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20

A New World Bank for a New Century

Robert Picciotto

The World Bank is the target of strident criticisms from the antiglobalization left and the market triumphalist right. In this chapter, presenting a pragmatic neoliberal argument, Robert Picciotto defends the World Bank and its shifting agenda. Picciotto argues that the Bank's reorientation from macroeconomic management toward governance, financial-sector reform, social development, and social protection is in tune with the changing times. This new orientation will distinguish the Bank from the International Monetary Fund and serve the development needs of low-income countries more appropriately and effectively. Picciotto identifies two critical challenges: (1) the implementation of poverty reduction strategies and debt reduction programs in the least-developed countries, and (2) multilateral cooperation in the wake of the terrorist attacks of September 11, 2001. Both, he argues, will propel the World Bank and its operations into greater significance. In a highly fragmented development assistance architecture, he concludes, the role of the World Bank assumes even more critical importance to address the issue of development partnership between the rich and poor countries.

The development effectiveness of the World Bank's operations has improved greatly in the past several years. Its organization is more responsive to country needs and stakeholder concerns. More than a money bank, it is also a knowledge bank and a partnership bank. And its operational agenda is more comprehensive. Why? Because its business has changed, and it is being called on to deliver wholesaling services to the development community.

This transition has been demanding for the Bank. Greater relevance has been achieved at the cost of budgetary stress, management-staff tensions, and organizational overload. Internal management arrangements

Accordingly, the World Bank may well be entering a period of consolidation, greater selectivity, and tighter internal controls. But there is no turning back: the new operational emphases of the World Bank are here to stay because they reflect the needs of the new century.

A New Role in the Development Architecture

The changes in the Bank's corporate strategies (and the massive challenges that remain) reflect the evolution of the environment for development. More than five billion people live in market economies today, up from one billion fifteen years ago. The information revolution is opening enormous opportunities for new products, new markets, and new production techniques. Yet failed and failing states, rampant corruption, and increased inequalities in income distribution among and within countries reduce the developmental benefits of more open trade and freer capital flows.

The share of the poor in the world population has declined, but this has largely been because of progress by China and India. Poverty trends have been very disappointing in Africa, Latin America, and the former Soviet Union. As a result, the development movement lost much public support in the 1990s, and the volume of development assistance as a share of GNP in developed countries came down by 40 percent. Just as the private sector and the civil society have adapted to globalization, so must the development assistance system.

All aid agencies are seeking greater development effectiveness through a more robust attack on the sources of poverty in developing countries (governance malfunctions, policy weaknesses, and inadequate levels of social expenditures). The "one size fits all" Washington Consensus has given way to a sober realization of the importance of building institutions and nurturing domestic ownership of reforms before administering shock therapies. Evaluation evidence has also pointed to the risks of operations imposed through top-down conditionality. The principles of effective aid endorsed by the OECD Development Assistance Committee (as well as the Comprehensive Development Framework championed by the Bank) reflect these lessons of experience.

To restore public confidence in aid and help protect the benefits of globalization, bilateral aid donors must give greater weight to country performance, harmonize their practices, reduce the transaction costs imposed on fragile recipient administrations, and focus on results within the framework of common international development goals. By endorsing these goals, the Bank has signaled its readiness to forge closer linkages with its development assistance partners and to play a leading role in helping to streamline a rococo development assistance architecture no longer adapted to global needs.

Conversely, most other multilateral and bilateral aid givers have given full support to the joint Bank-Fund initiative for poverty reduction strategies. They have also welcomed harmonization of aid practices across the development system (procurement, financial management, environmental assessment). And they are placing greater reliance on the due diligence analytical work of the Bank.

No organization can be expected to lead in all facets of development. That is why the Bank opted to reorient its operational emphases away from macroeconomic management toward governance, financial-sector reform, social development, and social protection—to distinguish its operations more sharply from those of the IMF. At the same time, the Bank began to reshape itself from a retail organization focused on projects to a wholesaling platform for development partnerships, filling a gap at the center of a highly fragmented development assistance architecture.

Reshaping the Bank

Responsiveness to the client has been the centerpiece of recent Bank reforms. A change of personnel at the top together with executive development training, "knowledge fairs," and new partnerships with governments, business, and voluntary organizations have induced deep changes in values and attitudes. The Bank is now more fluid and innovative. Management practices are less hierarchical. Partnership, ownership, and a results orientation have replaced projects, adjustment, and conditionality as the dominant themes of Bank operations. The normative, project-oriented Bank is giving way to a service-oriented development institution focused on the multiple challenges of poverty reduction.

Responsiveness to the increasingly differentiated needs of borrowing member countries underlies the logic of the Bank's country-based organization. The resulting organizational and budget process changes have been many and complex. They share a common characteristic: a determination to get closer to the client. This bias for proactive engagement also explains the fivefold expansion in development training activities of the World Bank Institute, the diversification of the Bank's instruments, and the new focus on development partnerships.

The advent of a matrix organization, the increased participation of the civil society in Bank operations, the tighter monitoring of safeguard policies, and the enhanced quality assurance efforts have come at a price. The cost of doing business with the Bank has been rising. Staff stress has grown. Budget pressures have become more intense and lending volume has come down after a remarkable spurt in the wake of the East Asia financial crisis—from $21.5 billion in FY96 to $29 billion in FY99 and down to the general operational policy directions adopted by the Bank have been fully in line with the consensus of its membership.

The setup of an independent inspection panel, the renewal of the Operations Evaluation Department, and the setup of a board committee on development effectiveness have helped fill evaluation gaps and have made evaluation activities more timely and influential. Systemic links have been forged with the board's oversight of business processes not only at the project level but also at the level of country assistance strategies, sector strategy papers, and policy formulation.

In parallel, Bank management has invested heavily in self-evaluation and control activities. In particular, it has enhanced financial management and internal auditing and created the Quality Assurance Group, an anticorruption investigation unit, and a new operational policy and country services group. Because "what gets measured gets done," these reforms have paid off. The share of satisfactory outcomes for Bank projects has risen from two-thirds to three-fourths. This is all the more impressive given that the complexity and "demandingness" of Bank operations rose by more than 50 percent over the past decade.

Diversifying the Client Base

Borrowing governments have always been the Bank's main clients. But given the growing pluralism of the global operating environment, the Bank has had to build bridges to the private sector, civil society, and other development assistance agencies. The pressure for the Bank to change and broaden the scope of its assistance has come from rapidly evolving and increasingly diversified client needs.

As a result—and paradoxically for a global development agency—the Bank acts more locally now than ever before. For example, lending for policy reform to provinces and subnational entities has become the thrust of country assistance strategies in such large federal countries as India. And community-based projects have become a dynamic element of the Bank's lending program throughout the world. More often than not, the disappointment expressed by clients has to do with the Bank doing too little rather than too much.

The Bank has thus positioned itself as the indispensable financing platform for global poverty reduction. In partnership with the IMF, it is now the undisputed focal point of debt reduction programs. And it has taken the lead in multidonor partnerships in support of equitable and sustainable development in low-income countries. In parallel, it has secured the support of its governors for a continuing role in middle-income countries.

Adjusting to Market Realities

The globalization of capital markets has had a major impact on the Bank's financial intermediation role. The rise of private financial flows toward the developing world has led to a drop in the share of international financial institutions in capital flows from 40 percent in 1986 to only a few percent today. Net flows from the Bank in 2000 stood at $7.4 billion; IMF net flows were negative to the tune of $10.7 billion, while official development finance in 2000 stood at $39 billion and private flows at $257 billion, with $178 billion in foreign direct investment.

As long as private flows remain volatile and concentrated on relatively few countries, there will be a role for the Bank in middle-income countries. In effect, the higher the financial risks incurred by borrowing members in the global marketplace due to weak domestic institutions, the more relevant the financial intermediation and market stabilization roles of the Bank. Access to private capital is closely linked to variable public perceptions of the political stability and quality of economic management of individual countries.

A basic justification for continued Bank lending to middle-income countries is the herd tendency of private investors and the instability of global markets. Sovereign bond yields are highly volatile—a clear justification for nurturing long-term lending relationships between middle-income countries and the Bank. Many if not most middle-income countries have immature financial institutions, distorted social policies, badly designed social-safety nets, and limited, costly, and unreliable access to private capital markets. They will need development assistance from the World Bank for decades to come.

Managing Risks

With the global operating environment riskier and less stable, financial risk administration has become more demanding as key, large-country portfolios reach prudential ceilings. And for poor, highly indebted countries, debt reduction operations have become an indispensable addition to the Bank's tool kit.

The Bank's ten environmental and social safeguards have become benchmarks for the rest of the development system as well as touchstones of the Bank's own accountability and transparency. Weaknesses in oversight of safeguard policies have been identified and internal quality assurance strengthened to ensure that the Bank practices what it preaches, displays a human face in the operations it finances, and improves the management of its development risks. Today's World Bank has a human face.

Risk management does not mean risk avoidance. The regional and ethnic conflicts unleashed by the end of the Cold War have reconfirmed the validity of the Bank's original reconstruction mandate. The past decade has witnessed a proliferation of armed conflicts in low-income countries, most of which are domestic and affect civilian populations. Ten highly indebted African countries are affected by conflict. In addition to responding to increasingly frequent and destructive natural disasters, the Bank has become a leading player in postconflict rehabilitation, an entirely different reconstruction one from the role it played following the end of World War II: the current postconflict challenge centers on the restoration of institutional capacities in deeply wounded societies.

Connecting to the Private Sector

The collapse of communism has accelerated a trend toward a reduced role for public investment in developing countries. The growing realization that national wealth depends on setting up the right market institutions and policies has led to a greater appreciation by developing countries of the Bank's policy advice and capacity development services.

The advisory services delivered by the Bank have helped connect developing countries to the engine of the global market. Privatization, trade liberalization, financial-sector reform, improved judicial and regulatory frameworks, anticorruption programs, and other enhancements of the enabling investment climate have become a staple of the country dialogue. In particular, the Bank validates the soundness of structural and social policies, the appropriateness of public expenditures programs, and the quality of the fiduciary framework. A variety of Bank/business partnerships have sprouted to pilot new ways of reaching the poor through private enterprise.

In parallel, the two private-sector arms of the Bank—the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA)—have increased the scope of their operations. They now encompass infrastructure and social-sector activities previously handled exclusively by the Bank. Both IFC and MIGA are more active in "frontier" sectors and countries where risks and rewards are high and the signaling impact of the Bank Group is substantial. Assistance to small and medium-size industries and microcredit schemes is receiving more resources. Good corporate citizenship and leadership in environmental and social sustainability now lie at the core of the corporate private-sector development strategy.

Responding to Global Challenges

The growing realization that global issues need better management has

From six billion people today, the world's population will expand to ten billion people over the next four decades. Food production will have to triple just as the land frontier disappears. The risks of global warming, deforestation, desertification, and infectious diseases will intensify. Environmental stress, already high, will rise further, and sustainable livelihoods will be threatened as natural resources get depleted.

To bring the cross-boundary dimension of these problems to the attention of policymakers, large numbers of informal policy networks have emerged to advocate collective action against deforestation, whaling, land mines, large dams, and corrupt practices. In parallel, hybrid forms of organization are emerging. They combine the innovative energies of the private sector, the altruism of voluntary agencies, and the regulatory clout of nation-states.

Partnership is part of the solution to the high transaction costs implicit in a multiplicity of national regulatory frameworks for oversight of financial transactions, corporate governance, and telecommunications. The challenge is to create effective global networks, to improve communication among governments, to help set standards, and to implement collaborative multicountry programs. This is the context in which amplifying the voices of the poor in international debates and mediating principled solutions to global policy issues have become growing business lines for the Bank. Already, the Bank has demonstrated a pragmatic capacity to act as a transgovernmental network. Over the past five years, it has participated in new multicountry initiatives to assist the least-developed countries in trade negotiations, combat HIV/AIDS, malaria, and tuberculosis, and develop new vaccines for tropical diseases. Partnerships have also been created to fight deforestation and protect biodiversity hotspots: 60 percent of all species are found on 1.4 percent of the planet's surface. The Bank has also financed distance learning centers, encouraged the spread of new information technologies, created a network of policy research institutes, and funded an African Virtual University.

All in all, the Bank is involved in more than ninety global and regional programs. Criticisms have been levied about the proliferation of these initiatives, the lack of clear criteria for entry, the weak resort to exit, and the tendency to take on work that does not always respect the Bank's comparative advantage. Tighter management of these activities is a clear priority. But given global trends, the Bank will continue to be called on to provide partnership services and knowledge platforms to deal with the critical problems and amazing opportunities associated with globalization.

Operating in the Wake of Terror

investors, undermined consumer confidence, and aggravated an already difficult economic situation for most developing countries. But they may also induce far greater economic cooperation among nations as isolationist doctrines lose ground and multilateralism gains in acceptance. The developed countries, given the sudden realization that they cannot be shielded from chaos at the periphery, will probably pay more attention to the zones of turmoil and development, where 85 percent of the world's people live. It is even conceivable that measures to liberalize trade, increase aid flows, and deal with regional conflicts will move up on their domestic policy agendas.

What does this mean for the World Bank? First, a sharply increased need for long-term financial assistance. Second, intensified demand for knowledge and advisory services to deal with the crisis. Third, a likely increase in the need for postconflict reconstruction assistance. Fourth, more interest in harmonizing practices among donors, improving aid coordination, and accelerating the implementation of poverty reduction strategies and debt reduction programs in the least-developed countries.

Of course, the greater potential rewards from World Bank activities bring higher risks. Social stresses and political constraints may undermine the momentum of policy reform by borrowers.

More than ever, the world needs a global financial institution well connected to its developing member countries, to the private sector, and to the development assistance community. For middle-income countries, the countercyclical need for World Bank assistance has become self-evident. For low-income countries, the unique poverty reduction instrument of the International Development Association (IDA), the World Bank's concessional lending window, is more visible and critical than ever.

Box 20.1 Shifting Opinions About the World Bank

Entering the new century, the World Bank has been the target of strident criticism from the antiglobalization left and the market triumphalist right. The radical street demonstrators perceive the Bank as a supine instrument of global capitalism. The "Chicago school" economists view it as a hindrance to the beneficial interplay of free-market forces. Both groups favor a drastic reduction in the Bank's role. By contrast, a broad-based—and sometimes less vocal—majority of the Bank's membership has been highly supportive of the Bank's new operational emphases.

Clearly, today's World Bank does not please everyone—and it never could. Recent organizational developments—the decentralization of country leadership, the proliferation of professional networks, and the vast increase in the number of corporate initiatives—have

reinforced public perceptions of a highly decentralized, multifaceted, somewhat diffuse World Bank.

The Bank tries to do too much for too many clients? Satisfying a far wider range of constituencies and involving voluntary organizations and the private sector in Bank operations are a direct consequence of the state's reduced role in the new global economy. Inevitably, this has opened the Bank to a much wider range of influences over its policies. And it has made it harder for Bank managers to be selective given the high demand for a broad range of services by a diversity of stakeholders.

The Bank's operations encourage corruption? Quite the reverse: the Bank is a leader in the fight against corruption worldwide. Since 1996, it has launched more than six hundred anticorruption programs and government initiatives in almost one hundred countries. The Bank is also committed to keeping all Bank projects free of corruption, putting in place stringent guidelines and a hotline for complaints of abuses.

The Bank doesn't learn from its mistakes? For thirty years the Bank's operations have been independently evaluated. And because of new and unprecedented risks, the Bank now has a multifaceted evaluation system unique among development institutions. The independent Operations Evaluation Department (OED) provides a wide range of reports to the Board of Executive Directors and tracks the development effectiveness of the Bank. The Internal Audit Department assesses the effectiveness and efficiency of management controls. The independent inspection panel provides a voice to local communities that may be adversely affected by Bank-supported activities. The Quality Assurance Group (QAG) does real-time assessment of operational work. The Quality Assurance Group and Compliance Unit (QACU) addresses compliance with safeguard policies. The regional quality assurance teams are charged with all aspects of operational quality. The Oversight Committee on Fraud and Corruption oversees implementation of the Bank's anticorruption policies and strategies. And a new Department of Institutional Integrity investigates allegations of fraud and corruption.

The Bank doesn't really help the poor? Having provided $30 billion for education projects, the Bank is the world's largest external funder of education. With new commitments of $1.3 billion a year for health, nutrition, and population projects, it is also the world's largest external funder of health programs and the world's largest funder in the fight against HIV/AIDS. The Bank is also leading the initiative to reduce the debt of the world's poorest countries that have high debt

Box 20.2 Getting more effective

World Bank project performance has improved significantly over the past five years, according to a recent review by the World Bank's independent Operations Evaluation Department (OED). Three of every four recently completed Bank projects satisfactorily achieved their development objectives, hitting the Bank's target of 75 percent set five years ago.

Projects are evaluated on whether they did the right things (relevance to the country's development goals) and whether they did things right (the efficiency and effectiveness of implementation). Early analysis by OED confirms that Bank projects completed in fiscal year 2000 (June 30) have achieved a record level of satisfactory performance. The Bank has seen an upward trend in the quality of performance over the last five years, with performance climbing from 66 percent satisfactory (for 1990–1994), to 71 percent (for 1995–1998), 72 percent in 1999, and 77 percent for FY00 (based on partial sample). A solid 86 percent of adjustment lending outcomes were satisfactory, according to OED.

These findings suggest that the Bank's efforts to improve project design and supervision are showing results. The improvements are all the more impressive considering that Bank projects have become more complex and more demanding, especially in low-income countries. Projects now have multiple objectives and stronger requirements for such priorities as environmental safeguards.

Development outcome ratings capture not just whether the project implemented its planned investments but also whether it is likely to contribute to development and poverty alleviation over the medium to long term. The outcome rating is thus the main measure of a project's performance.

OED complements the outcome ratings with assessments of the project's contribution to strengthening institutions at the national or community level (institutional development), and a forward-looking assessment of whether project benefits are likely to be sustained (sustainability). Among recently evaluated projects, OED has determined that only 20 percent of all projects are unlikely to be sustained. The Bank's performance in institutional development has also improved over the past five years.

Notes

1. Robert Picciotto is director-general of Operations Evaluation for the World Bank Group. The views expressed here are his; they do not necessarily reflect those of the World Bank Group, the Board of Executive Directors, or the Operations Evaluation Department.