The Battle for the Bank

by Ngaire Woods

The World Bank will not be able to avoid reform in the immediate period. The powerful requestioning of its sister institution in Washington DC cannot help but spillover onto the Bank. Yet any "governance" reform of the Bank needs undergirding with a clear sense of its purpose and role. At least four kinds of Bank have been skirted around. I suggest that we need a narrower test to guide which of these Banks the World Bank should become.

Reform is in the air

The winds around the Bretton Woods twins bode for change. It is the IMF which is currently in the frontline —not due to rabid criticism so much as a fatal lack of interest. A few months ago I found myself a lone voice among experts briefing the UK Treasury Select Committee about globalization and the UK economy, arguing that the IMF has an important role to play. The IMF has become irrelevant opined the other experts. A few weeks later speaking to the European Parliament, my case for reforming the IMF fell on ears more receptive to the case made by an Argentinian congressman—that the IMF had destroyed Argentina's prosperity. Inside the IMF there is a scratching of heads. Is the public too ignorant or too indifferent about the IMF? "We don't know and we don't care" seems to be the public's response.

Officials most closely involved with the IMF are pushing to change what the organization does and how it is governed. Most recently proposals have been made by the United States, the United Kingdom, and South Africa. US Treasury Official Tim Adams has argued for

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weighted votes in the Fund to be altered to recognize the growing economic strength of Asian countries in the global economy, as well as for the IMF to have a more ambitious and robust approach to exchange rate surveillance.[1] On governance, more radically, the UK's Central Bank Governor, Mervyn King, recently argued that we should get rid of the Executive Board of the Fund and instead use a non-resident Board meeting six times per year.[2] Meanwhile South Africa's Central Bank Governor has made the case for fundamental reform to give developing countries more voice in decision-making in the IMF, speaking—for all developing countries—of the "highhandness," "know-it-all approach" and "almost patronising attitude towards developing countries" of the institution.[3]

The World Bank will be affected

The arguments for reforming the IMF will affect the World Bank on all three issues highlighted above. First, the allocation of votes in the IMF has long been under question but is now seriously under fire. The World Bank will be directly affected by this debate since its voting structure mirrors that of the IMF. Second, the governance structure and the role of the IMF's Executive Board is rightly under question and this too will translate across to the Bank which has the same basic permanent, resident Board structure. Third, poorest borrowers have long attacked the modus operandi of the IMF and its ideological dogmatism. In its approach to lending, the World Bank has taken serious steps to move away from one-size-fits-all and to devolve ownership to its borrowing members. But has it done enough?

The quest for change in the IMF will doubtless be gingered by the fact that the institution's largest borrowers have been repaying, leaving the Fund short of prospective income. But so too the Bank's traditional borrowers are enjoying access to alternative sources of finance and turning away from the Bank—for reasons spelt out in the CGD's Report on the Future of the Bank. Both institutions are having to explain afresh their raison d'etre. For the Bank this entails asking—what makes us attractive? What do we exist to do?

What should the Bank do?

In and around the World Bank a lot of effort has been put into examining what the Bank does well and how it

might compete with other agencies. Yet the Bank is not a private sector institution, nor a national or regional one. It should not supplant the efforts of those competing in the market. It is a public multilateral agency with a fairly universal membership created by governments to fill a need which neither private markets nor individual governments can. What the Bank should be is what it is uniquely placed to do as a universal, multilateral development organization.

The Bank's original mandate was to go where markets were likely to fail to go—or fail to get to fast enough. In 1944 this meant rebuilding Western Europe after the second world war faster than nonmediated private capital would. This would not only ensure economic growth (and a market for US goods), but it would also alleviate social and political fractures which would otherwise take place. The Bank's original mission also included lending to developing countries whose immediate prospects may not attract capital but whose stability and growth were seen as important to global prosperity and growth. Finally, the Bank was born to manage the excesses of the market. This meant working to ensure an even growth of trade so that the benefits of global commerce would raise the standard of living and conditions of labor across member countries. Put differently, the World Bank was created (alongside the IMF) to manage what we now call globalization, and in particular its "downsides."

The original purposes of the Bank did not overlap or contradict with what other international agencies would be doing in the post-war period. Certainly the Bank was born in a period of great belief about what governments could achieve—after the New Deal and amidst the birth of the welfare state in Britain. But in the intervening years the Bank has become more of a jack-of-all-trades. Paradoxically, the expansion of the Bank's activities has taken place alongside a proliferation of hundreds of other multilateral agencies working on the same issues. For this reason it is worth thinking harder about what the Bank should and should not do—as indeed the CGD Report on *The Hardest Job in the World* does. Let me propose here a slightly more restrictive test than in that report, aiming it at four of the kinds of Bank which were touched on in that report.

The Knowledge Bank is the Bank which focuses on high-quality research and its dissemination. Better collection of data, research and sharing of information by the Bank —we are told—will translate into better quality and more even economic growth around the world. The same rationale is used to justify multilateral surveillance and research undertaken by the IMF. The assumption that this role is necessary for each organization to achieve its main goals is seldom tested. Of course knowledge and furtherance of the social science of economics and development economics is valuable, but it is not only the Bank which is engaged in this. So too are the OECD, universities around the world, regional and national policy institutes, and other development organizations.

Should the World Bank be a "Knowledge Bank"? The test is a two-fold one. First, is there something about the way the Bank collects and disseminates knowledge which is distinct from what other research and monitoring organizations can do—and indeed which the Bank is uniquely placed to do? Second, does the Bank's work as a Knowledge Bank contribute directly to its mandate such as by contributing to more equitable and balanced international trade so as to raise "the standard of living and conditions of labor" across all of its member countries (to quote Article 1 of the Bank's Articles of Agreement)?

The Listening Bank is the World Bank of the Comprehensive Development Framework and decentralization. It is a Bank which listens more and imposes less. It puts borrowing governments "in the driving seat" (in spite of the fact that in none of those countries does the boss ever occupy the driver's seat). In some ways the "listening bank" tries to reconcile "ownership" with the Bank's ever-more intrusive presence in borrowing countries. This could improve a number of things about the Bank's performance and knowledge. It could enhance the Bank's understanding of how actual sectors in specific economies work—more useful for the Bank's poorest members than most of the general theorizing done at headquarters. It could inject some humility into Bank projects and policies—rendering the Bank a genuine "development partner." It could also drag the Bank into all manner of projects including democratization and social reform.

Should the World Bank be a "Listening Bank"? Again the test is twofold. First, is the Bank uniquely placed

to engage in processes and policies implied in the "listening bank" or is it supplanting what other organizations (public and private) can and should be doing? Second, will the Bank's listening activities help it to fulfil its core mandate? I am in no doubt that to some extent they will. But the risk is that the trend to a greater presence on the ground will tempt the Bank into an ever wider agenda, full of good intentions but applying the wrong skills and expertise to a mission which goes beyond that for which it is equipped.

The Dams and Irrigation Projects Bank is the Bank of those who want the Bank to attract back its large-scale borrowers which give it a raison d'etre and a healthy income stream. It is also a vision which pushes back against the Bank's widespread shift into more easily-disbursed social and sectoral reform lending. But dams, irrigation and large infrastructure projects take the Bank squarely into a number of battlegrounds. Procurement for large infrastructure contracts (including by the world's wealthiest countries and corporations) is notoriously rife with corruption and kickbacks. It sits with difficulty alongside the anti-corruption goals of the new President. Large infrastructure projects often strip people of their homes and damage local environments, leading the Bank into head-on conflicts with NGOs and local communities which it has been (and still is) trying so hard to cultivate.

Should the Bank be engaged in large-scale infrastructure lending? Tough as it may be, this was a key part of the original mandate of the Bank which includes developing productive capacity in countries when private capital is absent or too expensive. The uniqueness of the Bank's role here stems from its capacity to raise finance more easily and cheaply than any individual country. But do its activities in this area contribute to fulfilling the Bank's mandate? Recall that the Bank's mandate is not simply to promote economic growth but to promote trade, investment, and productivity which is balanced and contributes to better standards of living and conditions of labor within and across its members. The Bank has a duty—distinct from the private sector—to ensure that all people's living standards and working conditions are bettered. At the very least it should work in ways which

ensure that basic human rights are not impinged. This is difficult but has to be part of what the Bank does.

The Big Expensive Bank. Finally, it is worth mentioning the Big Expensive Bank which has little by way of a hard budget constraint (for increases in costs can be passed on to borrowers). It is a Bank which has spent millions on advice and restructuring within its own walls as each new President has attempted to recreate around himself an institution with which he is more familiar. There is no rationale for an undisciplined Bank. The Executive Board and Board of Governors (member countries) have robust powers of oversight which they can exercise. The problem is that they too seldom, and too ineffectively do so.

Governance reform is inevitable

The Boards of the Bank (both the Board of Governors and the Executive Board) need to act properly as supervisers of the institution rather than micromanagers. Their job is to ensure that the Bank fulfils its strategic goals—defined here in terms of what the Bank is uniquely placed to do. Other contributors have commented on governance reform in the Bank, and I have written extensively about it elsewhere. Suffice to say here that current arrangements have proven to be ineffective from a corporate governance point of view as well as from a political "legitimacy" point of view. The senior management is selected by a process seen as neither fair nor meritocratic by the rest of the world and results in a Bank unduly skewed towards its largest vote-holder. Although small and expert, the Board has not been an effective strategic arm or constraint on the management of the Bank. Nor is the Board seen adequately to represent the full membership of the Bank whether seen in terms of economic weight, affectedness by Bank actions, or contributors to the Bank's expenses.

There are some straightforward solutions to these problems.[4] First, on leadership the President and senior management must be seen as equally accountable to all countries who are members of the Bank. All countries pay for the institutions—they should also all have a say. The Bank sits in Washington DC and therefore is prima facie perceived as primarily accountable to the United States. Its President and Senior Management need powerfully to balance that perception. At the very least the double-role of the US as host of the institution and

holder of the Presidency needs reducing by dropping the convention that the US appoints the President or by shifting the Bank's headquarters to another capital (which would be required by the Articles if the Europeans sat with one seat on the Board and thereby became the largest quota holders).

The Board needs to be effective in overseeing and monitoring management, and ensuring that the Bank's core activities adapt appropriately to reflect what the Bank is uniquely placed to do and what contributes directly to its mandate. At present the Board neither represents the Bank's membership adequately nor fulfils these core functions. The Board has eight Directors which directly represent individual countries (United States, France, United Kingdom, Japan, Germany, Russia, China, Saudi Arabia), and sixteen Directors who represent the rest. Most Directors live in a grey zone, based in Washington DC, paid by the Bank, and neither instructed by, nor accountable to, most of the membership of the Bank.[5]

For about 174 members of the Bank, there is little incentive to engage in decisions being made by the Board. This is because eight Directors can marshal a majority among themselves with little if any consultation with others. This does not have to be the case. If Directors had to marshal not just 50% of votes (which might be just 8 members), but also 50% of members (92 countries) to make decisions, there would be a clear incentive to consult and bring on board Directors who represent a large number of countries but wield few votes (such as the two Directors who represent over twenty African countries each yet each wield less than 3.5% of voting power). This is not a difficult reform. The Bank's Articles already provide for double-majority voting (Article VIII) for any amendment to the Articles. This could be extended to other decisions. Along with transparency of the Board's process such as publication of the full minutes of any Board meeting so that countries can read exactly what their Director has said in Board meetings, these would be first steps towards a more effective Board.

In brief, reform is in the air around the IMF and World Bank in Washington DC—and so it should be. Powerful members of the Bank should be pushing a new more effective structure of governance, and a strengthening of the unique contribution the World Bank can make to the equitable spread of globalization and economic growth.

Notes

1. Timothy D. Adams (US Department of the Treasury), The US View on IMF Reform, Speech presented at the Conference on IMF Reform, Institute for International Economics (Washington, D.C., 23 September 2005).
2. Mervyn King (Governor of the Bank of England), Reform of the International Monetary Fund, Speech given at the Indian Council for Research on International Economic Relations (New Delhi, 20 February 2006).
3. Tito Mboweni (Governor of the Reserve Bank of South Africa), Speech at University of Pretoria (Pretoria, 28 February 2006).
4. These are elaborated at greater length in chapter 7 of Ngaire Woods, *The Globalizers: the IMF, the World Bank, and their Borrowers* (Ithaca, New York: Cornell University Press, 2006).
5. For a closer analysis of the functioning of the Boards see Ngaire Woods, "Making the IMF and World Bank more accountable," *International Affairs* 77, no. 1, (January 2001): 83–100; and Ngaire Woods and Domenico Lombardi, Uneven patterns of governance: how developing countries are represented in the IMF, *Review of International Political Economy* 13, no. 3 (August 2006): 480–513.

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