

INTERNATIONAL ORGANIZATIONS in World Politics



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5 The World Bank

The World Bank is the preeminent development finance organization in the world, for decades a powerful, influential source of loans, policy advice, and technical assistance for poor countries. Headquartered in Washington, DC, two blocks from the White House, the World Bank has an international staff of more than 11,000 people and its members range from 173 to 188 countries.¹ While its traditional work has been to provide loans to developing countries to finance individual projects, it has also grown over the years to provide loans for sectors and for broader economic policy reform and it also offers interest free loans and grants to the world's poorest countries. Like the other IOs covered in this book, its mission has expanded over time to dizzying heights. While its main mission is to reduce poverty and encourage economic development, in doing so it is actively involved in just about every sector and development issue imaginable, from agriculture to zinc mines. The bank provides financial support to build airports, roads, and power plants; improve access to primary schools; fight the spread of HIV/AIDS; improve irrigation and water distribution; rebuild bridges destroyed by war; modernize judicial systems; develop private sectors, and so on. The bank's emphasis on reducing human suffering through reducing poverty also puts it in a position to address directly or indirectly other problems that stem from poverty such as disease, failed states, and even terrorism. In many ways, the bank's evolution reflects changes in its external environment—war, global financial crises, and the collapse of the Soviet Union, among others—as well as shifting conceptions of what *development* means in the scholarly and policy worlds. At each step of the way, the bank has implemented new ideas and approaches, and then has struggled with their negative effects or unintended consequences.

The bank has been seen by some as an institution that has learned from its mistakes, but it is also one constantly criticized for its performance.² Indeed, it has long been a favorite whipping boy of a range of critics, including anti-globalization protesters, politicians of various stripes in developed and developing countries, and people adversely impacted by bank projects. In a development that is either a strange twist of history or proof of learning, the current bank president, Jim Yong Kim, had previously criticized the bank for policy reduction strategies that “often exacerbate or leave unchanged the poverty in exactly those countries where it is worst.”³ If one looks at all the criticisms of the bank, it is clear that they range from arguments that the bank does too much (and should be shrunk) to too little in particular areas (and should take on more issues), and/or its performance is mixed to poor. On the extreme end are critics who think the institution is the source of enormous poverty and inequality, that it has blithely implemented policies benefiting corrupt officials, and should be abolished.⁴ As to the source of its problems, critics point fingers at the bank's most powerful member state(s), its top management, its overall bureaucracy, its organizational incentive systems, and even civil society “watchdogs” who push the bank to do more and more. How to reform the bank is one

of those longstanding debates that inspire various rounds of reform that may, in turn, be evaluated. Journalist Sebastian Mallaby summed up this conundrum nicely, speaking about the bank but also other IOs:

[T]he World Bank shares the fragility common to most multilateral institutions. We veer between contempt for international bodies . . . and unrealistic pronouncements on what they ought to do: forge peace, banish financial instability, lift every person out of poverty. It has become commonplace to say that our global institutions are not up to the challenge of our unprecedented global interdependence. But the reason for this mismatch lies partly in our schizophrenia. Sometimes we pour scorn on the bank and other international bodies, and starve them of resources. Sometimes we talk as though they must have superhuman strengths, and we lumber them with impossible objectives.⁵

In recent years, the bank has also faced new challenges to its role. China's ExIm Bank in some years has lent more money to the developing world than the World Bank, and without the kinds of conditions on environmental, gender, or anti-corruption that are found in World Bank loans. The BRIC countries (Brazil, Russia, India, China, and South Africa) announced in 2014 the creation of their own, New Development Bank BRICS (NDB BRICS). China also launched, in October 2014, the Asian Infrastructure Investment Bank (AIIB), which allows for broader membership beyond Asia. While the United States and Japan opposed the new AIIB, other major countries signed up as founding members, including Great Britain, Germany, France, and South Korea. In broader geopolitical terms, many are wondering if these initiatives are indicative of the decline of American global influence. Indeed, the NDB BRICS' website explicitly states that it was set up "as an alternative to the existing US-dominated World Bank and International Monetary Fund."⁶ More specifically, whether or not these new banks are a major threat to the World Bank will depend on the extent to which their lending policies, safeguards, and overall capacity create more opportunities for potential borrowers to engage in forum shopping. For example, if AIIB or NDB BRICS loans have fewer environmental and social safeguards and more attractive interest rates, borrowers will have more incentive to choose them over other options. The BRICS bank will have starting capital of \$50 billion, increased to \$100 billion over time, and the AIIB opens its doors with \$100 billion in capital. This compares with \$223 billion of subscribed capital for the World Bank.

This chapter discusses the birth and evolution of the bank, describing and highlighting the criticisms of the important ways in which it has sought to help promote economic development.

BIRTH OF THE BANK

The World Bank had a number of antecedents as financiers, government officials, and others had long thought about how to create more stable international trade, monetary, and financial relationships between states. In 1920, an International Financial Conference was held in Brussels, and its international participants put forward several proposals for an international financial institution that would make loans to governments to help rebuild Europe after World War I.⁷ Dutch central banker Gerard Vissering, for example, called for the creation of

an international credit bank to offer credits to countries that suffered from World War I, with resources provided by lending countries.⁸ Some of these ideas were further explored, and others proposed, at a 1922 International Economic Conference held in Genoa.

The “father” of the bank and the IMF is undoubtedly US Treasury official Harry Dexter White, whose 1942 “Proposal for a United Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated States” built on past ideas and shaped the subsequent process of consultation with the British and others, which would ultimately produce both the bank and the fund. White was an economist with a PhD from Harvard who headed the US Treasury’s monetary research division before becoming a close advisor to US Treasury secretary, Henry Morgenthau, Jr. White had a reputation for being clever and creative, but at times acerbic and truculent.⁹ It turns out he was also a highly placed spy for the Soviet Union between 1941 and 1948, a fact that came to light much later (see Box 5.1).

A few years earlier, with World War II in full swing and many prominent people already thinking about the postwar order, US Treasury Secretary Henry Morgenthau asked White to draft a memorandum on a postwar fund that could help to stabilize currency fluctuation and promote trade. White had previously worked with experts from State, Treasury, the Federal Reserve System, and elsewhere to draft a proposal for an “Inter-American Bank” that never came into existence, but some of the ideas on the former were also reflected in the proposal for what came to be the World Bank.¹⁰ White’s ambitious suggestions called for a fund to help stabilize currency and a bank that would lend member states money for reconstruction and development, have its own currency (one “unitas” equal to \$10), and help to promote democratic institutions within its member states. Morgenthau, in turn, passed White’s proposal on to President Roosevelt, who endorsed them.¹¹ This was an important step in the process of an evolving idea that culminated with the birth of the bank.

BOX 5.1

In an interesting footnote to the birth of the World Bank, Harry Dexter White was, in fact, one of the Soviet Union’s most highly placed agents in the American administration. His role for the KGB was alleged for years, but twenty recently released KGB documents spell out his assistance to Soviet intelligence in the mid-1930s and between 1943 and 1945. He was described as more of an independent “Soviet sympathizer” rather than a “disciplined” communist party member, with a reputation of someone who didn’t take orders but did provide oral briefings and hand written documents to the Soviets. Essentially, he gave the Soviets information about US foreign policy

and also offered advice on Moscow’s negotiations on the United Nations. White was later appointed by President Truman in 1946 to be the first US executive director at the IMF. He resigned in March 1947, critical of US policy and suffering from health problems. In 1948, he responded to accusations that he assisted with Soviet intelligence by proclaiming his innocence. Three days after his testimony before the House Committee on Un-American Activities, he died of a heart attack.

Source: Benn Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order* (Princeton, NJ: Princeton University Press, 2013).

The British also played a particularly important role in the discussions. Over the next three years, a variety of British and American officials and other actors would work on the White proposal, and another proposal by distinguished British economist, John Maynard Keynes, who was the lead British negotiator. The details of both institutions were ironed out in 1943 and 1944, with plenty of heated discussions and debates. James Mead, a British official who authored a proposal for an international commercial union, recorded an October 5, 1943, meeting between White and Keynes in his diary:

What an absolute Bedlam these discussion are! Keynes and White sit next [to] each other, each flanked by a long row of his own supporters. Without any agenda or any prepared idea of what is going to be discussed they go for each other in a strident duet of discord which after a crescendo of abuse on either side leads up to a chaotic adjournment of the meeting . . .¹²

The formal agreements that created the IMF and World Bank were hammered out at the United Nations Monetary and Financial Conference, which ran from July 1–22, 1944, at a mountain resort in Bretton Woods, New Hampshire. (This is why people refer to the World Bank and the IMF as the “Bretton Woods organizations.”) President Roosevelt invited delegates representing 44 nations to the conference, and over 700 delegates participated.¹³ The main purpose of the conference was to create an international monetary fund to promote currency stabilization (see Chapter 7). A Bank for Reconstruction and Development to provide resources to help rebuild the postwar world was seen as of lesser importance. The draft that acted as a basis for discussion of what ultimately became the bank’s Articles of Agreement was a combination of the ideas presented by White and Keynes.¹⁴

It wasn’t initially clear that the new institution would even be a bank. The British representative proposed calling it “the International Corporation for Reconstruction and Development.” The French suggested “International Financial Institution for Reconstruction and Development.”¹⁵ In the end, it was called the “International Bank for Reconstruction and Development” (IBRD), but the debate over its name highlighted the fact that it was an organization born with a dual personality; it was partly a bank, partly something different, and over the years more akin to a development agency. Commission II, the group at Bretton Woods given the task of writing the bank’s charter and chaired by Lord Keynes, noted in its report that the World Bank “was accidentally born with the name bank . . . mainly because no satisfactory name could be found in the dictionary for this unprecedented institution.”¹⁶

The new institution agreed upon at Bretton Woods was similar to a private bank in the sense that it would make or guarantee loans primarily for postwar reconstruction (meaning countries devastated by World War II) and, second (after the first job was addressed), to development (meaning less developed countries). Like a private bank, its loans would have interest rates and would have to be repaid, and the institution would be able to issue bonds. Yet, the IBRD would differ from a private bank in many fundamental respects. Its shareholders would only be governments, it could only lend to governments or to public or private actors with a government guarantee of repayment; it would not receive deposits; it was set up on a nonprofit basis; and its loans typically would contain more conditionality than a



AP Photo/Abe Fox

United Nations Monetary and Financial Conference at Bretton Woods

private sector bank's. The fact that IBRD loans require a sovereign guarantee also impacts a government's incentives on whether to agree to a loan. Government budgets can limit the amount of guarantees authorized each year, which mean that IBRD loans are used for priority projects. IBRD loans also offer longer maturities and grace periods, and lower interest rates, than commercial loans.

The new bank's total capital would be \$10 billion. The bank could make or guarantee a loan to a borrowing member-state government (or its representative) if the bank agreed the money was not available from other sources, if the bank felt the proposal merited a loan, and if the borrower was creditworthy. The loans and guarantees would be funded by the shareholders' capital subscriptions, plus principal and interest on the bank's loans, and later (and most importantly), funds the bank would raise itself from international capital markets. In reality, in the bank's early days, it could only actually lend around \$727 million. This was the amount of the \$1.6 billion in capital that was paid in, which was in gold or US dollars, resources that client states needed.¹⁷ The amount available to lend was expanded by the bank's first public bond offering in July 1947 of \$250 million, made through what was, at the time, the largest ever consortium of securities dealers in the US bond market.¹⁸ It was a big deal, too, because the relationship between the bank and Wall Street did not start off well, and it took a great deal of lobbying by the bank to sell itself to the market. Richard Demuth, a senior bank official

observed, when the bank's first president, Eugene Meyer (who had been a successful investment banker), first visited New York to meet investment bankers,

They were however, thoroughly unenthusiastic about giving any financial support to the bank. . . . There were reasons for the complete disinterest of the bankers in buying our bonds. . . . In general, [the bank] was thought of as a do-good institution, as a wild idea, without any respectable support.¹⁹

Lending for Projects

The IBRD's loans were to go toward "specific projects . . . except in special circumstances." A project tends to involve building or developing something tangible, like roads or power plants. Projects are identified in a variety of ways, but ultimately involve appraisal by bank staff, approval by the bank board, and signature, disbursement, and payment of the loan. Often, large chunks of a bank loan to a developing country end up back in the coffers of rich country companies, who are hired to actually build the highway or power plant or water plant.

In the bank's early years, projects were geared to building a country's infrastructure. Projects are *not* loans for economic policy change. While today projects are the bread and butter of the bank's work, in its early days, countries were less interested in projects and more interested in loans to help stabilize their economies or reconstruct their monetary systems in the aftermath of a devastating world war, and therefore wanted loans to finance activities that fell outside the traditional project definition. The bank's first board of directors allowed for the latter types of loans early on, as fitting the "special circumstances" phrase, and when the bank opened its doors in June 1946, the latter type of "program" loan went to France, Netherlands, Denmark, and Luxembourg.

Governance Structure

The governance structure of the World Bank and fund were similar, and in fact the Articles of Agreement of the two organizations share virtually the same language in parts.²⁰ Indeed, the Articles state that bank membership is open to countries already members of the fund. Some countries' executive directors serve both institutions. Membership between the two international financial institutions was linked for two reasons: first, the founders believed that stable monetary conditions, which the fund directly addressed, were necessary for bank lending to be successful and second, fund membership required countries to take on certain obligations (such as rules on exchange rates), which were not required for membership in the bank.²¹

Both institutions have a three-tiered governance structure that consists of a board of governors, a board of directors, and the institution's management. At the top is the Board of Governors, which consists of a governor (and alternate) from each member country. The majority of the governors are finance ministers. The Board of Governors is the highest decision-making body at the two organizations, and it addresses the big strategic issues of its respective organization. The two boards meet each fall at the IMF/World Bank Annual Meeting.

BOX 5.2 WORLD BANK LOANS 1947 VS. 2014**World Bank Loans, 1947**

France, loan to Credit National to help reconstruct and develop French economy. \$250 million.

Netherlands, loan to government to reconstruct "productive facilities." \$195 million.

Examples of World Bank (IBRD and IDA) Loans and Credits, 2014

Benin, IDA Multisectoral Food, Health, and Nutrition Investment Project Financing Credit, \$28 million, to increase use of community-based interventions focusing on child growth and nutrition.

Ethiopia, IDA General Education Quality Improvement Investment Project Financing Credit, \$130 million, to strengthen primary and secondary school learning conditions and administration.

China, IBRD Integrated Modern Agriculture Development Investment Project Financing Loan, \$200 million, to develop sustainable, climate-resilient agriculture production systems in specific provinces, municipalities, and autonomous regions.

Indonesia, IBRD Coral Reef Rehabilitation and Management Program-Coral Triangle Initiative Investment Project Financing Loan, \$47.4 million, to develop strong framework for sustainable management of coral reef resources.

Myanmar, IDA Electric Power Investment Project Financing Credit, \$140 million, to improve capacity and efficiency of gas-fired power generation and helps

strengthen the country's electric power-related institutions.

Philippines, IBRD Second Inclusive Growth for Post-Typhoon Recovery Development Policy Loan, \$500 million, to help bridge financing gap due to Typhoon Haiyan, in order to help government response to human and economic impacts of typhoon.

Belarus, IBRD Biomass District Heating Investment Project Financing Loan, \$90 million, to improve use of renewable biomass for heat and electricity generation in selected towns.

Ukraine, IBRD First Development Policy Loan, \$750 million, to promote good public sector governance, reforms utility subsidy system to make it more efficient and equitable.

Haiti, IDA Cultural Heritage Preservation and Tourism Sector Support Investment Project Financing Grant, \$45 million, to make cultural heritage tourist sites more attractive, build government capacity to respond to emergencies, and address living environment for areas in the north of the countries.

Nicaragua, IDA Sustainable Rural Water Supply and Sanitation Sector Investment Project Financing Credit/Grant, \$14.3 million credit, \$15.7 million grant, to help selected areas have better access to sustainable services and assist government's ability to respond to emergencies.

Sources: World Bank Annual Report 1947, World Bank Annual Report 2014.

The Governors, in turn, delegate authority to the Board of Directors (also called executive directors or EDs), which is the body directly responsible for the organization's general operations. At the World Bank, for example, the EDs are responsible for considering and approving its loans and policies.²² In effect, the executive directors are the main channel by which member states are involved in the bank's activities. They represent member states "principals," and often come from a country's finance ministry (the US Treasury, in the case of the

United States). That said, the principal-agent relationship between board members as agents to the countries they represent was a subject of debate and negotiation, not a given. The British, in fact, wanted the bank and IMF boards to be removed from domestic politics of their countries, but the American view, which prevailed, was that governments should have close control over their board members.²³ In the early years of the bank, there was often a tug of war between powerful members of the board and the bank's president, as the both sides sought to assert their power.

At both the World Bank and IMF, voting is weighted and is determined by the size of each country's capital subscription to the organization. At the bank's birth, only five of the largest shareholders had their own executive director. In the terms agreed to at Bretton Woods, these were supposed to be the United States, United Kingdom, China, France, and the Soviet Union, the same as veto-wielding members of the United Nations' Security Council. However, the Soviets did not ratify the Articles of Agreement, so India ended up being the fifth. The remaining countries were divided into groups represented by seven directors, for a total of 12 EDs.

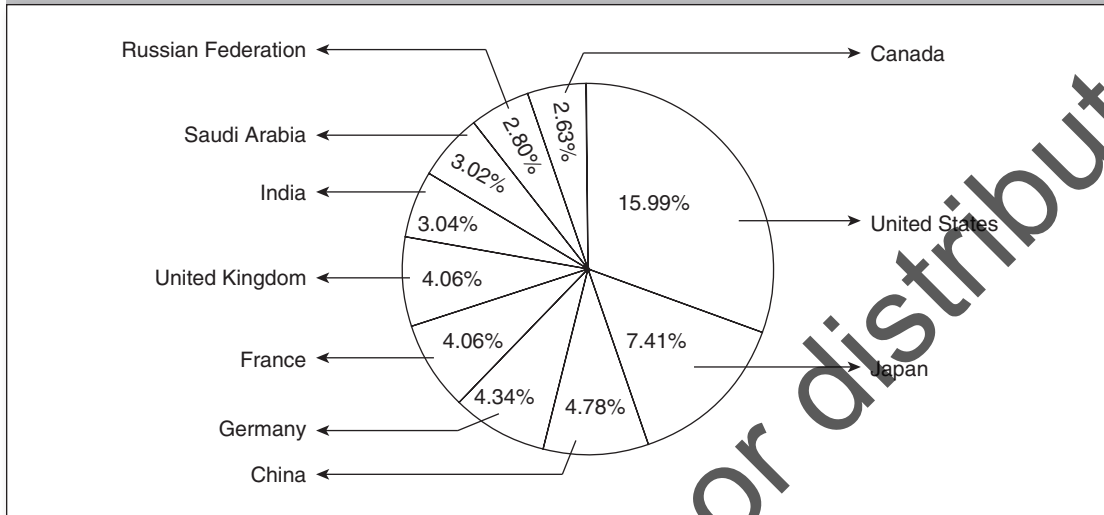
At the bank's birth the United States provided around one-third of the money and received around one-third of the vote. It was therefore given the single largest stake at both Bretton Woods organizations. For example, in the bank's second year when its annual report detailed voting share, the United States had 37.2 percent of the total vote. The next closest country was the United Kingdom, with 15.4 percent, followed by China at a distant 7.27 percent.²⁴

While the United States' share has declined over time (currently at 15.99 percent at the World Bank and 16.75 percent at the IMF), the United States remains the single largest and most influential shareholder at both institutions. Its influence has always extended well beyond formal voting share, and in fact, since the board of directors at both institutions prefers to operate by consensus, formal voting is rare. Both organizations are based in Washington, DC, just blocks from the White House. The practice has also been since the beginning that the president of the bank is an American citizen, appointed by the US president, while the head of the IMF is a European. This practice has come under fire in recent years as being unfair. During the last search for a new World Bank president, for example, two non-American candidates were in the competition, but in the end only the American, Jim Yong Kim, had enough votes to win the race.

Today the IBRD has 25 EDs, representing 188 countries. The United States, France, Germany, Great Britain, and Japan have their own directors, as do Saudi Arabia, China, and Russia. The other countries are divided into groups—some of which contain over twenty members—that share an executive director and an alternate director.

Relations with the United Nations

Relations between the World Bank and the United Nations were never written in stone, but rather evolved over the years from a formal one, where the World Bank kept the UN at arm's length, to one that was more engaged and constructive. Both the United Nations Charter and the World Bank's Articles of Agreement contain language that there should be a relationship between the two institutions, but the bank's language was more vague. The bank's articles call for the institution to "cooperate with other international organizations," while the UN Charter states in a number of places that the UN should "coordinate" the activities of specialized agencies created by intergovernmental agreement. UN officials assumed that the bank was one of

Figure 5.1 Top 10 IBRD Member States (percentage of votes)

Source: IBRD Country Voting Table, World Bank, January 4, 2016. <http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDCountryVotingTable.pdf>

Note: Voting reform agreed to in 2008 and 2010 gave emerging market economies 4.59 percent more vote and moved China up the ladder to become the third largest voting member.²⁵

these agencies.²⁶ The bank, in turn, wanted to remain as independent as possible, mainly because it didn't want to be dragged into political issues that might threaten its already fragile relationship with Wall Street. The IMF had similar views. Agreements between the UN and the Bretton Woods institutions were reached and passed by the General Assembly in 1947 stating the IMF and World Bank were "specialized" agencies of the UN, but each international financial institution "is and is required to function as, an independent international organization."²⁷ In practice, this has meant that neither institution is beholden to the UN for financial support or any kind of approval. At the same time, both institutions participate in various UN meetings and report annually to ECOSOC. The World Bank set up cooperative arrangements with a number of UN agencies, such as the UN Development Programme (UNDP) and the Food and Agricultural Organization (FAO).²⁸ Operational relations remained strained between the UN and World Bank for the next few decades, until bank president George Woods began reaching out to the UN in a more constructive fashion.²⁹

EVOLUTION

The bank's lending activities, policies, organizational structure, and driving ideas have changed many times over the years, influenced by the global economic and political environment in which it worked; internal leaders; politics and interests among shareholders; external criticism; and more broadly, the evolution of thinking about what development is and how it

should be achieved. In the seventy plus years of its existence, the bank has faced a number of global economic and financial crises (each more frightening than the last), the Cold War, the subsequent collapse of the Soviet Union, the oil crisis, the rise of unfriendly watchdog NGOs, and an ever-growing number of issues deemed to be important by the bank's stakeholders. It has also coped with a few internal scandals.

Among the main changes in the bank's mission, strategies, and structure are the following: 1) the shift from early lending to Western Europe to a primary focus on lending to developing countries; 2) the creation of the bank's subsidiaries, which emphasize lending to the poorest countries and to private sectors, respectively; 3) a shift beyond infrastructure to include rural development, agricultural development, and a rapid expansion in the scale of lending in the 1970s; 4) structural adjustment lending, or lending to correct macroeconomic problems unaddressed by project lending, in the early 1980s; 5) in response to external and internal criticism, the addition of lending and policies on issues like the environment and gender in the 1980s and 1990s; 6) the Comprehensive Development Framework of the 1990s; 7) the focus on the Millennium Development Goals in 2000 (now replaced by the Sustainable Development Goals). Currently, the bank continues to focus on its broad overarching mission of "a world free of poverty," which it has operationalized as having two specific goals. The first is "end extreme poverty," or reducing to 3 percent globally the number of people living on under \$1.25 a day by 2030. The second is "promote shared prosperity," or stimulating "income growth of the bottom 40% of the population in every country."³⁰ Both are very ambitious. As the bank notes, today around 21% of the developing world population lives in extreme poverty. That is over 1 billion people.³¹

The Impact of the Marshall Plan

The bank's first few years were far from successful. First, President Truman had a tough time finding someone to be president of the bank. Several people turned down the job or faced opposition. The first president, Eugene Meyer, a 70-year old with a distinguished career in public service who previously had been publisher of *The Washington Post* newspaper, abruptly resigned in December 1946, a mere six months into the job. He explained that he intended to remain until the bank's basic organization was in place, but observers thought Meyer was tired of fighting with the bank's US executive director and bureaucrats on issues such as loan policy and the relationship between the president and the board. Harold Smith, the bank's vice president, died in January 1947, and the bank was without a leader for another month, until John J. McCloy took the job of president.

Second, a year after its birth, the bank's planned emphasis on postwar reconstruction loans to Western Europe ran into trouble from a surprising source: the United States launched its Marshall Plan for Western Europe in June 1947. The plan, named after Secretary of State George C. Marshall, was a powerful way for the United States to help European nations return to "normal economic health" through US assistance that ultimately amounted to \$12.4 billion, mostly in grants. Naturally, European countries vastly preferred US government grants (with no strings attached) to World Bank loans (that had to be repaid), so the Marshall Plan effectively took the wind out of the new bank's sails.³² The loss of business in Western Europe resulted in the bank turning its attention to lending to the developing world. And third, the bank did not make its first loan until 11 months after its doors opened.

The May 1947 loan, for \$250 million, was made to France to help it with reconstruction efforts. The French government originally asked for \$500 million in its application, which was “a simple letter attached to an outline of the government’s reconstruction program, the Monnet Plan.”³³ The French wanted the funds to buy coal; equipment, such as ships, trucks, and coal mining machinery; and raw materials, such as fertilizers, copper, and tin. As such, this was a program and not a project loan. While the bank did not approve the full amount, it was still committing a good chunk of its loanable funds. In terms of how the bank should assess this application, one of its officials later recalled, “Nobody knew where to begin. We were inexperienced. We didn’t know what kinds of questions to ask, what kind of investigation to make. We hadn’t developed the kind of project approach that we worked out later.”³⁴

In those days, there wasn’t yet sophisticated data to help bankers assess a country’s creditworthiness. The emphasis at the time was to assess a country’s behavior in terms of deciding whether a country would be serious about servicing its debt. In fact, the bank had to be sure it wasn’t lending money to dodgy recipients in order for it to be taken seriously in the US capital markets.³⁵

The bank began to grow under the presidency of McCloy (1947–1949), a period during which it began borrowing on international capital markets, consistently making loans, and developing its policies and procedures for identifying, appraising, and negotiating loans. Lending focused on infrastructure-related projects such as electric power development (Luxembourg, Finland, and Brazil, for example), railway development (India), and equipment purchases for steel industries (Belgium, Luxembourg), timber production (Finland, Yugoslavia), and agriculture (Chile, Colombia, India).³⁶ By the end of its fiscal year for 1949 to 1950, the bank had lent a total of \$832 million.³⁷

New Affiliates and New Directions in Lending

Throughout its history, the bank’s direction has been influenced by views from inside and from the broader development community on how to trigger and deepen economic development. Theories and arguments on how to best accomplish this have changed many times over the years, often as new ideas arise to correct some of the problems not well addressed (or problems caused) by the older ones. These changes reflect the bank’s need to function and adapt within a changing global economic environment, its attempts to implement lessons it has learned along the way, and changing trends in developing economics and other academic disciplines. In the 1950s and 1960s, one impact of changing views on development was the creation of three new affiliates to address gaps unaddressed by the IBRD’s work. The first was the *International Finance Corporation* (IFC), which was created in 1956 to lend money to private sector actors, without government guarantees. Its birth reflected thinking that development required growth in the private sector, and the IBRD was not able to easily lend directly to private sector actors. The *International Development Association* (IDA) followed four years later to offer interest-free loans and grants for the world’s poorest countries. What good was a World Bank if some countries were too poor to take out its loans? This was also a time when new countries were proclaiming their independence throughout the developing world, and in the height of the Cold War, the bank’s major donors wanted to make sure the new countries would be discouraged from looking to the Soviet Bloc for help. In 1966, the bank created ICSID, the *International Centre for the Settlement of Investment Disputes*, a novel quasi-judicial body to

arbitrate and resolve disputes between member countries and foreign investors. The idea was that the resolution of these disputes would further enhance international investment. (A final affiliate was created in 1988, the *Multilateral Investment Guarantee Agency*, or MIGA, which offers insurance and other services to investment projects to help reduce losses due to factors like war, expropriation, or contract breaches.) Today, the IBRD and IDA are known as the World Bank, while those two plus IFC, ICSID, and MIGA are known as the “World Bank Group.”

Rapid Expansion in the McNamara years

In the bank’s first years, economists emphasized growth in gross national product (GDP) as the main engine powering development. Over time, some economists began to focus on other issues, such as entrepreneurship, literacy, social structures, and rural development, as it became clear that growth alone did not always trickle down to the poor and reduce human misery. What good were roads and power plants if poor farmers had trouble growing crops and had little or nothing to sell?

The content and scope of bank lending shifted dramatically under the tenure of Robert McNamara, who was president between 1968 and 1981. McNamara came to the World Bank following his controversial years as US defense secretary during the Vietnam War. Previously, he was an executive at Ford Motor Company, where he served as president for just a month before his move to the Pentagon.³⁸ During his years at the bank, McNamara placed poverty reduction at the top of the bank’s policy agenda and rapidly expanded the issues and sectors it worked in.³⁹ Bank staff more than tripled in size, from approximately 1,575 to 5,200, and lending jumped from \$953 million to \$12.4 billion.⁴⁰ New departments were created in rural development, urban development, population, health, and nutrition, among others.⁴¹

In a speech to the bank’s Board of Governors in 1973, McNamara said that a decade of unprecedented growth in developing country gross national product did not reach the poor people in those countries. In his 1973 “Address to the Board of Governors,” McNamara stated

Nearly 800 million individuals—40% out of a total of two billion—survive on incomes estimated (in U.S. purchasing power) at 30 cents per day in conditions of malnutrition, illiteracy, and squalor. They are suffering poverty in the absolute sense.⁴²

He concluded dramatically: “The extremes of privilege and deprivation are simply no longer acceptable. It is development’s task to deal with them.”⁴³ (Shortly after his address, members of the Organization of Petroleum Exporting States or OPEC announced an oil embargo against the West, which resulted in the first “oil shock”—a quadrupling of oil prices, inflation, recession, and a global energy crisis, which impacted rich and poor countries alike.)

McNamara’s position reflected a view among a number of economists that while economic growth was still as important as a driving engine of development, more attention needed to be paid to the distributional impact of growth. McNamara’s strategy was to increase the role of the bank in rural areas by involving it in activities such as helping small farms increase production, making more water available for irrigation, and developing new agricultural extension services. During McNamara’s tenure, the bank began to fund projects in the health and education and other nontraditional sectors for the first time. One example was a \$2 million loan to Jamaica to support family planning programs, which included the construction of

10 rural maternity centers and a new wing for a Kingston hospital.⁴⁴ The bank also created the Consultative Group for International Agricultural Research (CGIAR) in 1971 to support old and create new agricultural research organizations. While over half of the bank's portfolio remained rooted in infrastructure projects, the new type of poverty-related projects shot up from under 19 percent of annual lending commitments in 1968 to over 31 percent by 1981.⁴⁵ In 1970, McNamara also launched the bank's first efforts to address environmental issues in its projects when he argued that development institutions should help developing countries avoid or reduce the damage that economic development can have on a country's environment.⁴⁶ (See Chapter 6 for a case study of the bank's environmental behavior.)

Many of McNamara's ideas showed foresight and vision, but implementing them was another story. Several analyses of the McNamara years highlight the drawbacks of his management style and are quite critical of the problems the bank faced in putting these ideas into practice. Environmental activist Bruce Rich argued that the means of implementing McNamara's vision "were infused with a disquieting lack of accountability, a structure of top-down control, and a thrust toward domination."⁴⁷ The technocratic approach that McNamara favored, Rich argued, also relied on easily quantifiable targets and the means to achieve those targets, and vastly increased pressure on bank staff to increase lending at the expense of project quality. Many loans, instead of benefiting the poorest of the poor, ended up in the pockets of powerful elites, and instances of corruption began to appear.⁴⁸ As more evidence surfaced of rural development projects ending in failure, it became clear that the bank's rapid expansion had left it overextended.⁴⁹

Problems related to project quantity outpacing quality reflected the fact that McNamara instituted lending targets that in many regions or countries were hard for bank staff to meet without sacrificing quality. McNamara himself was optimistic that both quality and quantity could be achieved. Warren Baum, a senior bank official at the time said "He had one word that was not part of his vocabulary, and that was the word 'trade-off.' He thought you could have more of everything."⁵⁰

Structural Adjustment Lending

The bank faced many big challenges in the 1980s. Among them were the international debt crisis of the early 1980s and the first major campaign by civil society actors attacking the bank for gross negligence in its environmental and social activities in the late 1980s.

The decade opened with dramatically higher interest rates (stemming from US Federal Reserve Chairman Paul Volcker's strategy to raise US interest rates in order to reduce inflation), a second oil price shock (1979–1980), and a continuing global recession. Many developing countries responded by borrowing more and more, mainly in dollars, to cope with higher import costs, less demand for their exports, and the need to pay off existing debt. Since the old debt was linked to US interest rates, every time US rates increased by one percentage point, developing country borrowers faced an additional four to five billion dollars a year in interest payments. By the second half of 1981, as an example, Latin American countries together were borrowing over a billion dollars a week, with most of the funds going toward paying off existing debt.⁵¹ Finally, in 1982, Mexico triggered an international debt crisis when it announced that could not pay its debt. Over the next 12 months, over 30 countries joined Mexico in seeking to renegotiate their debt.⁵²

The debt crisis had a major impact on the bank's sister institution, the IMF, which became the lead agency in negotiating debt rescheduling with countries, working alongside the US Treasury and Federal Reserve, their counterparts from other industrialized countries, major private banks, and the World Bank. An IMF-approved program was necessary to reopen the spigot of financial flows for suffering borrower countries, and thus avert what some feared could be a collapse of the entire international financial system. But, while the World Bank didn't play a leading role in debt rescheduling, it was still a major actor, and deeply impacted, as it worked to devise new lending programs for countries once IMF programs were agreed.

In particular, the crisis strengthened the role that new Structural Adjustment Lending programs (SAL) had in the bank's portfolio. SALs were launched in 1980 as loans that supported macroeconomic adjustment or changes to the policy environment rather than funding specific projects. In other words, they were loans to help governments change key economic policies, which was very different from loans for building infrastructure. The recessionary global economic environment prompted many economists inside, and outside, the bank to argue that reforms in trade, prices, taxes, and institutions were critically important in helping struggling economies return to health.⁵³ Related to this was the idea that loans for projects would be more successful if governments were encouraged to end policies that distorted markets in ways that impeded growth. As Willi Wapenhans, author of an important critique of the bank, noted, "The best investment project cannot succeed in a bad policy or regulatory environment!"⁵⁴ Indeed, many poor countries had built uncompetitive industries to supply their own markets; many were also printing money to pay for their increased spending. The free market advice dispensed by the World Bank was aimed at getting countries to cut their trade barriers, free prices, and encourage more competition and less state ownership.⁵⁵ Another advantage of adjustment lending was that it could be disbursed quickly and used to help governments with balance of payment financing in the middle of a crisis, whereas traditional project loans were disbursed more slowly.⁵⁶

The bank's use of SALs increased dramatically as a result of the debt crisis, as they became part of new World Bank lending packages negotiated with countries under the bigger auspices of debt rescheduling.⁵⁷ One of the unintended consequences of this is that SAL was very similar to what the IMF asked countries to do and increased overlap and turf-battling between the two organizations. After some political ballet with the United States and other shareholders, the bank and fund agreed to some rules of collaboration to avoid overlap. These apparently were ignored in 1988 after the World Bank negotiated a loan with Argentina before the IMF had concluded its own negotiations with the government, prompting more feuding between the two organizations and ultimately a renewed attempt by the bank president and fund director to produce new guidelines to strengthen collaboration.⁵⁸

SALs also faced growing criticism over the years, because in practice, adjustment and stabilization tended to impose more hardships on people, especially the poor. Adjustment usually required countries to reduce spending, for example, which slowed economic growth, increased unemployment, and cut programs in areas like education and health. The bank and the fund agreed that these policies were necessary to get at the underlying problems behind a country's poor economic health. Economist John Williamson later dubbed these policies, the *Washington Consensus*, a term that stuck, because the IMF and World Bank views were shared by the US Treasury, Federal Reserve, and some Washington, DC-based think tanks.⁵⁹ Some studies even argued that SAL could not be shown to have any positive effect on

economic policies or economic growth.⁶⁰ SAL itself changed over time. It began with a focus on macroeconomic stabilization and adjustment but quickly grew to include a variety of other issues, such as the role of the government and producing greater market efficiency.⁶¹

Jumping ahead and foreshadowing the next section, in 2004 the bank replaced adjustment lending with what it called *development policy lending*. The new form encompassed a broader variety of instruments, including SAL, as well as poverty reduction support credits and sectoral adjustment loans. It was part of the broader thinking that governments should take ownership over policy sector reform in a process that should include consultation with stakeholders (and it didn't hurt to deflect criticism of the old SAL). By this time, such lending accounted for around one-third of total bank annual lending.

Growing Criticism

Attacks on the bank's practices emerged in the 1980s, and grew stronger and louder in the 1990s. As Mallaby noted, curiously, the attacks facing the bank came from both the political Right and Left. During the Reagan-Thatcher era, which emphasized deregulation and the promotion of free markets, the bank was criticized by the Right as being bloated and inefficient. How hypocritical it was, they observed, to have a bloated, bureaucratic public institution preach free market reforms to the world. The Left, in turn, criticized the bank's promotion of free market policies and argued whether the bitter economic medicine it was forcing down the throats of poor countries was leaving these countries even worse off.⁶² In some cases, government budget cuts, or related actions, such as the reduction of food subsidies, triggered violent protests and riots.⁶³

This decade saw the growing activism of nongovernmental organizations (NGOs), especially those that acted as watchdogs over the bank. As Chapter 6 discusses in detail, the first major campaign against the bank was launched by US-based environmental NGOs in the mid-1980s, which attacked the bank for funding projects that caused widespread environmental degradation.

In the 1990s criticism of the bank increasingly spilled over from environmental issues into other issues, such as high levels of poor country debt, the bank's insufficient attention to gender issues, and its overall performance. The array of critics also widened to include more international voices, and even internal bank voices. Indeed, some very strong criticism came from inside the bank itself. A 1992 in-house report on the quality of the bank's portfolio was scathing. Headed by bank president Lewis Preston's special advisor and bank Vice President, Will Wapenhans, it argued that the bank's portfolio had deteriorated over the years, with a corresponding increase in projects with "major problems." These projects increased from 11 percent to 20 percent of the bank's portfolio between fiscal years 1981 and 1991. The number of projects that were "unsatisfactory" upon completion surged from 15 percent of the sample reviewed in fiscal 1981 to 37.5 percent in fiscal 1991.⁶⁴ Compliance by borrowers with legal covenants written into loans was "startlingly low." Five years later, another in-house review by the bank produced another highly critical report. It blamed both borrowers and bank staff for poor project outcomes. Borrower factors included weak or no government commitment, inadequate participation by beneficiaries, and broader macroeconomic instability. Bank weaknesses included overoptimistic staff and overambitious projects. "Institutional amnesia is the corollary of institutional optimism," it said.⁶⁵

The 50th anniversary of the bank and fund in 1994 was a focal point for a variety of activists who criticized both institutions. A coalition of more than 200 US NGOs launched a “50 Years is Enough” campaign, aimed at the “immediate suspension of the politics and practices” of both institutions for causing “widespread poverty, inequality, and suffering among the world’s peoples and damage to the world’s environment.”⁶⁶ Among the various disruptions NGOs accomplished at the 1994 Annual Meeting of the bank and fund in Madrid was one that occurred during the keynote speech by bank President Lewis Preston. As he began his speech, fake dollar bills rained down on the audience: one said “World Bankenstein;” another said, “This note is redeemable for ozone destruction.” The audience looked up to see “two athletic activists,” who “had scaled the steel girders high up in the roof, and were looking down on the armed police officers below with mocking impunity.”⁶⁷

Responding to Criticism, Facing New Challenges

The bank responded to criticism in a number of ways. For example, in the 1990s, it developed new policies on information disclosure (to be more transparent) and continued to expand its staff and safeguard policies in environmental and social areas; it created an Inspection Panel to increase accountability by investigating complaints from people affected by the bank’s projects. It took on a greater leadership role in global environmental governance, for example, as a key player in the Global Environmental Facility (GEF), set up in 1991 to help poor countries address global environmental problems, and in the ozone depletion and biodiversity regimes.

Along with the IMF, the bank launched a new process by which qualifying highly indebted poor countries would have more say in their future by developing and implementing their own poverty reduction policies as a condition for debt relief. It also created new oversight mechanisms to monitor projects and make sure they complied with bank safeguard policies.

Many of the bank’s efforts to placate critics took place under James Wolfensohn, bank president between 1995 and 2005. Wolfensohn, a successful investment banker, who was also deeply involved in philanthropic causes (he chaired New York’s Carnegie Hall and the Washington, DC-based Kennedy Center for the Performing Arts, for example), knew he was inheriting a troubled institution and openly admitted the bank had made plenty of mistakes in the past.⁶⁸

He took over the bank a few years after the collapse of the Soviet Union and end of the Cold War. This was a time when the former Soviet-bloc states were embarking on a dramatic and fundamental transformation of their economies from centrally planned to market based, and many of them depended heavily on the bank for its know-how and resources. Other new post-Cold War tasks arose, too, such as the reconstruction in the Balkans after a devastating war that ended in the mid-1990s. In the middle of Wolfensohn’s first five-year term, the 1997 Asian financial crisis hit, rocking the world’s financial foundation and causing millions to fall back into poverty and suffering.

Wolfensohn, like McNamara, felt strongly about putting poverty reduction front and center on the bank’s agenda, and indeed he was a key figure at the bank championing debt relief for poor countries. By the time Wolfensohn took office, many developing countries were again drowning in debt. Uganda, for example, spent \$2.50 per citizen a year on health, and \$30 per

citizen toward repaying its debt.⁶⁹ Many inside the bank and fund were concerned that this situation would lead to more financial instability. It also sent the wrong message to the debtor countries that were working hard to repay their debt. It seemed unfair if their less rigorous neighbors received relief. This is akin to a frugal consumer watching others who overspent and got into trouble with debt, receive government help.

Wolfensohn believed that for the bank to do a better job in alleviating poverty, it had to listen more to what borrowers wanted and widen the bank's approach to development. He launched several initiatives related to these ideas. One was an extensive restructuring of the bank to make it more client-oriented and less bureaucratic. In the late 1990s, the bank launched a "matrix management system," with a goal to improve the use of resources by allowing vertical and horizontal relationships to allow staff to more easily share information, and thus, work more efficiently. Matrix management was the latest fashion in the corporate world, where it was seen as promoting more teamwork and less hierarchy.⁷⁰ More staff moved from Washington, DC, into "the field," so they could work more closely with client countries. Wolfensohn also courted his critics, meeting with members of NGOs and sometimes siding with them against bank staff.⁷¹

Another initiative was the 1999 Comprehensive Development Framework (CDF), touted as a "holistic long-term vision" for poverty reduction. It called for countries to be in the driver's seat in terms of their development agenda; strong partnerships to be built between donors, borrowers, civil-society, and private sector actors; and a transparent development agenda. Wolfensohn's concept also called for development to advance on all fronts, from building roads to inoculating children against disease.

All of these ideas sounded good, at least on paper or in principle. It seems hard to refute the idea that bank staff should work more closely with client countries and let those clients have more say in their development process. It seems hard to refute a call for partnerships and public participation.

Yet, almost all of Wolfensohn's initiatives came under fire. The CDF was criticized inside the bank as being banal or lacking focus, in the sense that people were quite aware that development is complex and a holistic initiative trying to fix everything might end up fixing nothing. Some argued that the CDF reflected the impact of too much pressure from NGOs, who represented a variety of issues and were pushing the bank to move in too many directions. And what seems to be obvious at first glance may not be so upon deeper reflection. For example, closer relations between bank staff and client country have resulted, in some cases, in what has been called "clientitis," where overly cozy relations make it harder for the bank to cut off loan disbursements where there is evidence that borrowers are violating major loan conditions or are involved in corruption.⁷² Getting involved in public participation also puts the bank smack in the middle of domestic politics, where it technically is not supposed to operate, and can create uncomfortable tensions with borrower governments that, in fact, are the bank's members. Nevertheless, despite various attacks on the framework, it was still embraced by the world's major donors. The matrix management system was also problematic in practice, given how it shifted budgetary power and added more layers of reporting complexity.⁷³

Wolfensohn himself was also attacked as hurting the morale of bank staff with a management style that created mistrust and resentment. He was charismatic and passionate, but

also famous for his temper and for having a poor relationship with top staff. Staff turnover was high during his tenure. It became more fashionable to deride the bank as its supporters dwindled. A commission set up by the US Congress in 1998 even proposed that the bank be dramatically scaled back, change its name to World Development Agency, and give funding for issues such as tropical disease and the environment.⁷⁴ Rich argued that Wolfensohn squandered an opportunity to choose priorities for the bank by “trying to be all things to all people and not choosing among what may be fundamentally irreconcilable priorities.”⁷⁵ Financial journalist Stephen Fidler nicely summarized the position the bank faced by the end of the 1990s:

If the World Bank were a private corporation, the 1990s would have been a decade of record profits, and the institution a growth stock. With the decline of communism, governments around the world became disillusioned with the public sector as an engine of growth and embraced market capitalism. . . . The bank’s potential for influencing the path of the global economy seemed to be on the verge of an unprecedented expansion. But that potential was never realized. Without a clear mandate or well-defined products, the World Bank instead finds itself in crisis. . . . Critics speak freely of closing the institution altogether, or at least of radically shrinking it.⁷⁶

The MDGs

In 2000 the United Nations launched the Millennium Development Goals (MDGs), a set of ambitious poverty reduction goals for the entire world to pursue. Heads of state from most of the world’s countries endorsed these eight goals at a Summit meeting at UN headquarters amid great pomp and ceremony. The goals, discussed in Chapter 3, were touted as “an unprecedented promise by world leaders to address, as a single package, peace, security, development, human rights, and fundamental freedoms.”⁷⁷

The bank embraced the MDGs and said it was weaving them into its operations in a number of ways, including them in the Comprehensive Development Framework dialogues and various country and sectoral strategies it developed with client states. As Chapter 3 notes, implementing the MDGs was tougher than expected for everyone and the outcomes were mixed across regions and countries. The goals were challenging for the bank in part because they were not a good fit with the bank’s own strategy on poverty reduction. The UN-driven MDG process focused on a comprehensive vision for the world, where all developing countries addressed the same millennium targets. Success was measured at the global level. But global goals may not fit an individual country’s own goals. The bank and IMF developed a poverty reduction strategy called the poverty reduction strategy paper (PRSP) process, launched in 1999. Under the PRSP process, qualifying highly indebted poor countries (known as HIPC in the world of bank-related acronyms) were required to organize and implement a PRSP as a condition for debt relief, with the idea that resources freed up by debt relief could be used toward poverty reduction. The philosophy behind the PRSP was similar to that behind Wolfensohn’s Comprehensive Development Framework, with the country in the “driver’s seat,” determining its own poverty reduction strategy for a three-year period, and

presenting it through the PRSP. The PRSP was tailored to a country's specific circumstances to fit its limited resources and capacity.

There was some talk of using PRSPs to operationalize MDGs so a government could organize its priorities and coordinate external aid. For most countries, however, a realistic PRSP was simply not enough to reach the MDGs. And many countries had PRSP goals that differed from MDG goals. As countries tried to respond to both MDG and PRSP requirements, many felt they were jumping through hoops generated by externally driven processes that had little to do with their priority economic goals. Some countries felt they may have been in the driver's seat, but the car was more than likely a taxi, with the World Bank (and IMF) telling the driver where to go, how to get there, and paying the fare.

THE LAST DECADE

Public opinion of the bank went from bad to worse when Wolfensohn stepped down in 2005 and was succeeded by Paul Wolfowitz. Wolfowitz, appointed by US President George W. Bush, was highly unpopular among many of the bank's donor countries as well as bank staff; in a previous position as US Deputy Secretary of Defense, he had been a leading architect of the controversial US invasion of Iraq in 2003. He was a leading conservative foreign policy thinker, a personable intellectual, who also had a reputation throughout his 30-plus year career in Washington as lacking strong managerial skills. One bank critic immediately grumbled that Wolfowitz's appointment confirmed the views of some that the bank was a "tool of US foreign policy."⁷⁸ Wolfowitz had a brief honeymoon, as many were pleased he quickly won pledges from more donor aid at the G-8 Summit in Gleneagles, Scotland, while attacking US farm subsidies as a trade barrier to poor countries. But the grumbling continued. For example, Wolfowitz launched an anti-corruption initiative for countries receiving bank loans. Many staff were critical of the anti-corruption unit, which they argued seemed to target countries in an arbitrary way. Wolfowitz's decision to suspend aid to programs in India, Congo, and Uzbekistan was criticized as appearing to be ad hoc, since aid continued to flow to other countries with governance problems, such as Pakistan. Wolfowitz's supporters, in turn, believed that much of the criticism against him could be traced to European leaders who were critical of his role in the Iraq war, and others who were simply resistant to the changes he sought.⁷⁹

Tensions between Wolfowitz and his in-house and external critics exploded after news was leaked that he approved a generous compensation package when his romantic partner, a World Bank employee, was reassigned outside the bank (due to their relationship). His partner, Shah Raza, was upset she would have to leave her job at the bank once he began his new role, so, according to *The Economist*, he bowed to "her demand for a substantial rise in pay, sharp annual increases, and a big promotion (or two) on her return."⁸⁰ Wolfowitz argued that he followed the advice he received from the bank's ethics committee and directors, while a report by a committee of the bank's directors concluded that he violated the institution's rules and the "ethical obligations" of his contract.⁸¹ One interesting aspect of this scandal was that many of the bank's staff campaigned noisily against Wolfowitz. There has never been such a vocal revolt by the staff of an international organization to remove its top official. Staff booed the president and wore blue ribbons that symbolized their support for "good governance."

which meant removing Wolfowitz. Wolfowitz announced his resignation in May, effective June 30, 2007, after the bank's board accepted his assertion that he had acted in an ethical manner and that his mistakes were made in good faith. *The Wall Street Journal*, which supported Wolfowitz, in turn, published an editorial calling his removal "a bureaucrats' coup via a made-up scandal, the real purpose of which was to undermine an anti-corruption agenda that threatened the bank's zero-accountability, self-dealing culture."⁸² European officials, always hoping to end the practice of a US-chosen bank chief, agreed in advance that a quick Wolfowitz departure would earn their support for the United States choosing the next chief.⁸³

The Bush administration moved quickly to nominate Robert Zoellick as Wolfowitz's successor and Zoellick's confirmation by the bank's board went smoothly. Zoellick, a protégé of James Baker (Treasury Secretary 1985–88 and Secretary of State 1989–1992), was president of the bank between 2007 and 2012. When he joined the bank, he was known for his leadership in international trade, for example helping to launch the Doha Round at the WTO when he was US Trade Representative (2001–05). He also pushed for trade pacts with a variety of countries around the world and played a key role in negotiations with China and Taiwan for membership in the WTO. While at the helm of the bank, Zoellick sought to better encourage sustainable growth and better assist the private sector. "Before long," he wrote, the bank was "shifting from debating existential questions to asking new, practical ones. What could it do to promote food security and better nutrition in the face of rising food and fuel prices?"⁸⁴ Indeed, months before the global financial crisis hit, Zoellick was trying to raise awareness of the impact sharply higher food and energy prices were having on the developing world, calling for an increase in aid and other responses. The bank then announced a Global Food Crisis Response Program that contained over \$1 billion of lending.⁸⁵ Zoellick's other priorities were to continue promoting good governance and to reduce corruption, to use the bank as leverage to bring in other sources of financing, and to "democratize development," in part by launching an Open Data Initiative to make thousands of data sets freely available.



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Zoellick presided over the bank during the global financial crisis. Bank lending increased sharply as the bank lent over \$230 billion in the period between 2007 and 2012, reaching a peak of \$44.2 billion in commitments in fiscal 2010.⁸⁶ Between 2008 and 2009 alone, IBRD commitments increased by 144 percent from \$13.5 billion to \$32.9 billion.

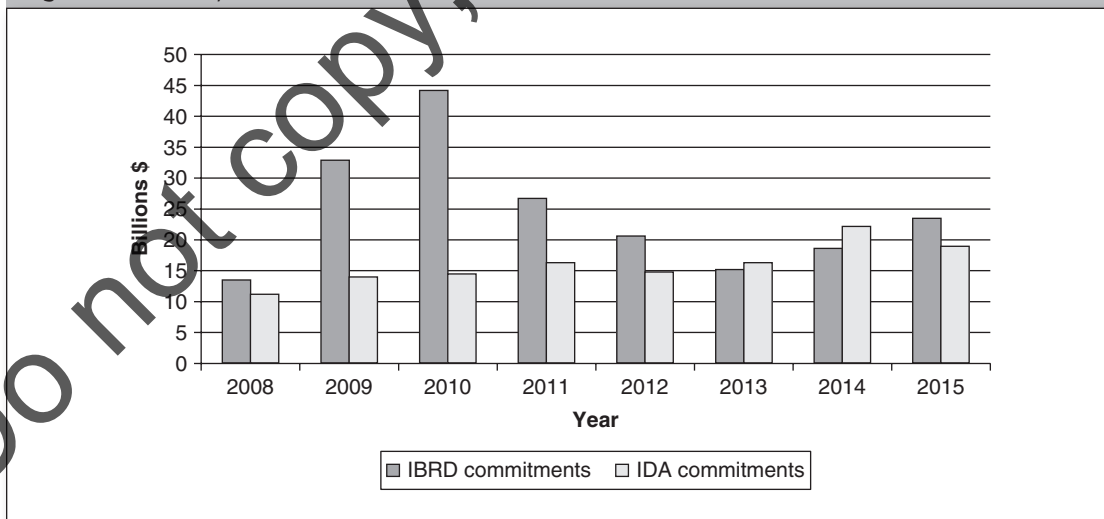
When the global financial crisis hit, the bank did not have the same center stage role as the IMF, discussed in Chapter 8. But it responded quickly, with the top borrowers including middle income countries like Mexico, Poland, India, Brazil, South Africa, China, and Indonesia. The loans were mainly in the form of development policy lending rather than project lending.

Jim Yong Kim, who took over in mid-2012, was the first bank president with a background as a physician and anthropologist. Also unlike past presidents, he was an expert in public health. As noted above, one of his major goals is to eliminate extreme poverty by 2030. The bank estimates that 1.2 billion people live in extreme poverty, defined as under \$1.25 a day.

Lending declined during Kim's first two years in office, given that the worst of the global financial crisis was over. From the peak of \$44.2 billion committed in fiscal year 2010, IBRD commitments declined to \$15.2 billion in fiscal year 2013, before showing signs of improvement to \$23.5 billion in fiscal year 2015. For the first time in the bank's history, IDA commitments to the world's poorest countries surpassed IBRD commitments in fiscal year 2013, at \$16.3 billion.

Kim's tenure at the bank has been rocky. He launched a major reorganization of the bank in 2013 after deciding the bank's structure was one of its major problems. He announced \$400 million in cost cuts over three years, and he fired three top managers. Early reviews of the major restructuring were not positive. The *Financial Times*, for example, said the bank had "descended into a kind of restructuring hell," leaving the bank in "turmoil."⁸⁷ The new

Figure 5.2 IBRD/IDA Commitments Fiscal 2008–2015



Source: World Bank Annual Report 2015.

structure moved power in the bank to 14 “global practices,” which cover sectors such as agriculture, finance, water, and poverty. The previous matrix system had placed budgetary power in the regions and included specialist and country groupings, as well as “networks” that were meant to be “knowledge centers serving skill pools.” For an outsider, understanding the complexity of the management structure could be very daunting. As the bank’s Operation Evaluation Group described it:

The matrix system—a dual matrix, bank-wide between the six Regions and four networks, and in each Region between Country Management Units and Sector Management Units—was to be facilitated by dual accountability for technical quality and an internal labor market for staff renewal and mobility.⁸⁸

While the bank has seen several leadership changes in a relatively short period of time, and each leader puts his own imprint on the bank, the continuing expanding mission and clearly mixed performance have remained constant. In terms of mission, over the past decade the bank has focused more on issues of corruption, transnational crime, border porousness, and postconflict reconstruction. The bank remains a prominent actor in working with the global economic architecture and is today the largest source of funds for issues such as health-related programs in poor countries.⁸⁹ Yet, its expanding role has been accompanied by more evidence of mixed performance. The trend of declining lending, along with the existence of two new multilateral banks—the NDB BRICS and the AIIB—will mean more soul-searching about the bank’s future and ability to respond to global development challenges. One open question is whether the current set of goals will be aided by the organizational restructuring. Stated differently, is the proposed solution a good fit with the identified problem?

PERSPECTIVES ON THE BANK

Scholars and practitioners have offered a number of arguments over the past decade to explain this, and some do not seem to become dated over time. As Jessica Einhorn, a former bank managing director wrote in 2001, the bank’s mission “has become so complex that it strains credulity to portray the bank as a manageable organization.”⁹⁰ She pointed the finger at the existence of too many constituencies pressuring the bank to address a growing number of issues. The problem she identified has not really changed in the subsequent years. Mallaby, who wrote a book about Wolfensohn, made a similar argument, but more dramatically, attributing the bank’s performance problems to constant pressure from “an army of advocates” that “pounds upon the World Bank’s doors, demanding that bank projects bend to particular concerns.” He likened these advocates to a Lilliputian menace, bringing down the bank-as-Gulliver.⁹¹ Naturally, leading advocates disagree. Rich has a different take on the bank’s woes. He has argued that institutional incentives favor getting money out the door quickly—quantity over quality—is a leading problem, but more than that, the bank itself is a “microcosm of global society’s geopolitical and environmental contradictions.”⁹²

Some scholars have applied a principal-agent model to explain the World Bank’s performance problems, but in different ways. One argument is that bank performance has suffered

in some issues when the bank-as-agent acted too independently and had to be reined in by its principals, the member state shareholders.⁹³ Another view argues that some of the bank's difficulties stem from the principals themselves, because it is they who have delegated conflicting or complex tasks that are simply too difficult for the bank to implement well.⁹⁴ An obvious example going all the way back to the bank's birth is that the institution was created to be both a financial institution and a development institution. It is a bank in the sense that its main function is to lend money; it is a development institution in the sense that it was created to promote a wide range of activities that go well beyond what a private bank does.⁹⁵ These two agendas don't always work smoothly together, such as cases where the bank is trying to urge borrowing governments to undertake policy reforms that are not directly related to the economy, such as social policies. Therefore, some of the tensions the bank struggles with are built into its character.

Another good example of the tension among bank tasks can be seen in attention to addressing good governance issues and the issue of corruption. These issues directly conflict with the provision in the bank's Articles that loans should be extended without regard to political considerations. Over time, the bank's shareholders have made it impossible for the bank *not* to address political issues in its work.

Bank analysts sometimes use the word *hypocrisy* when discussing the institution. Fidler, writing about the Wolfensohn years, argues that Wolfensohn wasn't simply a source of some of the bank's problems; rather, he was a "symptom of the hypocrisy of the leaders of rich countries." These are the people who "speak so eloquently on behalf of the world's poor yet do not care enough to prevent the decline of the world's top development institution."⁹⁶ Political scientist Catherine Weaver argued that "organized hypocrisy" inevitably arises at the bank, given the disparity between what it is expected to do and what it is able to do. Examples include its weak compliance with its own policies and tepid efforts to carry out new tasks.⁹⁷ This hypocrisy, she argued, plays a paradoxical role at the bank, because it can act as a tool or a liability. As a tool, in the form of paying lip service, it helps the bank shield itself from incompatible demands. But when the bank is caught in what she labeled "an act of hypocrisy," its legitimacy may be undermined, with further repercussions on its ability to do its work.⁹⁸

Amid all the criticism, there are voices urging people to remember how difficult the bank's job truly is. The bank may be arrogant at times, argued Katherine Marshall, but it is also "tackling some of the world's hardest issues and should be expected to fail in many of its efforts."⁹⁹ Indeed, it should do a better job of openly acknowledging the difficulty of its work. Private sector investment in development countries, for example, often assumes a high degree of risk and expects a certain degree of failure. Devesh Kapur, John P. Lewis, and Richard C. Webb have pointed out that, in effect, the bank's project lending in developing countries has some similarities with venture capital investment, which, by definition, assumes a high degree of risk and expects a certain degree of failure. Some countries and sectors, by definition, are obviously more risky than others.¹⁰⁰

CONCLUSION

It seems like almost every decade or so the bank is at a crossroads, deciding how best to face development challenges and external economic pressures, while reviewing its internal policies

and structure. Critics perennially wonder about the bank's ability to translate its research into action, to learn from its mistakes, and to meet various external challenges and implementation challenges. There is almost constant concern that the bank is groping for relevance. While some of these issues reflect power politics among major shareholders, organizational politics, the politics and other conditions at the project and recipient country level, and issues related to bank leadership, it is also true that they reflect just how difficult it is to "do" development in practice. Economists, policymakers, civil society actors, and others have been thinking for decades about the best way to reduce poverty, for example, and we still don't have consensus. Whether one agrees with or criticizes the World Bank, it is likely to remain a central figure in the debates about the practice and goals of development.

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