Votes and Voice: Reforming Governance at the World Bank

by Masood Ahmed

My objective here is to spark discussion about the future governance of the World Bank group. This is a large topic and one on which much has been written. I am going to focus mainly on the role and composition of the Board and its relationship with management, but I recognize that there are also many other aspects of the corporate governance agenda for the IFIs.

Why Governance Matters

A legitimate initial question is whether improving the governance of the World Bank is a priority issue for delivering better development results for the world's poor. I start from the premise that the World Bank is the single most important international actor in the development business: ensuring its effectiveness over the coming decade is a high priority for development policymakers in rich and poor countries alike. And I am persuaded that the World Bank cannot continue to deliver the results we all want over the next decade without substantial governance reform.

There are two broad sets of arguments that drive the improved governance thesis. The first posits that voice, legitimacy and effectiveness are mutually reinforcing attributes for an international development organization, not competing objectives.

Kemal Dervis, Administrator of UNDP, has argued powerfully for the enduring merit of the U.N. in terms of global legitimacy—including in a presentation to CGD. He extended this line of argument to the Bretton Woods institutions. In order for them to be a fully credible source of advice, and for their advice to be backed by conditions which would carry sufficient political acceptance to be workable, he saw the need for a much greater sense of

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their acceptance in the broader international community, and particularly in developing countries. This acceptance, he argues and I agree, is intimately bound up with their legitimacy, in terms of how their governance is structured and how that is perceived. So the argument is that it is not good enough simply to have the right policy advice; that advice is more likely to be accepted if it comes from an institution that is seen as representative of the interests of the borrowing countries.

These arguments apply to the World Bank's work in both middle-income countries, mainly through the IBRD, and in low-income countries, mainly through IDA. A further argument for improving developing country voice in IDA stems from the 'development coordinator' role that it plays for the broader donor community.

I now work for DFID. And right across the countries where we operate, I am struck by the fact that there are multiple donor interventions in the same area, overlapping with each other, creating extraordinary demands on scarce national administrators' time and trying to get them to focus on each donor's strategic plan, each donor's set of conditionalities, each donor's set of operating specifications. Moreover, these countries frequently don't have the capacity to handle all these burdens simultaneously. Middle-income countries usually do, but many low-income countries, particularly in Africa, lack the capacity to be able to provide a framework within which each donor could operate in a highly complementary way with the others and the national authorities.

Fortunately we are beginning to recognize the cost imposed by this lack of harmonization and alignment. Our pledge to do better is enshrined in the 2005 Paris Declaration on aid alignment, harmonization and results. However, this will be a long-haul endeavour, and for many aid-dependant countries I see IDA as providing essential backstopping to help governments to provide a framework within which all donors can operate. Of course, IDA will not be expected to do this alone—we need to understand better how the U.N. system, the Bank, the European Commission and a few well-positioned bilaterals can be complementary—but it will be asked to take on at least an important, highly visible and exposed supporting role in very many country situations.

To play that coordinating role effectively, IDA needs to enjoy external legitimacy, first and foremost with the

countries where it plays this role. It also needs to earn and maintain legitimacy with other key development partners and, significantly, opinion-shapers in donor countries including in civil society.

A second important lens through which to consider governance of the World Bank is from the perspective of recent experience with corporate governance in the for-profit and non-profit sectors. In the corporate world, governance has evolved a long way in the last 20–30 years, as witnessed, for example, by the report of the Cadbury Committee in the U.K. on this subject a few years ago. While there is no cookbook recipe for governance of a major corporation with many diffused shareholders and millions of stakeholders, and no two situations are entirely alike, there are some basic principles which command widespread respect.

A key one is the importance of a relatively clean delineation between the functions of management versus non-executive directors (confusingly "executive" directors in the Bank parlance). As Sir Adrian Cadbury pointed out when he met informally with the Bank's Board two years ago, this basic requirement is not yet met in this institution. More generally, it is not clear whether directors are primarily operating in the narrow national shareholder interest or for the wider corporate interest, and if the latter, whether the process by which they are appointed, retained and rotated favors or hinders this perspective. Another obvious, and much analyzed, issue is the role and selection of the Bank's President, who combines, U.S.-corporate style, the roles of Chairman and CEO, an increasing anomaly on the other side of the Atlantic. Therefore, both the changed international development context and lessons from corporate governance argue for change at the level of the Bank.

Building on Progress

The excellent recent report on the Bank by CGD identifies some immediate improvements that are desirable and feasible. Let me simply outline them before suggesting two more fundamental ideas for change in the medium term which need more exploration.

The first is to pursue disclosure more vigorously. The Bank has come a long way in terms of disclosure, but there's still more that we can do to disclose country strategies, and especially country level policy and

institutional assessment ratings. There are some valid arguments for caution where the information may be politically or market-sensitive, but the presumption must be that these ratings can and should stand up to challenge, and that sharing them increases the likelihood of positive emulation. Over time, there is a case for progressively externalizing the assessment function, using standards developed by the Bank and other financiers against which countries can then be benchmarked.

The second is the issue of decentralization. There should be continued decentralization of decisions as far as possible to country level, both in terms of continued "deconcentration" of staff responsibilities within the institution, but also by making more space for effective decision-making by countries themselves. The latter kind of decentralization requires everyone—including shareholders—to accept a greater relativism of policy options, to recognize that there are usually several feasible adjustment paths from one situation to another, and that weighing the pros and cons of each is a sovereign matter. If the Bank, and for that matter the Fund, come to be seen as more respectful of country voice and ownership in this more fundamental sense, this will improve governance and legitimacy in a major way even without formal changes in the Washington-based superstructure. This is significantly about changing the day-to-day behavior of Bank staff, and so would require a hard look at the Bank's personnel management and incentive framework.

The third area is trust funds, official-speak for widespread *ad hoc* financing of the institution outside of its core resources from capital and retained earnings or, in the case of IDA, periodic core replenishments by donor countries. I find it extraordinary that in a recent year the World Bank received a larger sum of grants from its shareholders in trust funds than it got for IDA. Some of this money is for big multi-donor initiatives channeled through the Bank (such as HIPC) or cofinancing for specific Bank operations, but a substantial amount is for supplements to the Bank's own budget for policy or operational work. It is remarkable that as shareholders we construct an elaborate mechanism for setting priorities and discipline in the Bank, and then as donors we bypass this mechanism by setting up specific separate financial incentives to try to get the Bank to do what we want. Inevitably this

is sometimes different from what the Bank's Board, on which we put our director, has just instructed it to do.

This is not unique to the World Bank by any means—in the case of several U.N. agencies the accumulation of such non-core or "project" funding has been larger overall than core funding for years. And it is true that these projects, on the whole, meet specific operational needs and achieve results at their own level. But this constant, sprawling, decentralized process of contracting for parallel funding has a corrosive long term hollowing-out effect on corporate governance. The pendulum has swung too far in this direction and is overdue for a correction.

My fourth area for action is independent evaluation. This is important in its own right as a key tool for improving our understanding of what works in development, as we discussed in another session in this conference. It also has a huge payoff in terms of improving the legitimacy of the policy prescriptions that come out of the institution that is rigorously and publicly evaluated, in this case the World Bank. It therefore enhances the process of governance reform we have been discussing. I should note that a focus on impact evaluation will also help to raise the priority of improving the current woefully poor quality baseline for development indicators in many developing countries.

These are the types of immediate improvements we should move forward on. But there are two more radical questions which I'd like to explore.

The first question is whether it's time to revisit this model of a 200-person plus resident Board. It results in an extraordinary degree of involvement of the shareholders in the day-to-day management of the institution, wherein the lines between management and shareholders begins to blur.

Few corporations would consider having a permanent resident Board of directors, let alone one like the Bank's which costs tens of millions of dollars a year to run, and requires heavy dedicated management infrastructure to service its requests for information. Even in the esoteric world of public development finance institutions, especially those created since the 1990s, this is a rarity. More often in similar institutions, shareholders interact mainly through brief periodic meetings of senior officials from capitals. They can bring a more direct and authoritative connection with domestic priorities, while complementary checks

and balances—such as robust oversight committees on policy or top management appointments—operate outside of the Board itself. I surmise that if the Bank were re-created today, we would not invent anything like the governance infrastructure that we have inherited. It's not obvious to me that moving over immediately to a smaller, nonresident, non-executive board is the only or best answer. There may be other solutions that have equal merit. But the issue does need to be joined. First, for cost reasons: taxpayers have a right to get value for money. But also to get clear lines of corporate governance responsibility.

The second question is: how do we introduce more voices from developing countries in the different decision-making processes in and around the Board? Over the past five years, there has been considerable work on this, with proposals both covering the recalibration of relative shares and voting rights and the suggestion to add one or two African chairs to the Board to increase the voice of the poorest countries. However, we are still short of a consensus. Are we trying too hard for a one-size-fits-all, comprehensive governance solution?

I'm beginning to come to the view that we have two different problems of inadequate developing country voice which need tailored solutions. One is that the emerging markets don't have adequate representation from their perspective in IBRD, which is a kind of market-based cooperative, of which they are an integral part. That's a different issue from the fact that the poorest countries, particularly in Africa, who are the primary beneficiaries and recipients of IDA financing, don't have enough voice in the IDA decision-making process.

The IDA problem is compounded by the role of IDA Deputies, who increasingly set the framework within which IDA operates, subject to later validation by the Board with limited further debate. Although there are now half a dozen borrower representatives as nonvoting observers in the IDA Deputies' meetings, they do not have anywhere near the kind of intervention and capacity to shape the policies of IDA. Donors have a right to insist on value for money for their taxpayer investments in IDA, but they should also get the best possible inputs from recipient countries in determining what is and is not effective, and this is not yet happening. Moreover, when IDA management responds to Deputies' (i.e., donor)

requests for policy papers, IDA recipients feel their ability to shape the product is limited and *ad hoc*. Some have also called for more of a challenge function, by asking for ideas also from Southern development thinkers for the Board and Deputies to consider.

If the formal Board voting structure were really the essence of the problem, there are plenty of technical solutions at hand. As Nancy Birdsall has pointed out, the Inter-American Development Bank has a formula of full parity in its voting between developed and developing countries. Others—for example, IFAD with its three tiers of capital representing recipient countries, OECD, and non-OECD donors—have found solutions that fit their political needs. IDA itself has already provided for a potential voting split which, while not quite 50-50, could go up to 48 (low and middle-income) to 52 (high-income). This would involve poor countries taking up additional, heavily discounted shares long reserved for them. The reason they do not is revealing, and is arguably not primarily about cost as this would be quite modest and could presumably be subsidized further if needed. Rather it is because small changes in the IDA voting shares alone would not affect important decisions, such as constituency composition which is driven by IBRD shares, or the relationship with IDA Deputies.

So the question that we should be asking is whether this diverse set of issues—including the under-representation of the emerging markets in IBRD, and how IDA recipients influence the shaping of IDA policies—can all be done by trying to reconfigure shareholdings and/or adding a couple of seats to the board of IBRD. I am increasingly skeptical that a silver bullet exists.

Perhaps we need to step back and think more fundamentally about whether we need a new framework for the business of IDA, which brings in the donors to IDA and the recipients of IDA, in a better-structured conversation. They could shape rules and operating criteria in which they would all feel more ownership.

This should be accompanied by a separate discussion about the nature of emerging markets participation in the market-based cooperative of IBRD. They need to come together in a way that would represent ownership from them of the role that IBRD plays in their economy, and that they play in the world economy. This goes back to the early history of IBRD as a cooperative tool for

the rebuilding of war-torn Europe, with its quite different dynamic to that of an "aid agency."

I freely admit I have not gone here beyond posing the questions, and am offering no ready-made answers. I also do not have a firm view yet on whether there is likely to be enough political traction in the search for answers. Moreover I fully appreciate how by differentiating between parts of the Bank we could be raising thorny issues about the relationship between these components, with the potential loss of synergies embedded in the current set-up. But I do think that this question of differentiating voice in the IDA and IBRD contexts, along with the question on the future of the non-resident Board, are fundamental and we need to grapple with them.

I look forward to others joining this discussion in due course, and thank CGD for giving the opportunity to contribute these preliminary thoughts.

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