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Still Waiting: The Failure of Reform at the World Bank

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In this essay, Bruce Rich provides a critical assessment of the World Bank's reform agenda for the twenty-first century. According to Rich, World Bank President James Wolfensohn's Comprehensive Development Framework, touted as a new paradigm for development, has failed to deliver any concrete results. He asserts that the World Bank's raison d'être—i.e., environmentally sustainable poverty alleviation—is no longer relevant as the Bank continues to serve the interests of rich countries and their corporate clients. Criticizing the Bank's culture of corruption, corporate welfare agenda, and lack of operational transparency and accountability, Rich argues that the Bank has clearly lost its relevance as a development institution. He provides a sharply contrasting perspective with that of Robert Picciotto in the previous chapter.

When James D. Wolfensohn became President of the World Bank in June 1995, he appeared to be the institution's last, best chance. A cello player, former Olympic fencer, and Medici-like financier, he could also outperform the most self-righteous non-governmental organisations (NGOs) in his public protestations of concern for the poor. In his own words, "the real test of development can be measured not by the bureaucratic approval process, but by the smile on a child's face . . . We must organise ourselves . . . to deliver on that smile."

From his first day in office, Wolfensohn promised to revolutionise the World Bank. He pledged to change the institution's long embedded internal culture from one of loan approval—where staff were rewarded above all for pushing money—to a culture of "development effectiveness" and "account-

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ability," where economic, social and environmental results in the field would be top priorities. Making the World Bank more effective in helping the poor while protecting the environment would mean putting a priority on more intensive preparation, monitoring and supervision of Bank projects, as well as a much greater willingness to halt loan disbursements to governments—the Bank's major borrowers—that do not comply with Bank policies and loan conditions.

However, an effect of many of Wolfensohn's changes has been to make the Bank more amenable to its official governmental and corporate clients and weaken internal mechanisms for quality control. Moreover, the most rapidly growing area of Bank operations in the late 1990s has been in support for the private sector, and over the past two years, in huge, non-project emergency bail-out packages. Both priorities have even less connection to directly helping the poorest of the poor than more traditional Bank project loans. Worse, more and more evidence is coming to light that the approval culture has and is fostering systematic graft and the diversion of billions of dollars by corrupt politicians and bureaucrats in major Bank borrowers.

An Institution in Crisis

James Wolfensohn inherited an institution that was in crisis. Ever since the early 1980s, NGOs concerned with poverty alleviation and the environment have criticised the Bank relentlessly for financing development disasters in numerous countries. New Bank policies on environment and poverty alleviation, and increased staff did little to mute the criticism, since many Bank operations in the field appeared to go forward in violation of these policies.

The principal finding of the 1992 Independent Commission report into the Bank-financed Sardar Sarovar dam on the Narmada River in India, for example, was that the Bank and the Indian Government were culpable of "gross delinquency" in their implementation of the project, particularly concerning the forced resettlement of over 200,000 poor farmers. The Bank was found to be "more concerned to accommodate the pressures emanating from its borrowers than to guarantee implementation of its policies." The Wapenhans Report, released in 1992, confirmed that a "culture of loan approval" was deeply embedded in senior Bank management and had caused a relentless decline in the performance and quality of Bank operations. This was also documented in countless reports of the Bank's internal Operations Evaluation Department (OED), and ignored for over a decade by the World Bank's management and Executive Board. These deep-rooted institutional problems had been brewing for the better part of two decades and were unresolved when Wolfensohn began his tenure.

Failure of Poverty and Environmental Assessments

The Bank under Wolfensohn responded by trying to address all of these concerns simultaneously. He and Bank management maintained that there was no inherent contradiction in what amounted to promising all things to all constituencies. He thus promised to change the Bank's internal culture to better implement policies and to deliver better developmental results on the ground, but also to streamline Bank lending procedures to shorten loan processing and to increase the volume of lending.

The flaws in this approach soon became apparent in a crucial area. In the summer of 1996, two studies by the OED revealed the massive failure of the Bank to implement effectively its key poverty alleviation and environmental policy instruments—Poverty Assessments and Environmental Assessments (PAs and EAs).

Beginning in 1988 the Bank began to conduct Poverty Assessments of its borrowing nations to serve as a basis for better incorporating poverty reduction elements in the Bank's main country lending strategy documents, the Country Assistance Strategies (CASs). The Poverty Assessments were supposed to promote increased collaboration between the Bank and borrowers in poverty reduction, and to identify specific poverty reduction lending initiatives. The Bank's major donor governments made preparation of these Poverty Assessments, for the period 1994–96, a condition of the $18 billion funding replenishment of the International Development Association (IDA)—the part of the World Bank that makes low interest loans to the poorest countries. Bank staff prepared a voluminous *Poverty Reduction Handbook* to guide staff and management in carrying out Poverty Assessments and poverty reduction lending. By December 1994, 46 Poverty Assessments had been completed.

The OED review, however, concluded that the Poverty Assessments were a failure in influencing lending priorities and project design. The Poverty Assessments had little impact on Country Assistance Strategies—and this impact was supposed to be the single most important reason for their existence. The OED report found that "CASs focused overwhelmingly on broad macro-economic stabilisation and structural reform issues, with few references to the status or causes of poverty, or to approaches to poverty reduction." Not surprisingly, "Poverty Assessments have so far had little influence on the volume of lending targeted on reducing poverty." The OED report indicated that many of the Bank's borrowing governments did not in any case view poverty reduction as a goal or priority.

Perhaps the most interesting insight into the real role of concern for poverty in the Bank's institutional culture can be gleaned from the report's characterisation of comments by Bank staff familiar with the Poverty Assessment initiatives. They were able to express their opinions anonymously on Bank electronic meeting software:

> *Poverty Assessments are believed to lack influence with borrowers because poverty reduction is often not the overarching operational objective . . . Within the Bank, Poverty Assessments are not influential because they are believed not to be taken seriously by senior management . . . The Program of Targeted Interventions [increased loans to reduce poverty] (PTI) . . . has little support and generates a degree of cynicism. Too often the PTI designation is merely a label applied to projects that have little genuine poverty-reducing influence to meet an imposed requirement.*

The OED's environmental report's main findings were equally damning, concluding that most full EAs (required for so-called "Category A" projects) "generate massive documents that are of little use in project design and during implementation." Most EAs were undertaken too late in the project cycle, so that "very few EAs actually influence project design"; as a result, public consultation and information disclosure, also required by the Bank's public information policy, was also weak, and when it occurred often happened too late in the project cycle to be effective. Moreover, "most Category A project EAs have failed to give serious consideration to alternative designs and technologies as called for in the Operational Directive, and those that do often explore weak, superficial or easily dismissed options." Recommendations and environmental action plans contained in EAs were often not implemented, and Bank supervision of the environmental components of projects was often lax or non-existent. Environmental Assessments, the report continued, "are often not understood by project implementation staff and, in many instances, not even available in project offices."

The report also pointed out that if the single most important problem undermining the effectiveness of the EAs was their tardy preparation in the project cycle, Wolfensohn's efforts to speed up loan approval would worsen the problem: "if the Bank continues to reduce the number of days available for project preparation and appraisal, finding time for meaningful consultation (and quality control of EA reports) will be increasingly problematic..."

As with other OED reports, the analysis on both Poverty and Environmental Assessments was devastating, but the follow-up by Bank management virtually non-existent.

Amnesia, "Clientitis," and Unaccountability

The new internal review entity called the Quality Assurance Group—touted by Wolfensohn and Bank management as one of the key institutional changes that would bring about the much heralded "culture of development effectiveness"—concluded in April 1997, a year long review of key areas of the Bank's ongoing lending portfolio. It examined 150 projects in detail across 14 major areas. The *Synthesis Report* summarising these reviews was an indictment of the Bank's chronic, institution-wide inability to learn from past experience, the lessons of which were "well known but generally ignored," the report noted, in new lending operations. In the words of the Quality Assurance Group, the Bank had pervasive "institutional amnesia."

One of the factors behind this was that the thrust of the cultural change Wolfensohn claimed to promote was, once again, contradictory: improved project quality and, simultaneously, more responsiveness to the Bank's clients. But the Bank's clients have always been, and will in large part remain, borrowing governments and government agencies. The crisis of the culture of approval had become so overwhelming precisely because of the Bank's desire to please or not offend its government borrowing clients.

This problem is compounded by the lack of adequate accountability for socially and environmentally detrimental project violations that have arisen as a result. Only the Independent Inspection Panel is willing to undertake credible efforts to hold Bank management accountable for violations. But it has a debilitating Achilles' heel: the requirement that all investigations be approved by the Bank's Executive Board made up of developing country members who lobby heavily not to have the performance of their governments scrutinised.

Thus, when massive violations of Bank policy were alleged in the implementation of the Rondonia Natural Resources Management Project in Brazil, the Bank's Board, in January 1996, rejected a full investigation by the Panel, allowing it to review the project only after periods of six and 18 months. When it did, it found: "Deforestation has continued at high historical levels," and "illegal timber cutting and settlement in protected areas" continue. It also found "little progress in implementing a sustainable health plan for indigenous people." Similar results arose from complaints about two massively mismanaged projects in Brazil and India: the Itaparica dam resettlement project (the single most expensive resettlement project in Bank history, with $63,000 allotted per family, almost all which disappeared in corruption), and the National Thermal Power Sector Loan, (which involved pouring billions into a vast coal-fired power development at Singrauli, with disastrous neglect of resettlement and environmental conditions). Again, the governments of Brazil and India lobbied furiously against inspections of abuses. The Brazilian government succeeded in mobilising all of the borrowing countries in opposing the Panel (after all, any one of them could be the next target of the Panel . . .), as well as Italy, France, Belgium and Korea. The inspection was squelched, with countries holding 52 percent of the Bank's shares voting against, and 48 percent in favour. In the case of Singrauli, the Board approved an investigation, but prohibited the Panel from any site visits in India, limiting it to a desk-bound review of Bank documents in Washington.

The struggles of the Inspection Panel make it clear that the World Bank's accountability crisis is not only rooted in an entrenched, recalcitrant

senior management, and in a remarkably impervious institutional culture, but equally in the lack of accountability and responsibility of many of its member governments, particularly borrowers. The institutional amnesia, culture of approval, lack of transparency and accountability are in reality comfortable arrangements supported by most governments, for all the wrong reasons.

Corporate Welfare or Poverty Alleviation?

Although he regularly reiterates the Bank's commitments to poverty alleviation and to the environment, Wolfensohn has simultaneously strengthened the institution's shift to supporting private corporations. In what the Bank's 1995 Annual Report called "a dramatic departure from what had been Bank policy for half a century," Wolfensohn has committed the Bank to increase the scale of the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and to devote increasing amounts of IBRD capital to guaranteeing private sector investment, as opposed to direct lending to governments.

The key question is whether growing use of the Bank's financial resources to support such corporate investment is really a good, or optimal use of public funds to help the poor and conserve the environment. The answer, as far as many grassroots development and environmental groups are concerned, is that the growing focus on the private sector is little more than corporate welfare with little direct connection to improving the lot of the poor.

The Bank's private sector financial services do principally help larger corporations, many of them with headquarters in rich donor countries, including some of the largest multinationals on earth. In 1996, 1997 and 1998, MIGA and the IFC approved loans and insurance for Coca Cola bottling plants in Kyrgyzstan and Azerbaijan, respectively. Since 1997 the Bank has been preparing a huge IBRD/IFC project to assist Exxon-Mobil, Chevron and Petronas in oil field development and pipeline construction in Chad and Cameroon. MIGA guarantees have helped to support huge gold mining operations in Indonesian Irian Java and Papua New Guinea run by giant multinational mining operations with execrable environmental records: Freeport McMoran and Rio Tinto Zinc.

In Mexico, a *Wall Street Journal* article in September 1997 noted, "over the past 18 months the recipients of IFC money have been a who's who of the country's publicly listed blue chips." Among several examples, the *Journal* cited a 1997 IFC investment in a fund sponsored by Carlos Slim, a multibillionaire who is one of the developing world's richest men. In Brazil the IFC's latest investments include stakes in multi-billion dollar companies that are partners of large US multinationals such as Wal-Mart Stores and GTE Corporation.

Another area of dubious developmental benefits for the poor that has attracted IFC (and MIGA) investment is four- and five-star luxury hotels of well-known international chains such as Inter-Continental, Westin and Marriott. One would assume at the very least IFC investments in such hotels would be financially sound. Surprisingly, the IFC Annual Performance Review—FY1998 lists two such investments that have performed so poorly they have required major restructuring: the Camino Real hotel in the beach resort of Ixtapa, Mexico, and two hotels in Zambia operated by Intercontinental Hotels.

MIGA's 1998 Annual Report includes guarantees of about $29 million each for a Dutch beer company to build breweries in Moscow and near Bucharest, and guarantees totaling $34.3 million to construct a Marriott hotel in Miraflores, Lima, one of the richest, most expensive residential districts in all of Latin America. In 1998 MIGA issued four guarantees totaling $75 million to expand Citibank operations in Turkey and the Dominican Republic; four guarantees totaling $64 million to expand operations of the two biggest banks in the Netherlands, the ING and ABN Amro groups, in Turkey and Ecuador; and a $90 million guarantee to expand the branch bank of the Banque Nationale de Paris in St Petersburg. Banco Santander, one of the biggest banks in Spain, was the beneficiary of three guarantees totaling $64.1 million to expand its operations in Uruguay and Peru, and Lloyd's Bank of London also received a guarantee of $13.9 million to expand lending in its Argentinian branch office. These operations accounted for nearly half (48 percent) of MIGA's 1998 commitments.

How indeed were projects like these helping the poor or protecting the environment? The Bank's key argument was that by supporting private sector investment in capital-intensive areas, especially infrastructure, "fiscal space" would be opened up for governments to devote proportionally more resources to social and environmental services. In practice, however, this was often not the case: in many countries where the Bank promoted privatisation, and helped finance private sector investment, governments had cut social expenditures under Bank-supported structural adjustment programmes. The promised land of export-led, private sector growth that would raise the living standards of the poor often receded further in the future with each new Bank loan: Mexico had been a model pupil through the '80s and early '90s, and the living standard of more than half the population was lower in 1996 than it had been in 1980.

The Bank's other standard response, apart from the "fiscal space" rationale, was that its projects promoted growth and created employment—an assertion that could justify almost any project. But even on these grounds the record is suspect. In 1997 MIGA claimed that the 70 guaran-

tees it approved facilitated some $4.7 billion in foreign direct investment, creating 4,000 jobs in host countries. This amounts to $1.175 million dollars in investment per job. If the goal is job creation for the poorest of the poor, this is a bankrupt strategy.

At the same time, it became increasingly clear that using more and more Bank resources for private sector finance is pushing the institution into an area where its record of poor project quality and inability to carry out its environmental and social policies is even worse than in its main lending operations to governments.

The IFC, for example, supports such projects as that of the Canadian Kumtor mining corporation in Kyrgyzstan, which was responsible for three toxic spills in the last two years, the first of which resulted in two tonnes of cyanide pouring into the Barskoon River (the only source of drinking water and irrigation for local communities). The IFC has also supported the Pangue dam on the Bio-Bio River in Chile, about which Chilean NGOs brought a complaint before the Independent Inspection Panel. The Panel has no mandate to examine the Bank's private sector projects, but to Wolfensohn's credit, he called for Jay Hair—President-Emeritus of the US National Wildlife Federation—to conduct an independent review.

Hair accused key IFC staff of "fail[ing] to disclose key documents to the IFC Board of Directors (and perhaps senior management) . . . At each stage of the project approval process, key decision-support documents often did not faithfully or accurately reflect the contents of underlying environmental studies." In fact, "there was no evidence that specific standards or criteria had been established by the IFC or discussed with Pangue SA as to what levels of environmental and social impacts for the Pangue Project were 'acceptable to the World Bank' or IFC." Thus:

> *. . . from an environmental and social perspective IFC added little, if any value to the Pangue Project. Its failure to adequately supervise the project—from beginning to end—significantly increased the business risks and diminished the public credibility for both the World Bank Group (particularly IFC) and its private sector partner. There is no indication at this time (April 1997) that IFC has in place the necessary institutional operating systems, or clarity in its policy and procedural mandate, to manage complicated projects such as Pangue in a manner that complies consistently with World Bank Group environmental and social requirements . . .*

The Hair report's conclusions were an indictment not just of the Pangue project, but of the IFC's ability to contribute to the World Bank Group's stated developmental goals. Certainly a reconsideration of the Bank's private sector financing would be in order, but the Hair Report did nothing to staunch the accelerating pace of Bank private sector lending. Although the IFC has recently clarified its environmental and public-disclosure policies, there is no evidence that its ability to adequately implement these policies has changed since the completion of the Hair report. Whatever the theory, under Wolfensohn the Bank's poverty alleviation and private sector priorities in practice have grown more contradictory.

The Culture of Corruption

Another major problem with operations at the Bank is the way in which its culture encourages systematic diversion of funds and corruption in a number of the Bank's major borrowers.

The Bank under Wolfensohn, while proclaiming a more visible role in fighting corruption in developing countries, has done little to address the fundamental source of the corruption associated with World Bank lending. That source is the internal pressure to keep lending in spite of poor compliance with World Bank policies—not just concerning poverty alleviation and the environment—but concerning the Bank's most basic fiduciary duty to ensure its funds are not misappropriated from their intended uses. If the Bank is serious about knowing—and changing—how its money is really used, much more is needed than Wolfensohn's initiatives to hire a private accounting firm to conduct spot audits in a handful of countries, and, more recently, firing a few staff caught in acts of flagrant corruption and disqualifying the few companies that are caught red-handed in procurement irregularities.

In the summer of 1997, the consequences of years of Bank complicity in the corruption of its major borrowers finally began to surface in Russia and Indonesia. *Business Week* alleged that "at least $100 million" from a $500 million Russian coal sector loan was either misspent or could not even be accounted for. Noting that the Bank was preparing a new half-billion dollar loan for the Russian coal sector, *Business Week* observed that "World Bank officials seem surprisingly unperturbed by the misspending. They contend offering loans to spur change is better than micromanaging expenditures." A little over a year later, the *Financial Times* estimated the amount stolen in the coal sector loan to be much higher, as much as $250 million.

In the case of Indonesia, Northwestern University professor Jeffrey Winters alleged in a Jakarta press conference in July 1997 that shoddy accounting practices by the World Bank had allowed corrupt Indonesian officials to steal as much as 30 percent of Bank loans over the past 30 years—a mind-boggling total of over $8 billion. At about the same time, the Bank's Jakarta Office commissioned an internal study of corruption in World Bank lending programmes to Indonesia. But the findings and recommendations of the study, which confirmed many of Winters' charges, were never acted on by World Bank senior management, and Wolfensohn learned of the existence of the report only in July 1998 a year after its completion.

In the 15 months after the publication of the report, the Bank committed and disbursed over $1.3 billion more to Indonesia without any effective measures to contain the "leakage" detailed in the study. In October 1998, with plans to commit and disburse two billion dollars more over the next nine months a second Bank mission, headed by Jane Loos, recorded the following:

> *Our mission confirms earlier reports on corruption in Indonesia: that it is pervasive, institutionalised, and a significant deterrent to overall growth of the economy and effectiveness of the Bank's assistance . . . there is significant leakage from Bank funds . . . Bank procedures/standards are not being applied uniformly . . . The [World Bank] auditing requirements have been allowed to deteriorate into a superficial exercise . . .*

The full consequences for development effectiveness of the inability to root out the "culture of approval" were spelled out in an unusually candid re-evaluation of the entire 10-year record of the Bank in Indonesia conducted by the OED and circulated internally (and leaked to the press) in February 1999. The Bank for years had touted Indonesia as one of its great success stories ("widely perceived within the Bank to be a miracle and a symbol of the Bank's success"), but the OED report concludes that reluctance to offend a major borrower, a refusal to address corruption, and a dysfunctional internal Bank culture that punishes staff for identifying problems that could slow down lending all contributed to the propagation of what the original draft of the OED report called the "myth of the Indonesian miracle." (The final report omitted this phrase in response to the objection of the Indonesian Government.) The OED report rates Bank and Indonesian government achievements as only "marginally satisfactory" for the past three decades, contradicting numerous previous evaluations of Bank involvement in Indonesia as a leading example, at least relatively, of development effectiveness.

One of the more revealing analyses in the report describes how the culture of approval and perverse Bank career incentives that punish staff who contradict the party line led to disastrous consequences in lending for the financial sector. As the Indonesian melt-down was brewing, supervision reports indicated the Bank's single biggest financial sector project, the Financial Sector Development Project, was riddled with problems.

> *A thorough supervision effort in August 1996 not only found the project outcome to be unsatisfactory on all counts, but concluded that Indonesia's State Banking Sector was in disarray, riddled with insolvency . . . the Bank downplayed the evidence presented in the supervision report and rejected the proposed cancellation of the loan for several months, arguing that such action would do serious damage to the Bank/Government relationship. This process also triggered perceptions of unjustified penalties to career prospects of some Bank staff who had brought the issues to light.*

> *The staff proposals for in-depth [financial] sector work were shelved; ESW [Economic and Sector Work] in the finance sector dropped from 1.76 staff years in FY95 [Financial Year 1995], to 0.55 in FY96, and 0.10 in FY97. Coverage of financial sector issues in the July 1997 CAS was minimal. The Bank's readiness to address the subsequent financial crisis in Indonesia was seriously impaired.*

The report also recounts how the reorganisation of the Bank under Wolfensohn and his "Strategic Compact" further undermined the ability of the Bank to respond to the Indonesian crisis in 1997–98: "The far-reaching 1997 reorganisation detracted attention from economic development issues," and "complicated the ability of the Bank to respond to the crisis . . ." The major recommendations of the OED Indonesia study of February 1999 echo the conclusions of countless reports past, particularly the 1992 Morse Commission and Wapenhans reports. If country monitoring is to be effective, there must be "major changes in the Bank's internal culture." Once again:

> *. . . warning signals were either ignored or played down by senior managers in their effort to maintain the country relationship. Some staff feared the potential negative impact on their opportunities that might result from challenging mainstream Regional thinking.*

One of the biggest obstacles to improved development effectiveness, and a major factor in the culture of loan approval, once again, is the chronic "clientitis" of the Bank, the desire to keep lending to maintain the "country relationship" often to the direct detriment of the poor the Bank purports it is trying to help. The current Bank reorganisation is making this clientitis worse, not better. The OED Indonesia report makes clear that in many cases a choice has to be made: "Bank strategy should look at the importance of the issues to the country's development, and not whether the country relationship may be jeopardised."

Failing to Deliver the Results

The World Bank's *raison d'être,* in its own words, is environmentally sustainable poverty alleviation; it is really the only reason why taxpayers in the industrialised world, already faced with a shrinking domestic social safety net, should support such an institution.

Yet, as the Bank works through its sixth decade of trying to promote something called "development," the poor in most of its borrowing countries are in worse shape than they were a decade and a half before. According to the United Nations Development Programme (UNDP), since 1980, "economic decline or stagnation has affected 100 countries, reducing

the incomes of 1.6 billion people." For 70 of these countries, average incomes are less in the mid 1990s than in 1980, and for 43, less than in 1970. In the early 1990s incomes fell by 20 percent or more in 21 countries, mainly in the former Soviet Empire. The poorest fifth of the world's population has seen its share of global income fall from 2.3 percent to 1.4 percent over the past 30 years.

Even according to the Bank's Operations Evaluation Department's latest *Annual Review of Development Effectiveness 1999*, "poverty trends have worsened . . . The number of poor people living on less than US $1 a day rose from 1,197 million in 1987 to 1,214 million in 1997. Excluding China, there are 100 million more poor people in developing countries than a decade ago." Furthermore, since 1990 life expectancy has declined in 33 countries.

What difference then, has the World Bank made? The Bank now claims a higher overall success rate for its projects (up to 72 percent from 64 percent in 1991), but part of the reason for that is that the Bank's evaluation process for projects is not very credible. In Bank evaluation of what it calls "successful outcomes," very little importance (five percent) is attached to a project's likelihood of maintaining its results over its intended useful life, which is central to progress in the developing world. This is a serious omission given that the Bank's own internal audits reveal an astonishing 51 percent failure rate to achieve sustainable results in fiscal years (Fy) 1998–99, a performance that has not changed appreciably in the last decade. This failure rate is even more acute in the poorest countries and in the developmentally most critical sectors. In Africa, for Fy 1998–99 only 34 percent of evaluated projects are of likely sustainability, and only 26 percent of likely "institutional development impact." In the Social Sector, the OED found sustainability declined from 25 percent in 1994–97 to 20 percent in 1998–99. For Population, Health and Nutrition lending, sustainability declined from 55 percent in 1994–97 to 50 percent in 1998–99. In the Environment Sector, sustainability declined from 55 percent in 1994–97 to 50 percent in 1998–99.

Hence, under Wolfensohn, an already abysmally low performance in the social and environment sectors has become even worse, according to the Bank's very latest publicly released figures. This is particularly significant because if a project doesn't produce lasting benefits beyond or even during its lifetime, the increased debt burden that borrowing from the Bank incurs is nothing more than a drag on the economies of poor countries. From the borrowers' standpoint, the Bank thus becomes as much a contributor to their problems as a solution.

Yet World Bank management faces no consequences for such poor performance; on the contrary, it means more business. Heavily indebted poor countries need still more World Bank loans, followed by debt relief paid for by the taxpayers of the industrialised countries. Meanwhile, the octopus-like bureaucracy emits an ever greater cloud of reports espousing its concern for the poor and sustainable development.

Conclusion

The key word for understanding the World Bank in the 1990s is "Disconnect"—the disconnect between its alleged purposes and its record, the disconnect between Wolfensohn's proclamations to change the Bank's culture, and the actual internal reforms needed to address the Bank's systematic failure to implement its most basic policies concerning poverty alleviation and environmental assessment. There is the disconnect between speeding up loan approval, weakening Bank policies, and claiming to root out the "culture of [loan] approval." There is a widely noted disconnect between claiming to use public funds and guarantees to help the poor and the rapid growth of the IFC and MIGA with a preponderance of clients among large multinational corporations and international money centre banks. Their activities, moreover, provide little direct economic benefit—and too often a negative environmental and social impact—on poor populations in developing countries.

Over the past two years, the external pressures placed on the Bank to funnel large, quick-disbursing non-project loans to major borrowers as a consequence of the Asian financial crisis have heightened still further the tension and contradiction between development effectiveness and the "loan approval culture." Recent trends are troubling. In 1998, nearly 40 percent of new IBRD/IDA commitments were large, non-project, quick disbursing loans and credits (double the amount of the previous year), and in 1999 the figure rose to 63 percent. The Bank cannot promote improved development effectiveness and be an automatic teller machine for the much criticised structural adjustment bail-out deals of the IMF at the same time. Claims that such loans are effective tools for promoting needed policy reforms in crisis situations are hollow, indeed disingenuous.

In the final analysis the Bank's prospects in promoting greater development effectiveness means not trying to be all things to all people, but choosing priorities, particularly choosing to focus on quality, not quantity in its lending, rewarding staff first and foremost for ensuring that its policies relating to poverty alleviation, participation, and the environment are carried out in the design and implementation of operations. To make this choice, the question of who the Bank's real clients are is critical and decisive. In a session between Wolfensohn and 300 senior managers on 12 March 1996, a Bank manager identified the fundamental contradiction in the entire "cultural change" Wolfensohn is trying to promote: