in reducing their transfers when countries are not using external help well.[25]

Donors are making substantial efforts to increase their coordination and harmonize their approaches in low-income countries, many of which receive aid from dozens of bilateral and multilateral agencies as well as international nongovernmental organizations (NGOs). The Bank, often the most influential among many donors, needs to set the tone—creating space for countries to manage their own priorities wherever that makes sense, cooperating with others in helping countries set clear priorities, and ensuring in its own operations more discipline and differentiation in the amount and nature of support it provides, depending on recipient countries' capacity, governance, and economic management.

This will require substantive changes in the way the Bank does business. The Bank, with its vast array of expertise on a wide set of issues, coupled with its decentralized structure, has tended to encourage strategies and programs on a wide set of initiatives, with no sense of which are the most important.[26]

But most governments in low-income countries simply do not have the capacity to tackle a very wide agenda. Governments with very scarce time, money, and skilled staff need to set priorities, which in practice usually means deciding which issues will not be dealt with right away. The Bank, as one of many partners, including the relevant regional development bank, UN agencies, bilateral donors, and international and local nongovernmental organizations—should have a broad strategic role advising a country on its priorities—combined with what should often be a narrow focus for its own lending.

The Bank should also take more of a lead in helping donors discriminate across low-income countries in the amount and nature of their transfers. The discussion in recent years about "country selectivity" has led to the idea of providing large sums of money to well-governed countries that can use it well and less to poorly governed countries (the U.S. Millennium Challenge Account's approach). But well-governed countries should not only

receive more money, they should receive it in more attractive ways that give them more substantive input, responsibility, and certainty about future funding. The Bank has moved tentatively in this direction by funding Sector-Wide Approaches and introducing Poverty Reduction Support Credits in certain countries. But these different approaches should become more formalized.

In less well-governed countries, the Bank should be much more modest—limiting its lending and limiting its expectations. It should not reduce its engagement, its budget for policy dialogue and technical assistance, or its willingness to take certain risks. On the contrary, the administrative budget for poorly performing countries should be explicitly untied from the program of lending or grants. But the Bank should be more prepared to suspend financing where that makes sense and to design programs that build in such suspensions when progress stalls.

In less well-governed countries, the Bank should be prepared to suspend financing and to design programs that build in suspensions when progress stalls

Specifically, the Bank should have three distinct strategies for low-income countries, depending primarily on the quality of the recipient's governance.[27]

1. *Low-income better governed countries.* The Bank should provide large amounts of financing to these countries, delivered mostly in the form of budget support or program aid. Along with other donors, it should focus less on micromanaging activities and more on measuring and achieving broad results. The Bank should commit funding for five years or more in these countries, subject to the strict requirement that recipients show continued good governance and achieve reasonable results.

2. *Low-income countries with average governance.* These countries should receive less funding than the better-governed countries. The Bank should be more involved in setting priorities and ensuring broad-based participation and technical rigor. Strengthening public financial management is usually a very high priority in these countries, and to strengthen reforms in this area some budget support may be appropriate. Most funding should, however, be for well-designed projects or sector support consistent with the country's overall development strategy, focusing on key activities where achieving results seems most likely, well integrated with country budgeting and financial management arrangements. The length of financial commitments should be shorter than for well-governed countries, perhaps three to five years, contingent on progress and results. Performance should be monitored carefully in these countries, with clearly delineated performance standards. Strong performance and improved governance should lead to increased financial support, a shift to budget and sector support, and longer commitments—while weak results should lead to less aid.

3. *Low-income poorly governed countries.* These countries, broadly consistent with the Bank's "Low-Income Countries Under Stress" must be

dealt with carefully case-by-case, because circumstances on the ground can vary widely and change quickly. Some are failed states, others are failing, still others are weak or fragile. Some donors (but probably not the Bank) should direct significant amounts of aid to civil society groups and NGOs.[28] The Bank should continue with substantial engagement and carefully targeted technical assistance, but should not generally be providing financing to government. It should not get into retail-style grantmaking to civil society groups because its comparative advantage is in working directly with governments.

The Bank's members should agree to formalize a third, fully grant-based window for countries with very low per capita incomes, for example, below $500

Grant financing

Differentiation on the amount of resource transfers should be based primarily on country governance. Another kind of differentiation—for the type of transfer (grant or loan)—should be based on countries' per capita income. Since President Bush proposed that 50 percent of IDA funds be used as grants in July 2001, there has been a strong debate about the extent to which the Bank should provide grants rather than loans to low-income countries. The rationale for IDA shifting to greater use of grants is the past accumulation of unsustainable official debt by many low-income borrowers, including debt to the World Bank. Much "new lending" prior to debt reduction was simply helping countries repay former loans.

Negotiations between the United States and the Europeans (who were concerned about the effects of reduced future reflows for IDA's finances) led to an initial fuzzy compromise during the IDA-13 replenishment in 2002. The Bank's Board decided that 18–21 percent of IDA funds would be grants for a smorgasbord of purposes: post-conflict reconstruction, natural disasters, HIV/AIDS, education, health, water, and sanitation. This led to a less-than-satisfactory outcome in which countries would receive grants for some activities and loans for others. Recognizing these problems, the Board amended the guidelines in March 2005 to make debt sustainability the basis for the allocation of grants. While an improvement, the arrangement is less than ideal. Using debt sustainability as the basis for grants introduces moral hazard issues (countries that have taken on more debt in the past will now receive grants, while those that have not must continue to borrow). It also creates administrative problems (doing country-by-country assessments of what portion of grant financing each country should receive).

Instead, grant allocations should be based primarily on income levels following the same principles that now guide the allocation between IBRD and IDA loans. The Bank's members should agree to formalize a third, fully grant-based window for countries with very low per capita incomes, for example, below $500, an average income just over the $1 day poverty line.[29] The logic is straightforward: loans make sense when the recipient's economy can grow fast enough to generate the resources to repay the loans. But most countries with incomes below $500 have never achieved sustained economic growth—not for hundreds of years. Until they achieve such growth, grants make far more sense than loans. Moreover, the very poorest countries are least able to cushion themselves against shocks,

making it more difficult to repay loans, even following good investments. Given very scarce resources, any funds generated by strong investments should be re-invested locally, not repaid to the Bank.

Extending the IDA horizon for recipient countries, while encouraging "exit" when appropriate

Donors agree that for poor countries to meet the Millennium Development Goals requires an increase not only in the amount of aid but also in its predictability and horizon over a longer period. Responsible finance ministers in the poorest countries naturally hesitate to hire new teachers and build new schools where the prospect of financing their ongoing costs from the country's own revenues is limited, while external funds are volatile and uncertain over the medium term. The Bank through its IDA window should be more able and willing to make longer-term commitments to the best-performing countries—as long as 10 years—contingent on continuing progress against clearly defined benchmarks.[30] The time horizon for development in IDA countries is, after all, still 40–50 years. Consider Mozambique, with per capita income of about $210. With very robust annual per capita income growth of 5 percent, it would take almost 30 years for Mozambique to reach the IDA operational cutoff of $865 per capita.

The Bank should be more able and willing to make longer-term commitments to the best-performing countries

The Bank could extend the predictable horizon of its commitments. But it often errs in the opposite direction—prolonging commitments and programs when countries are not meeting agreed benchmarks of progress or are backsliding on human rights, on friendly business environments, on expenditure management, or on other measures of governance. Part of the problem is the periodic pressure on Bank management, as a result of the IDA three-year replenishment cycle, to fully commit its resources. Alternatives should be explored to reduce that pressure. For example, IDA recipients and nonborrowers could agree on having a portion of unused IDA contributions going directly to a trust fund for global public goods (see below) or rolling them over into the next cycle. The effects of any changes along these lines could then be reviewed for subsequent decisions on the next cycle.

Relations with the IMF in low-income countries

There has been significant discussion within the IMF in recent years about the changing its role in low-income countries. With the resolution (for the most part) of the macroeconomic crises that plagued many low-income countries in the 1980s and early 1990s, the IMF's financial role is likely to diminish over time. Consideration is thus being given to new modalities for it to monitor and signal the strength of macroeconomic policies without direct financial involvement—in the form of "unfunded programs" or other "policy support mechanisms." This implies that the Bank's complementary role in judging the strength of country medium-term development strategies will become more important—including in assessing for other donors the appropriate level and composition of overall support. This will be the case irrespective of the size—relative to that of other donors—of the Bank's financial involvement in a particular country.

This puts a greater onus on the Bank—if it is to maintain its credibility in countries where it is also providing financial transfers—to make sufficiently independent judgments on a country's policy and institutional status. The new president should initiate a discussion with shareholders and the donor community on the criteria for judging a country's development strategy and on how the Bank's views should most effectively be signaled.

The Bank should work with the IMF to make selected IDA countries eligible for automatic additional transfers in the event of an external shock

Dealing with external shocks

Many IDA countries are particularly vulnerable to external shocks, be it weather, a commodity price shock, or a sudden collapse of the economy of a critical trading neighbor. In principle, the IMF should help countries adjust to shocks. But it does not have any grant facility. The Bank should thus work with the IMF on a facility to make selected IDA countries at very low income levels eligible for automatic additional transfers in grant form. Short-term but rapidly disbursed transfers could be tied to preselected programs primarily of a social insurance nature—say, to fund the recurrent costs of a social insurance nature—say, to fund the recurrent costs of primary health care. IDA funds would thus be used to reduce what is otherwise the high and pro-cyclical volatility of recipient countries' own revenue and (of even more volatile and pro-cyclical) overall donor inflows. Unless and until the IMF can disburse resources in grant form from its Poverty Reduction and Growth Facility, IDA resources should be available, with IMF staff technical input, for this purpose.

For low-income countries, we highlight five specific recommendations for the new president:

1. Signal support for a narrower, more focused range of Bank operations within each low-income country, especially for lending. In the best performing countries, encourage even more budget support, keyed to clear benchmarks on results. In poorly performing countries, discourage financial support, while increasing administrative budget resources for advisory services, sector work, policy dialogue, and technical assistance.

2. Urge the shareholders to approve a third, grants-only window for countries with very low per capita incomes, for example, below $500.

3. Encourage longer-term commitment periods for the best-performing countries and programs that build in more automatic exit when country performance declines, and propose changes in IDA replenishment arrangements that would reduce disbursement pressures.

4. Work with the IMF and other donors and creditors on an agreed role of the Bank in signaling the adequacy of a country's "development" approach to complement the IMF's macroeconomic signaling.

5. In collaboration with the IMF, develop a facility to make selected IDA countries at very low income levels eligible for automatic additional transfers as grants in the wake of clearly external shocks.

Take Leadership on Ensuring Truly Independent Evaluation of the Impact of Bank and Other Aid-Supported Programs

Agencies that develop and manage development assistance programs hesitate (with some justification) to advertise the limits of their craft. The World Bank is no exception. Although the Bank has improved its transparency through increased in-house research on aid effectiveness and through increasingly frank and systematic work of its internal evaluation department, neither fills the need for credible, fully independent assessment.

This is unfortunate. Rigorous and well-targeted evaluations offer opportunities to substantially expand the impact of Bank-funded efforts beyond any particular country or program. The knowledge they generate is itself a global public good, since the benefit of knowing which programs work and which do not extends well beyond the organization or country implementing a program. Moreover, evaluations of Bank-supported programs that are fully and visibly independent would improve the credibility of the Bank's efforts—and that of other donors—and increase the political support for aid to support demonstrably effective programs. Independent evaluation is particularly critical in the IDA countries, for many of which aid is likely to increase substantially in the next decade.

Evaluations of Bank-supported programs that are fully and visibly independent would improve the credibility of the Bank's efforts

In 1973 Bank president Robert McNamara created the Operations Evaluation Department (OED), a nominally independent unit within the World Bank reporting directly to the Bank's Board of Executive Directors. OED's primary mission is to conduct ex post assessments of Bank-financed interventions. It does this in two ways: by evaluating projects and by evaluating the Bank's development activities more broadly.[31] In principle, OED reports provide analytical background and support for forward-looking decision-making about strategy. In fact, they are by definition untimely because they are conducted ex post (often looking back as much as 10 years). And because they are scrutinized in draft by Bank staff and countries whose programs are the subject of evaluation, there is a natural process of minimizing the harshness of language. In addition, it is difficult for even the best internally sponsored impact evaluations to deal with such fundamental problems as the lack of baseline indicators, controls, and a counterfactual.

To address problems of credibility and independence in evaluation, the Meltzer Commission (International Financial Institution Advisory Commission 2000), the Task Force on the Future of the IMF (ODC 2000), and the Gurría-Volcker Commission (Commission on the Role of the MDBs in Emerging Markets 2001) all recommended the creation of an independent evaluation entity external to the Bank (and the IMF). Gurría-Volcker, for example, calls on shareholders to create a "mechanism for independent, third-party evaluation of the effectiveness for MDB [multilateral development bank] programs [not just the World Bank], and whether such programs…encourage adequate norm-setting, increased attention to poverty reduction, and better policies and stronger institutions generally."[32]

To complicate the challenge, independent evaluation focused solely on Bank-supported projects can only be part of the story. As the Bank and other donors move toward sectorwide and budget support it becomes increasingly difficult to pinpoint a specific project as being funded mainly

or entirely by the Bank. But increased country ownership of investment programs does not reduce the need for high quality evaluations. Decisions still need to be made—by governments, local communities, and others in consultation with the Bank and other donors—about the best ways to combat poverty, and the Bank is very well-placed to make an important contribution to the establishment of an evidence base about the effectiveness of alternative strategies through rigorous evaluation. This evidence base can then be drawn upon by all those involved in development to increase the effectiveness of their programs.

The new president should lead the creation of an external, independent, multidonor (and creditor) aid evaluation mechanism

The need for impact evaluation of social programs is particularly acute. A forthcoming report of the Center for Global Development will recommend the creation of a voluntary, self-financing consortium of donors, developing countries, foundations, and international NGOs to sponsor and finance independent impact evaluation of selected social programs in low- and middle-income countries. The report recommends that some evaluation resources be earmarked for studies with randomized assignment, which face the largest obstacles relative to their promise in knowledge building.[33]

The Working Group recommends that the new president lead the creation of an external, independent, multidonor (and creditor) aid evaluation mechanism to:

> Take leadership in working with the board to support the creation of an independent evaluation entity financed and governed by a consortium of donors and multinational creditors.
>
> No one member would have control over the entity's operations, but its members would jointly set priorities about evaluation focus areas. The reason behind creating a consortium is that a collective decision, once agreed, would help lock in good behavior of more and better evaluation—insulating specific programs from political pressures associated with negative evaluations.[34] This entity would not focus exclusively on the Bank's activities, or even only on donor-financed activities. It would also assess developing countries' own-financed programs as well as those of NGOs (in all cases based on requests from these entities). The consortium could be financed by contributions from its individual members, ideally linked to each member's own annual aid disbursements.
>
> This entity would assess the effectiveness and impact of the programs and projects supported by the Bank and other creditors and donors, not the policies and processes of the Bank itself (which are already subject to the Inspection Panel). It would complement rather than substitute for the audit and evaluation work of OED (and other internal evaluation offices of other donor and creditor agencies).
>
> The governance of this entity would be determined by its members. Ideally developing country members would join. The Bank's leadership in creating such an entity would thus make at least this aspect of its governance more representative. In any event decisionmaking for Bank programs would continue to rest with the board.[35]

Obtain an Explicit Mandate, an Adequate Grant Instrument, and a Special Governance Structure for the Bank's Work on Global Public Goods

The last 10–15 years have seen increasing attention to international initiatives for the financing and provision of global public goods. Global public goods are those goods (or "bads") that no single nation has a sufficient incentive to produce (or limit) in optimal (from a global standpoint) amounts, but which have benefits (or costs) for all nations. Examples include technological advances in agriculture and health, and global public "bads" such as global warming. Past investments in global public goods relevant to developing countries have had impressive rates of return: as high as 40 percent for agricultural research.[36] The return on a malaria vaccine would be comparable. Investment to reduce or manage expected global warming would have huge benefits (in reduced economic costs) that in welfare terms would be greater for developing than for developed countries.

Past investments in global public goods relevant to developing countries have had impressive rates of return

The Bank has long had some engagement in global public goods, early on primarily through the Consultative Group on International Agricultural Research and then through its role in the Global Environment Facility. Beginning in the early 1990s, it was drawn into financing and providing many other, often smaller programs (for example, support of a consortium of public and private agencies working on microfinance issues). These have generally been housed or run inside the Bank through specific trust funds financed by interested donors—and managed outside the purview of overall Bank budget and program allocations.

The Bank's status as a global institution with a broad and deep range of expertise explains the demands from its shareholders for its technical and financial involvement in a growing range of global programs, some in the category of global public goods (and some basically financing regional and even national programs likely to have some transnational spillovers). It is now involved (either as a member, financier, administrator, or participant) in as many as 70 such programs (table 1). Bank involvement has helped fill the void created in some areas by UN agencies and the regional development banks' lack of comparable financial strength or lack of adequate staffing and expertise.

But the result is a peculiar situation of the Bank's having a set of ad hoc global programs, sometimes in possible competition with UN agencies, without a clear mandate from its shareholders.The shareholders have not considered the need for the Bank to have an instrument comparable to the country loan (with a sovereign guarantee) that would enable it to pursue such a mandate strategically—as opposed to responses to ad hoc requests and ad hoc special financing. As a result, financing is haphazard. Some programs are financed from the administrative budget, some from transfers from net income, and most from Bank-administered trust funds.[37]

Without its own instrument, it is difficult for the Bank to lead in financing or coordinating consortia to finance new initiatives. As a result, promising programs receive inadequate attention. A good example is a recent detailed proposal for an advance commitment to purchase vaccines for diseases concentrated in low-income countries. The idea of an advance commitment

Table 1 Examples of Global Programs with World Bank Involvement

Sector	Full name (operational start date)	Nature of Bank engagement	Total expenditures, fiscal 2004 ($ millions)	World Bank share, fiscal 2004 (%)
Environment and agriculture	Consultative Group on International Agricultural Research (1972)	Founder, funder, trust fund trustee	395.0	13.0
	Global Environmental Facility (1991)	Founder, trust fund trustee	387.5	0.0
	Global Water Partnership (1997)	Founder	10.3	0.0
Health, nutrition, and population	Joint United Nations Programme on HIV/AIDS (1996)	Founder, funder	95.0	4.2
	Global Alliance for Vaccines and Immunization (1999)	Founder, funder	124.1	1.2
Infrastructure and private sector development	Consultative Group to Assist the Poor (1995)	Founder, funder, trust fund manager and trustee	12.7	55.5
	Water and Sanitation Program	Founder, funder, trust fund manager and trustee	12.4	10.9
Social development and protection	Post-Conflict Fund (1998)	Founder, funder, trust fund manager and trustee	10.6	99.0
Trade and finance	Financial Sector Assessment Program (1999)	Founder, funder	10.5	45.0
Information and knowledge	Global Development Network (1999)	Founder, funder, trust fund manager and trustee	8.7	54.7

Source: Adapted from World Bank, Operations Evaluation Department (2004).

The new president should call on the Bank's shareholders to give it a clear mandate for financing and providing global public goods

is to provide incentives for private firms to undertake the research and development (R&D) investments needed to develop these vaccines. In addition, the proposed purchase is structured to ensure access to these vaccines for the people who need them most, if and when they are developed. If no vaccine is developed, no Bank or other donor funds would be spent. But if successful, millions of lives would be saved at very low cost (for a malaria vaccine, an estimated $15 per year of life saved).[38]

The Working Group concluded that beyond the widely acknowledged objective of reducing world poverty by supporting equitable growth, there is a case for explicitly extending the Bank's mandate for the financing and provision of global public goods, notably in agriculture, health, and the environment. Already the Bank, as a key player in the management of globalization, is seen as a "go to" institution. But the accretion of responsibilities without a mandate and clarity on financing and instruments has limited its role and risks ineffective use of its global resources. We therefore recommend that the new president:

1. Call on the Bank's shareholders to give it a clear mandate for financing and providing global public goods. (We refer here not to any and all forms of global programs but to those that, because of their public good nature, have the least call on country-based financing). Among other benefits, this would give the Bank clear responsibility for clarifying its contribution in the light of broader global priorities for investment in global public goods.

2. Initiate a dialogue with the regional development banks, the United Nations, and other relevant agencies on the proper division of labor between global and regional public goods. In particular, the Bank should avoid involvement in the latter wherever engagement by the regional banks makes sense. Between the banks and the United Nations, there is no obvious right institutional arrangement that would create accountability for the financing and implementation of programs—accountability has to be based on agreements for respective roles.

3. Ask the board's members to create a Global Public Goods Trust Fund managed by the Bank, to consolidate and help set priorities for current spending from the Bank's resources, and to contribute to the financing of such new and promising initiatives as the advance market commitment for vaccines.

Some portion of the Bank's annual net income should be earmarked for a Global Public Goods Trust Fund

4. Encourage agreement on financing the Global Public Goods Trust Fund along the following lines:
   - Some portion of the Bank's annual net income should be earmarked for a Global Public Goods Trust Fund. The Bank's net income belongs to all its members, so its benefits should also extend to all its members.
   - The donor countries that currently make contributions to the variety of global programs at the Bank should be urged to contribute instead to a single Global Public Goods Trust Fund—where they can with other Bank shareholders, ensure that priorities for Bank work are aligned with resources, and take into account UN and regional bank activities.
   - A leaner Bank (thanks to a marked reduction in the "hassle" factor and to more automatic and less conditional loans for select eligible borrowers) could reduce administrative costs. The savings could be added to "allocable" net income and used to supplement the financing of global public goods. Similarly, more innovative financial products will induce greater borrowing, which could increase the net income available for global public goods.

   We estimate that it should be possible, with these changes, to generate \$300–500 million annually for the Global Public Goods Trust Fund.

5. Encourage agreement on a new approach to the governance of the Global Public Goods Trust Fund. Decisions on the use of the trust fund could be made by the board, but with a different allocation of votes (akin to the Global Environment Facility, which also has a different governance structure from the Bank's board). IBRD borrowers ought to control at least 40 percent and IDA-only countries another 10–20 percent. Using net income for global public goods will be seen by middle-income borrowers as imposing the costs on them, since their average borrowing rates would be higher. In particular, to acknowledge their indirect financing role, the middle-income countries and emerging market economies should have a seat at the table, with considerable input on decisions on which global public goods are to be financed.

6. The trust fund rules should clarify that Bank management need not always be involved in managing the global public goods that the trust fund helps finance.

Push the Bank's Member Governments to Make the Bank's Governance More Representative and Thus More Legitimate

No issue fundamentally affects the legitimacy of the Bank—and its effectiveness—as much as its governance structure. Yet no issue has been as impervious to change. The Bank should become something closer to the spirit of a global "club" in which today's beneficiaries, not only its rich-country benefactors, have a keen sense of ownership and financial responsibility.

No issue fundamentally affects the legitimacy of the Bank—and its effectiveness—as much as its governance structure

Votes

Like most major Fortune 500 companies, each of the agencies that make up the World Bank Group (IBRD, IDA, IFC, and MIGA) has shareholders that own a stake in the organization. The one difference, of course, is that the Bank's shareholders (unlike most multinational corporations) are countries rather than individuals. Each country has a given number of votes linked to the size of its shareholding.

But the size of country shareholdings no longer reflects an appropriate balance between borrowers and nonborrowers. In 1950, for example, when the countries of Western Europe were the major borrowers and beneficiaries of the below-market access to capital the Bank provided, they had some considerable influence on the Bank's policies and practices—through management and staffing as well as their voting shares. Today, however, the Bank's borrowers have virtually no real control over fundamental decisions. For example, Sub-Saharan African countries represent 27 percent of all IDA member countries, but have only 8 percent of the voting shares. Their ownership stake is small, though they are particularly dependent on the Bank, accounting for 20 percent of total Bank lending (IDA plus IBRD) in fiscal 2004.[39]

Part of the difficulty has to do with the lack of consensus on when and whether to alter capital shares. Past changes have come at the time of capital replenishments, when the pie was increasing and countries could buy more shares and increase their percentage of the total. Still, fast-growing China, now constituting an estimated 13 percent of the world economy, holds just 2.8 percent of shares, and India, now 6 percent of the world economy and also growing fast, just 2.8 percent.[40] Meanwhile Saudi Arabia, with 0.6 percent of the world economy, has 2.8 percent of voting shares (and 1 of the 24 board seats). Canada and Italy have the same voting shares as China, and Belgium has 50 percent more votes than Mexico. In a global club, in any event, other factors, including population, might ideally affect voting shares (table 2).[41]

There is a logic in the continuing power and influence of nonborrowers. It ensured the Bank's effectiveness for many years and it helps sustain their support—in contrast to their less constant support for many of the UN agencies and the problems of decisionmaking where the norm is one-country one-vote. Yet in this new century, more accountable and representative

Table 2 Current and Potential Allocation of IBRD Voting Power

	IBRD voting share (% of total)	0.5 (share of population) + 0.5 (share of world GDP) (%) Constant 1995$ GDP	PPP GDP	IBRD voting share minus PPP GDP voting share[a]	GDP (constant 1995$ billions)	GDP (PPP$ billions)
United States	16.4	15.6	12.9	3.5	9,196	10,357
Japan	7.9	9.3	4.5	3.3	5,725	3,423
Germany	4.5	4.6	3.0	1.5	2,708	2,251
France	4.3	3.1	2.1	2.2	1,832	1,604
United Kingdom	4.3	2.4	2.1	2.2	1,361	1,576
Canada	2.8	1.3	1.2	1.5	741	960
China	2.8	12.1	16.4	–13.6	1,209	5,917
India	2.8	9.2	11.3	–8.5	517	2,769
Italy	2.8	2.2	2.0	0.8	1,234	1,529
Russia	2.8	1.8	2.4	0.4	469	1,207
Saudi Arabia	2.8	0.4	0.5	2.3	166	273
Netherlands	2.2	0.9	0.6	1.6	505	457
Brazil	2.1	2.6	2.8	–0.7	810	1,352
Belgium	1.8	0.5	0.4	1.4	321	286
Spain	1.8	1.4	1.2	0.5	739	886
Switzerland	1.7	0.5	0.3	1.4	339	218
Australia	1.5	0.9	0.7	0.8	481	541
Iran	1.5	0.7	1.0	0.5	118	438
Venezuela	1.3	0.3	0.3	0.9	75	134
Mexico	1.2	1.4	1.8	–0.6	375	915

IBRD is International Bank for Reconstruction and Development.
a. A positive value indicates that the current IBRD voting share is too large given population and PPP GDP; a negative value indidates that a country's IBRD voting share is too small adjusting for population and PPP GDP.
Source: World Bank (2005); IMF (2005b); and author's calculations.

The continuing lack of influence of borrowers is likely to further undermine the Bank's effectiveness

institutions within countries are seen as more conducive to poverty-reducing growth, and democracy is broadly acknowledged as the most legitimate form of government. In this context, the continuing lack of influence of borrowers reduces the legitimacy of Bank-supported policies and programs in some borrowing countries. And over the next decade it is likely to further undermine the Bank's effectiveness—including, ironically, the support for better governance in borrowing countries.

Voice

The governance deficit is compounded by the inadequate representation of borrowing countries on the Bank's board. Of the 24 board seats, borrowing countries hold only 9; they share with nonborrowers another 8 (table 3). The limited representation of developing country borrowers on the Bank's board discourages borrowing country board members from any real scrutiny of other borrowers' programs. It also creates time and work pressures that make it difficult for them to focus on institutional issues while also representing their country interests.

The lack of voice in board representation is acute for the Sub-Saharan countries, which rely heavily on the Bank's advice and financial support. At present, 46 Sub-Saharan countries are represented by just two chairs on the Bank's board, creating a tremendous administrative and procedural burden for the directors and their staffs.

Table 3 Distribution of Voting Power at the Multilateral Development Banks

	Voting share (%)				Directors					
	United States	Other G-7	Other non-borrowers	Developing-country borrowers	United States	Other G-7	Other non-borrowers	Developing-country borrowers	Total	President
International Monetary Fund	17	28	17	38	1	6	6	11	24	Nonborrower
World Bank	16	27	18	39	1	6	8	9	24	Nonborrower
Inter-American Development Bank	30	16	4	50	1	4	0	9	14	Borrower
Asian Development Bank	13	27	15	45	1	4	1	6	12	Nonborrower
African Development Bank	7	21	12	60	1	4	1	12	18	Borrower
European Bank for Reconstruction and Development	10	47	30	13	1	6	12	4	23	Nonborrower

Source: Birdsall 2003.

Presidential selection

The president of the Bank is an American, while the managing director of the IMF is European, under an implicit post–World War II agreement. This gives the U.S. administration unchecked discretion in the timing and process for selecting presidents, undermining the sense of ownership that ideally would be shared by more member governments in an institution at the center of a shared global goal to reduce poverty. The point, however, is not fundamentally about nationality. It is that the selection process should be transparent (similar to what the Bank advocates regarding countries' governance), and that it should draw from the global talent pool.[42]

Role of the board

Another governance problem is the board's difficulty in playing a "strategic" role and its inability to make management accountable to it. For many years, close observers of the Bank have questioned the effectiveness of the resident Board, whose members spend full-time on Bank work and may not have the seniority in their governments to influence Bank management priorities.

We recommend that the new president engage early and in open discussion with the Bank governors on how to address these deficits. If politically difficult adjustments are to be made, they will almost surely need to be proposed by the Bank's president. Despite broad support from all shareholders for the principle of better representation, none—and least the most powerful—has any incentive to make a first move. The result is a deep problem of collective gridlock. Because the changes will be difficult, it seems appropriate for the president to open the discussion during his honeymoon, his first months in office.

We recommend that the new president take four specific initiatives to re-establish the legitimacy of the Bank's governance:

1. Ask the governors of the Bank to formalize a credible, rule-based, transparent mechanism (as with private sector boards) for choosing the Bank's president. A 2001 joint report to the Bank and IMF boards, originated by working groups set up by each institution, outlined one possible mechanism.[43] The report was endorsed by both boards as

guidance for future selection processes.[44] In broad terms, the report advocated the creation of an advisory group that would assist the executive directors in presidential selection by developing a slate of candidates and providing assessments of each candidate to the executive directors, who would maintain responsibility for approving a presidential candidate.

2. Support the temporary establishment (say, for a decade) of two additional seats on the board for African countries.[45] (In the longer term, if the Board is to be more strategic, there is a good case for reducing its size, which could be achieved, for example, with a decline in the representation of Europe, the most overrepresented region, and merging the Saudi seat with that representing other Arab nations).

Ask for an independent assessment, to be made public, of voting shares and board representation, including options for changes

3. Ask the Bank governors to call for an independent assessment, to be made public, of voting shares and board representation, including options for changes. Options should explore among other issues increases in the basic votes, the merits of applying double majorities on some decisions (that is, 50 percent of all votes plus 50 percent of all members), and should take into account discussions at the IMF of its quota distribution during its current quota review period. The recent communiqué of the International Monetary and Financial Committee of the IMF on quota reallocations stated that "adequate voice and participation by all members should be assured, and the distribution of quotas should reflect developments in the world economy."[46] Desirable changes at the IMF and World Bank would only reinforce what has already been acknowledged by the creation in 1999 of the Group of 20 (a new club consisting of the G-8 and such major emerging market countries as Brazil, China, and India) to deal with key issues in the international monetary and financial system.[47]

4. Ask the governors to commission a time-bound independent review of board functions and responsibilities. A review of the board should examine how to make the board more strategic, with emphasis on its central task of setting objectives and holding management to account. It could also address how to trim back the board's ballooning budget, which sends the wrong signals on corporate governance. Meanwhile, push for such interim steps as holding occasional board meetings in borrowing countries—to help focus the board on strategic issues in a particular region and to foster greater ownership among borrowers. A board meeting in Pretoria, for instance, would highlight the strategic issues of concern to Southern Africa and make it possible to invite particular borrowing countries to play a more central role in the board meeting, perhaps by giving brief presentations on issues of particular relevance.

We would like to emphasize that the new president's agenda on reforming the Bank's governance structure is for the medium term. Transforming

the Bank from a traditional development agency to a “club” where both donors and borrowers have equal ownership and responsibility will take time, but many Working Group members considered it the single biggest challenge facing the new president. Almost every new regime enjoys a brief honeymoon to put taboo issues on the table for debate and discussion. A strong statement early on could help set the tone of the governance debate and give the issue some much-needed momentum.

Almost every new regime enjoys a brief honeymoon to put taboo issues on the table for debate and discussion

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One temptation the new president should eschew is an immediate and far-reaching administrative reorganization. In the past these have been hugely expensive and disruptive, with little to show for all the smoke and fire. Instead, we propose two modest changes that would considerably improve the administrative efficiency of the Bank. One: simplify regulations to ease out underperforming staff. For all its bravado about the need for labor market flexibility in its borrowers, the Bank has been loath to follow its own advice resulting in bloated costs and lower efficiency. Two: strengthen internal incentives for staff to work in the poorest and weakest countries. That would change a common perception that Bank employees should have significant experience on the larger, middle-income countries if they are to be considered qualified candidates for senior positions within Bank management.

Biographies of Working Group Members

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K. Y. Amoako is executive secretary of the Economic Commission for Africa (UNECA), the regional arm of the United Nations in Africa, serving at the rank of under-secretary-general of the United Nations. He is also a member of U.K. Prime Minister Tony Blair's Commission for Africa. Prior to joining UNECA in 1995, he served at the World Bank for two decades and worked in many areas of the Bank's activities, including country operations, sector operations, sector policy, and personnel management. He also held senior positions, including director of the Education and Social Policy Department (1993–95).

Owen Barder

Owen Barder is a senior program associate at the Center for Global Development, where he works on communications and outreach activities primarily associated with the Policy Research Network on Global Public Health. Most recently, he served as the director of Information, Communications, and Knowledge and head of Africa policy for the U.K. Department for International Development. He has also served as private secretary to the Prime Minister (Economic Affairs) and in the U.K. Treasury, where he was seconded to the South African Treasury.

Nancy Birdsall

Nancy Birdsall is the founding president of the Center for Global Development. Before launching the center, she served for three years as senior associate and director of the Economic Reform Project at the Carnegie Endowment for International Peace. From 1993 to 1998, she was executive vice president of the Inter-American Development Bank. Before that she spent 14 years in research, policy, and management positions at the World Bank. She is the author, coauthor, or editor of more than a dozen books and monographs on international development issues.

Colin I. Bradford

Colin Bradford is a visiting fellow in economic studies at the Brookings Institution. He currently serves as adviser to the Global Economy Track of the Helsinki Process on Globalization and Democracy. Previously, he was research professor of economics and international relations at American University and chief economist of the U.S. Agency for International Development. And he has held senior positions at the Organisation for Economic Co-operation and Development, the World Bank, and the Yale University School of Organization and Management.

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Robert Evenson is professor of economics and director of the International and Development Economics Program at Yale University. He joined the Yale faculty in 1969 and is the author or co-author of hundreds of scientific papers on agricultural productivity and economic growth in low-income countries. From 1997 to 2000 he was director of the Economic Growth Center at Yale University. His most recent book is *Crop Variety Improvement and Its Effect on Productivity: The Impact of International Agricultural Research* (2003).

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Jo Marie Griesgraber is the director of the New Rules for Global Finance, a coalition of nongovernmental organizations and scholars dedicated to the reform of the global financial architecture. She also serves as vice-president and secretary of the Financial Policy Forum. Previously she served as the policy director for Oxfam America, the director of Rethinking Bretton Woods project at the Center for Concern, and the deputy director of the Washington Office on Latin America.

José Angel Gurría

José Angel Gurría is the former minister of foreign affairs (1994–97) and former minister of finance (1998–2000) of Mexico and was a Mexican civil servant for 33 years. He headed Mexico's foreign financing strategy in the late 1970s and early 1980s and Mexico's debt restructuring negotiations during the late 1980s and early 1990s. He co-chaired (with Paul Volcker) the Commission on the Role of the MDBs in Emerging Markets in 2001 and chaired the External Advisory Group on the future of the Inter-American Development Bank. He is presently a member of the board of a number of

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Pierre Jacquet

Pierre Jacquet has been executive director (in charge of strategy) and chief economist at Agence Française de Développement (the French Development Agency) since 2002. He was formerly deputy director of the French Institute of International Relations in Paris and chief editor of its quarterly review *Politique Etrangère.* He is professor of international economics and chairman of the Department of Economics and Social Aciences at Ecole nationale des ponts et chaussées. He is also a member of the Conseil d'Analyse Economique, an independent advisory panel created by the French Prime Minister in July 1997.

Edward V.K. ("Kim") Jaycox

Kim Jaycox is a managing director of EMP Global, a Washington-based manager of private equity funds operating in emerging mMarkets. He is also the CEO of the AIG African Infrastructure Fund. He served at the World Bank for over 30 years, including as vice president in charge of the Bank's operations in Sub-Saharan Africa from 1984 to 1996. Previously, he directed the World Bank's programs in East Asia and led the team that brought the People's Republic of China into the Bank.

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Devesh Kapur is an associate professor in the Department of Government at Harvard University. He serves concurrently as director of the Graduate Student Associate Program and faculty associate at the Weatherhead Center for International Affairs and the Center for International Development at the John F. Kennedy School of Government at Harvard University. He is also a non-resident fellow at the Center for Global Development. He is the author of *Give Us Your Best and Brightest* (Center for Global Development, forthcoming) and co-author of *The World Bank: Its First Half Century* (Brookings Institution, 1997).

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Michael Kremer is Gates Professor of Developing Societies at Harvard University, senior fellow at the Brookings Institution, and non-resident fellow at the Center for Global Development. He is research associate at the National Bureau of Economic Research; vice-president of the Bureau for Research and Economic Analysis of Development; and a fellow of the Academy of Arts and Sciences. He serves as associate editor of the Journal of Development Economics and the Quarterly Journal of Economics. He is author, most recently, of Strong Medicine: Creating Incentives for Pharmaceutical Research on Neglected Diseases (Princeton, 2004).

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Steven Radelet is a senior fellow at the Center for Global Development, where he works on issues related to foreign aid, developing country debt, economic growth, and trade between rich and poor countries. He was deputy assistant secretary of the U.S. Treasury for Africa, the Middle East, and Asia from January 2000 through June 2002. From 1990 to 2000, he was on the faculty of Harvard University, where he was a fellow at the Harvard Institute for International Development, director of its Macroeconomics Program, and a lecturer on economics and public policy. He is the author of *Challenging Foreign Aid: A Policymaker's Guide to the Millennium Challenge Account* (CGD, 2003).

Jean-Michel Severino

Jean-Michel Severino was appointed director general of Agence Française de Développement (the French Development Agency) in 2001. He was previously vice-president for the Asia region in the World Bank, which he joined in 1996. Prior to joining the World Bank, he spent eight years in various positions at the French Ministry for Co-operation and Development and served as inspector of finance in the French Ministry of Economy and Finance. He was nominated general-inspector of finance and associate professor at the CERDI–University of Auvergne in 2000.

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Vito Tanzi is a consultant at the Inter-American Development Bank. He spent more than 25 years at the International Monetary Fund, including as chief of the Tax Policy Division and director of the Fiscal Affairs Department. In addition, he has served as undersecretary in Italy's Ministry of Economy and Finance, senior associate at the Carnegie Endowment for International Peace, president of the International Institute of Public Finance, and chairman of the Economics Department at American University in Washington, D.C.

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Daniel K. Tarullo is professor of law at Georgetown University Law Center. From 1993 to 1998 he was, successively, assistant secretary of state for economic and business affairs, deputy assistant to the president for economic policy, and assistant to the president for International Economic Policy. From 1995 to 1998 he was also President Bill Clinton's personal representative to the G-7/G-8 group of industrialized nations. Prior to joining the Clinton administration, he practiced law for several years in Washington, D.C., mostly in the areas of antitrust, financial markets, and international transactions. Previously, he was chief counsel on the staff of Senator Edward M. Kennedy.

John Williamson

John Williamson has been a senior fellow at the Institute of International Economics since 1981. He was project director for the UN High-Level Panel on Financing for Development (the Zedillo Report) in 2001 and on

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Ngaire Woods
Ngaire Woods is director of the Global Economic Governance Programme at University College, Oxford. She is an adviser to the United Nations Development Programme's Human Development Report Office, a member of the Helsinki Process on global governance, and a member of the resource group of the UN Secretary-General's High-Level Commission into Threats, Challenges and Change. She sits on numerous editorial and advisory boards, including the Advisory Group of the Center for Global Development. Her most recent book is *Global Mission: the IMF, the World Bank and Their Borrowers* (Cornell University Press, forthcoming).

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Daniel M. Zelikow is a managing director of JPMorgan and a member of the Government Institutions Group with responsibility for multilateral financial institutions, export credit agencies, and some of JPMorgan's key emerging markets clients. He also coordinates JPMorgan's activities to facilitate Iraq's financial reconstruction and helped to found the Trade Bank of Iraq. Before joining JPMorgan in 1999, he served as deputy assistant secretary for international affairs at the U.S. Treasury. Before managing the U.S. financial support program for Mexico in 1995 as head of the Mexico Task Force, he directed the Treasury's overseas technical cooperation, involving finance ministries and central banks in more than 20 countries.

Notes

1. Einhorn (2001).

2. For a critique from the left, see 50 Years Is Enough (2004). For a conservative critique, see International Financial Institution Advisory Commission (2000). For a useful summary of critiques emanating from both sides, see Mallaby (2005).

3. See Einhorn (2001).

4. According to an internal Bank audit, "The Bank faces challenges in effectively customizing its…poverty reduction strategy to individual countries. The Bank needs to apply its strategy based on detailed country knowledge and an appreciation of the willingness and ability of each country to implement reforms." See World Bank, Operations Evaluation Department (2005).

5. For an illustration of this renewed emphasis on infrastructure, see the final report on IDA-14 replenishment (IDA 2005).

6. World Bank, Operations Evaluation Department (2005) suggests the Bank has encouraged too much lending for social programs in low-income countries, neglecting the role of infrastructure in growth. It does not make the point that even among the low-income group, decisions across programs (agriculture, social, infrastructure, civil service reform, and more) need to be made on a country-by-country basis.

7. The Working Group did not discuss the management question of how much more Bank staff should be decentralized to work outside of Washington, beyond the observation that the direction of the last decade toward greater decentralization has made the Bank more effective.

8. According to World Bank, Operations Evaluation Department (2005), the Bank must undertake a "realistic assessment of the political environment and the implementation capacity for reform" if it is to strike the optimal balance between economic growth and long-term institutional and social development objectives.

9. In turn this requires that the Bank be much more aware that most of its knowledge generation is for all practical purposes unavailable to the very audience whose problems it is designed to address—poor and marginalized communities—because it is rarely in the languages of these communities. One highly cost-effective way to increase the impact of the Bank's expertise is to make the Bank's website multilingual in the languages most widely used in client countries. Surveys show strong demand for this service; yet most of the Bank's knowledge is available only in English. See World Bank (2004b).

10. The majority's vision was that, "all resource transfers to countries that enjoy capital-market access (as denoted by an investment-grade international bond rating) or with a per capita income in excess of $4,000 would be phased out over the next 5 years." See International Financial Institution Advisory Commission (2000), p. 82. That position had earlier been stated, and has

since been restated and extended, by such distinguished economists as Kenneth Rogoff, the former director of research of the IMF, who remarked in a recent public forum that it makes little sense for the World Bank to be lending to China, with its high levels of foreign direct investment and growing dollar reserves, which are the source of huge flows to the United States.

11. See Commission on the Role of the MDBs in Emerging Markets (2001). This Commission is often referred to as the "Gurría-Volcker Commission" after its chairs, José Angel Gurría and Paul Volcker.

12. The Working Group concluded, in contrast, that the World Bank should continue to be active in middle-income countries and in such emerging markets as China and India. Working Group member Daniel Tarullo would be very cautious about the nature of World Bank involvement in middle-income and other countries with significant, sustained inflows of capital.

13. What they lack is long-date, fixed-rate access in local currency because of investors' concerns about their macroeconomic stability.

14. See Commission on the Role of the MDBs in Emerging Markets (2001), from which some of the text on this issue is excerpted.

15. To the extent that countries rely solely on access to private markets (including their own internal markets) for these investments they are likely to end up with a dangerous mismatch between short-term liabilities and long-term returns—thus the problem of vulnerability to external capital markets.

16. Based on Nancy Birdsall and Javed Burki's personal discussions and correspondence in 2000–01 with officials of Brazil, Chile, China, Hungary, India, Mexico, and Poland as background work for the Gurría-Volcker Commission. See Commission on the Role of the MDBs in Emerging Markets (2001). Rodrik (1995) emphasizes that for private markets, the credibility of the signaling function of the World Bank and other official creditors rests on the latter's view that "in the absence of direct lending, there is very little to ensure that the official creditors will exercise their informational function as competently as possible.

17. The objective in principle is for the Bank to cover noncommercial risk.

18. The Bank might also help out with some risks for which there is no market (certain commodities, drought) by owning them directly as an insurer.

19. For one perspective on the proliferation of standards and their unintended consequences, see chapter 10 of Mallaby (2004). See also World Bank (2001a, 2001b).

20. This solution was first put forward by Eichengreen and Hausmann (2003).

21. This approach is proposed in Dervis (2005).

22. This uses the market as a benchmark, with richer borrowers paying a rate closer to the market rate they face.

23. One way to do this would be for the Bank to do more blending of its loans with bilateral grants of donors into single coordinated operations.

24. See World Bank (forthcoming). For an exposition specific to Latin America, see Birdsall and de la Torre (2001).

25. Regarding the Poverty Reduction Strategy Papers, see World Bank, Operations Evaluation Department (2004). Regarding reluctance to exit and other failings of donors in low-income countries, see Nancy Birdsall,

"Seven Deadly Sins: Reflections on Donor Failings," Center for Global Development Working Paper Number 50, December 2004.

26. This is the spirit behind the Bank's Comprehensive Development Framework, which by its own description "emphasizes the interdependence of all elements of development—social, structural, human, governance, environmental, economic, and financial." For more information on the Comprehensive Development Framework, see www.worldbank.org/cdf.

27. See Radelet (2004).

28. Working in these countries is much riskier than other places. As a result, programs in poorly governed states require very careful monitoring, regular re-appraisal, flexible responses as initiatives begin to work or fail, and a higher tolerance for failure than when working in other countries.

29. The exact amount would ideally be specified in purchasing power parity (PPP) terms and in those terms would probably be higher, as only a handful of countries are now at an estimated $500 per capita income or less in PPP terms. In usual exchange rate terms the amount would ideally be smaller: about 40 countries, including fast-growing Vietnam, have incomes per capita below $500 in those terms. On the idea of a second IDA window, see Radelet (forthcoming).

30. Whether the current three-year cycle of IDA replenishments affects that ability is not clear. A longer replenishment period should not be necessary, as IDA already makes commitments beyond three years. But it might help, particularly since bilateral aid commitments over long periods are even more difficult to make.

31. In addition to OED, the Bank created the Inspection Panel in 1993, a three-member body charged with providing an independent forum to private citizens who believe that they or their interests have been or could be directly harmed by a Bank-financed project. The Bank's Executive Board reviews the Panel's recommendations and decides whether an investigation should take place.

32. In the words of the Meltzer Commission (International Financial Institution Advisory Commission 2000), "The project evaluation process at the World Bank gets low marks for credibility: wrong criteria combine with poor timing…The Bank measures results at the moment of final disbursement of funds. Final disbursement often occurs more than one year before the project begins full operations. The start of operations is too early to judge sustainability of achievements… Evaluation should be a repetitive process spread over time including many years after final disbursement of funds, when an operational history is available" (p. 75). See also Commission on the Role of the MDBs in Emerging Markets (2001).

33. See Center for Global Development (forthcoming).

34. Birdsall (2004).

35. Center for Global Development (forthcoming).

36. See Evenson (2003).

37. In fiscal year 2001 (the most recent year for which data are available), the Bank spent about $30 million of its administrative budget on global programs, provided another $120 million in grants (also from its administrative budget under the umbrella of the "Development Grant Facility") and dis-

bursed $500 million from Bank-administered trust funds financed by other contributors. See World Bank, Operations Evaluation Department (2002).

38. The U.K. government has proposed supporting, in collaboration with other donors, such commitments for malaria and HIV vaccines, and we recommend that the Bank take a leadership role in supporting this initiative. The best option would be for the Bank to legally bind itself to provide IDA loans to any IDA-eligible member that wanted to purchase the vaccine as long as a number of pre-specified vaccine characteristics were met. For more detail on advance purchase commitments, see Center for Global Development (2005).

39. See World Bank (2004a). The World Bank's Articles of Agreement do not allow split voting; all of the votes of a given "chair" are cast as a unit. As a result, developing country members of mixed constituencies (for example, the chairs held by the Netherlands, Belgium, Switzerland, and Canada) often go unheard on policy matters when their interests differ from those of the industrial country that represents them as the chair.

40. Data in this paragraph refer to IBRD voting shares. Calculations of the shares of world GDP are in purchasing power parity terms, and data are from the IMF (2005a).

41. Dervis (2005) proposes inclusion of population and of contributions to the United Nations in his formula for representation on the UN Security Council.

42. The need for transparency in the selection process was noted by outgoing President James Wolfensohn at his farewell news conference on May 4, 2005. He referred to the World Trade Organization model, which recently chose its new director general from four public candidates. The recent appointment of a new administrator of the United Nations Development Programme was also made following an open selection process, with six candidates.

43. See World Bank and IMF (2001).

44. However, neither board formally adopted the specific recommendations contained in the report.

45. This echoes a similar recommendation made by the U.K.-sponsored Commission for Africa (2005), which advocates for two new African chairs on the Boards of the World Bank and IMF: "As the rules for representation on the Boards [of the World Bank and IMF] are based on economic criteria, it is not likely that African representation will exceed two chairs out of 24 in the short term. However, a decision could be taken by consensus to allow the creation, on a temporary basis (for the entire period up to 2015), of two supplementary positions of Executive Director for Africa, each backed by an Alternate Director, in each Board. This would ease the task of the directors in this critical period for Africa's development" (p. 368).

46. The communiqué states: "The IMF's effectiveness and credibility as a cooperative institution must be safeguarded and further enhanced. Adequate voice and participation by all members should be assured, and the distribution of quotas should reflect developments in the world economy. The Committee emphasizes that the period of the Thirteenth General Review of Quotas provides an opportunity for the membership to make progress toward a consensus on the issues of quotas, voice, and participation" (IMF 2005b).

47. See also Dervis (2005).

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