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The Role of the Bank in Low-Income Countries

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[TRANSCRIPT PREPARED FROM A TAPE RECORDING]

MR. MacDONALD: Thank you very much, Nancy. What Nancy didn't say is that I wouldn't be in Washington, D.C., at all, if it were not for her, because I was a reporter in the Philippines when I heard that there was something called the Policy Research Department, and they were doing a book on something called the East Asian miracle, although I don't think it had a title at that time, and they were looking for an editor, and I was looking to come back to the United States and I faxed in my resume and she hired me, and what? 12, 15 years later, I have the pleasure to work for her again.

So I was so impressed with the group of people she had assembled in the Research Department at the Bank and I see, now, a lot of that same excitement and creativity and no hold's barred interest in open intellectual inquiry on behalf of development at the Center. So I'm so thrilled to be there.

Bill and Steve, if you'd like to take your seats up here, and I think somebody will help you with the lapel mikes while I introduce you.

While that's going on, let me tell you a little bit about how I hope to run things this morning.

We have five topics as you'll see in the agenda. They correspond, broadly, to the five crucial tasks that are outlined in the report that the Center's working group prepared for the new president of The World Bank. They're not in the same order, and the order that they're in is not necessarily priority. The order that they're in today has something to do with when our speakers could be here.

Each session will run for about 45 minutes. I will introduce the speakers. I'm going to be extremely rigorous. I'll give you each ten minutes, and I'm known for interrupting, so if there are any other speakers here and you are thinking maybe I'll get

away with fifteen, you won't. You might get away with twelve. And then I'll open it up to questions from the audience.

I guess if Nancy is my oldest friend and colleague in Washington, Bill probably comes second because he was part of the Research Department when I came to work at The World Bank and I was impressed and excited by the provocative nature of his work then, and I still am.

He is the author, as many of you know--let me make sure I get the title here. "The Elusive Quest For Growth: Economists Adventures and Misadventures in the Tropics" and is currently professor at New York University.

Steve Radelet, I have the privilege to be his colleague and work with him. He was the deputy assistant secretary of the U.S. Treasury for Africa, the Middle East and Asia, and is, I understand, one of the few people to have the distinction to have held a job of that nature in Treasury under both Republican and Democratic administrations.

They will be talking on the issue of the Bank's role in low-income countries and if you look on your agenda, you'll see that's phrased in terms of questions. I like to think these questions actually have answers, and if you look in your report, there's sort of a cliff notes version of the answers, where they're pulled out here on the side, and you might or might not agree with those answers, but the idea is that we have not only a gab fest but actually really search for some answers that can make a difference in the world.

One of the things that is not maybe as clearly mentioned on there is this whole debate about grants versus loans and I think that's one of the things that we'll be hearing more about.

So with no further ado, Bill, if you will kick us off, please.

MR. EASTERLY: Thank you, Lawrence. Good morning; it's a pleasure to be here.

I certainly want to completely endorse Nancy's call for rigor in the intellectual debate that we're having this morning. The standards in the scholarly literature have already been set very high.

We've had contributions in such scholarly fora, last week, as MTV, where we had a presentation by one of the world's leading development economists, Angelina Jolie, which was actually a joint work with a Columbia University economist who is-- [laughter]--whose name I can't really remember at the moment.

So, you know, the standards have been set very high and I want to try to, you know, meet those same high standards this morning.

I have a very simple message about The World Bank and low-income countries. It's that to be effective, The World Bank needs to have in place a set of tasks, a mission, and an incentive system that will create accountability, where The World Bank will be accountable for results. Where there will be some reward for getting results and some penalty for not getting results. That's the first message.

The second message is kind of a dispiriting one but I have to say it out of intellectual honesty, is that I think The World Bank in low-income countries is now, and has been for a long time, suffering from a really bad case of mission creep. And that mission creep has taken it farther and farther away from tasks on which it's even feasible to have accountability.

And so to reverse that trend is really the first step in having a World Bank that is accountable for achieving results in low-income countries.

So let me tell you what I mean by "mission creep" and this is really a long-run tendency. What has happened is that there have been a lot of interventions that have been tried, and then interventions were unsatisfactory, and so then The World Bank tried an ever more ambitious and extensive set of interventions to try to make up for the failure of the previous intervention.

So to get concrete, sort of in the early days, The World Bank was all about roads, dams and schools. You know, build it and they will come. You know, just doing specific project things that would create tangible outputs.

And actually, there was some success in that period. You know, there were successes at building roads, dams and schools. There were successes at building infrastructure for clean water, and indicators of access to those services have actually gone up in Africa. That's one of the success stories that is not talked about enough in the literature, is that there are some success stories in Africa and they usually have to do with the specific project tasks that used to be the main mission of The World Bank.

But there was some dissatisfaction with that when they did not bring rapid development in Africa, and so then we move to the next phase which was the idea that to be effective, project interventions needed to take place in the presence of good macroeconomic and microeconomic policies, mainly free markets, free trade, low government deficits, macro stability, the Washington consensus, and that brought us to the age of structural adjustment.

And so The World Bank, beginning in 1980, made loans conditional on adopting a large number of policy reforms, and that, you know, was an attempt to try to redress what was perceived as a gap in the previous effort, or as a reason why the previous effort failed, that the interventions were not themselves enough to create development, because if the overall policy environment was so badly distorted, then development would not happen.

Well, unfortunately, structural adjustment didn't work. The growth did not happen. The policy reforms were very erratic and uneven, and, you know, the scholarly literature--I think for the most part the consensus is now that the structural adjustment lending failed to obtain its objectives.

And if you want to go beyond the scholarly literature, then there's a simple stylized fact that I will throw out at you, which is the main topic on the agenda of the IMF-World Bank meetings this weekend, and that is debt relief.

Well, you know, debt relief is talked about as sort of this benevolent thing that rich countries are doing for Africa, but what we forget is the flip side of debt relief, that debt relief is really a sign of the failure of structural adjustment.

It's precisely those countries that got a lot of structural adjustment loans that became HIPIC, and needed debt relief, and the fact that they could not pay back zero interest loans with a 40-year maturity is itself a completely compelling sign that structural adjustment lending failed.

And that's true, not only of the obvious failures that had negative growth in Africa, which are the majority of those who received structural adjustment loans. But it's also true even of those success stories that are touted as success stories of structural adjustment--Uganda and Ghana are also getting debt relief. So even the success stories could not pay back structural adjustment loans.

Then we have the next wave of escalation. So people said, well, so policies weren't enough so it must be institutions. So, you know, the task of the international agencies like The World Bank should be to try to promote change in institutions.

And, you know, there's kind of new vehicles which are somewhat loosely related to promoting institutions, like the new poverty reduction strategy papers, and, in general, all kinds of initiatives to try to promote institutions, which I have difficulty understanding for the simple reason that no one really knows how to change institutions from the outside.

We can think of specific piecemeal things that would change institutions for the better but to achieve a wholesale transformation of institutions, we really don't know, and in fact the evidence that we have is that aid, and Steve Knack, [ph] who's sitting in the audience, he has a paper out that aid, if anything, leads to a worsening of some of this, of good governance in recipient countries.

And so that's kind of where we are now, except in some countries there's even been a further step, which is even more ambitious, which is in the states that are called "failed states," now we have even more escalation, where, you know, the aid agencies would actually take over some of the functions of government and, you know, have kind of some kind of new trusteeship type arrangement in failed states.

So, you know, that's yet another further escalation. You know, if we can't change institutions from the outside, let's ourselves become the institutions and take over.

So what's going on here? Why do I say that escalation has taken us farther, and taken The World Bank ever farther and farther away from being accountable?

Well, there's two big problems with this escalation. One is measuring results and the other is what results depend on. Measuring The World Bank's effort and second, what the outcomes depend on. So you can see with each successive step, it becomes more and more difficult to measure The World Bank's effort.

You know, it was easy to measure The World Bank's effort when it was just building a road or building a dam, and that was something highly visible, that could be monitored, and it would be very embarrassing if The World Bank gave money for a road and it was not built. So that was something that was more feasible to hold The World Bank accountable.

With structural adjustment it becomes much more difficult to hold The World Bank accountable for the goal of changing policies and the effort that goes into changing policies.

Now do you measure what policy would have been without World Bank intervention? How do you actually measure changes in policies? Policies are a very ill-defined set of lots of different actions.

With institutions, it becomes even more difficult to measure what's going on, and of course with post-conflict reconstruction, where you're trying to change everything, then all the game is up.

And the second problem is that with accountability, with this escalation, with this mission creep of The World Bank is that with each step of escalation the results depend on more and more factors besides what The World Bank does.

So when The World Bank is building a road, it's mainly just depending on the actions of The World Bank itself. The World Bank can pretty much determine whether a road gets built or does not get built.

With changes in policies, now there are many actors that are trying to influence the country to change policies, even more so with institutions, and these things depend not only on outside factors but also domestic political factors, and so now it's possible to escape accountability because if something goes wrong, everybody can point fingers at everybody else.

The World Bank can say it's the IMF's fault, the IMF can say it's The World Bank's fault, or they both can say it was the recipient government's fault, or the recipient government can just say it was the fault of politics, that they had no choice.

Everybody can blame everybody else for even some outside factors like a hurricane or in terms of trade shock, and nobody really can be held accountable for the results in these areas because they depend on everything.

And so you cannot hold The World Bank accountable for efforts in these areas.

And to make things worse, to make things even worse, the evidence that we have with each step in the escalation gets more and more tenuous, that The World Bank can affect these outcomes. With building a road, it's fairly obvious that The World Bank can build a road, if it wants to, and there's problems with maintenance but those problems could be solved with particular measures.

The evidence on changing policies. Pretty much the aid does not change policies. The evidence on unsteadiness is that aid does not change institutions, at least not for the better. It may change them for the worse, and God only knows what we're going to find ten years from now on the effect of post, on post-conflict countries, of what the effect of The World Bank was.

So with all of these problems, we've moved ever farther and farther away from accountability. So what needs to happen? I'm almost done, Lawrence, if you're about to cut in.

By the way, I forgot to thank my good friend, Lawrence. He and I spent a lot of good times together at The World Bank and toward the end of my stay at The World Bank I made his life very difficult, and I kind of feel bad about that. He was in charge of external relations, and I was kind of saying it's not really saying the right things, external relations.

[Laughter.]

MR. EASTERLY: But Lawrence is a good-hearted guy. I really want to acknowledge that when I left The World Bank, he came and helped me pack my office. That was really sweet. You're great, Lawrence.

So what needs to happen to reverse this trend of escalation and why has escalation happened? Well, I think, you know, now we go back to the scholarly literature on development and I think one thing is coming out, that is emerging more and more from the literature, that is I think a very controversial conclusion but I think it's born out by a lot of evidence, and that is that aid, and, in general, outside actors like The World Bank, cannot achieve development and transformation of other societies like poor countries in Africa, like low-income countries in Africa.

That is just something that they cannot achieve. They do not have the tools, the ability, the incentives, and accountability in place, and even if they did have the incentives and accountability, it's not clear that outsiders like The World Bank can achieve wholesale transformation of another society like the complex societies in low-income Africa.

Does that mean that all is lost? No. There's still a lot of good things that aid can do. Aid can do those small piecemeal things like building roads and maintaining them, like getting 12-cent medicines to children who would otherwise die from malaria, like sinking boreholes and getting clean water so that people don't get sick from contaminated water.

Like doing small-scale things like, you know, the current project in The World Bank on the costs of doing business, in which, you know, you try to take specific piecemeal steps to lower the red tape of doing business in developing countries, so that you create opportunities for what is the real engine of development and transformation in low-income countries, which is not aid, which is not The World Bank, it's the private sector and it's the homegrown efforts of local people themselves, both political leaders and private sector within African countries, within low-income countries themselves.

That's where development and transformation is going to come from, not from the outside actors.

So if we're willing to focus on those more modest tasks, then feedback and accountability is feasible and then we could get much better results. So the roads that are not being maintained now could be maintained, if we focused on that and held The World Bank accountable for achieving those results.

The 12-cent medicines that are not reaching the children dying of malaria could reach the children dying of malaria, if we focused on simple tasks like that and held The World Bank accountable for those tasks.

And otherwise, development will happen mainly because of what Africans do, because of what people in low-income countries do, not because of what The World Bank does.

[Applause.]

MR. RADELET: Thank you, Bill, and good morning to everyone. You know, I used to work with Jeff Sachs and I used to travel around with him and appear, and I didn't get to be with Angelina Jolie, but I get to appear with Bill.

MR. : What a let-down!

MR. RADELET: Whatever that means, I don't know! I agree with a lot of what Bill had to say. It's true, donors and outside actors cannot achieve wholesale transformation within developing countries. But they can help under the right circumstances and with the right kinds of aid, and a lot of what Bill has said today, and what he's been saying in the past I think helps us think those things through a little bit more carefully.

The first point I wanted to make is exactly on the mission creep point, and it's one we make in the report, we put it under the term of discipline. The Bank does get involved

in way too many activities and does not have a particularly good focus, and that transfers to the recipient governments that also try to take on too many roles and are encouraged, actually, by the Bank and other donors to take on way too many issues, and there's no focus and no sense of priorities.

The Bank I think does this partly because it has, in house, this very wide range of expertise and it's set up in a rather decentralized way, so it tends to try to support all kinds of activities. But it needs to do a much better job of setting its own priorities within countries and helping recipient countries to think through those priorities as well.

The Bank and other donors tend to encourage an attitude of we're going to try to solve all the problems at once. It's very easy to go into a low-income country and find 25 problems or 50 problems or 60 problems, and say, oh, this is a problem, this isn't working very well, we've got to fix this road, we've got to fix this, we've got to change that, we've got to do that.

And they're all problems. And so people--oh, yeah, we gotta fix all those things. But there's no sense of priorities.

And the problem is that in developing countries, the scarce resource is strong government policy makers, and most developing countries have a few but most don't have that many, and there's only so many things that can be tackled.

The good news is that we don't have to solve everything at once. If you look at the countries that have been very successful over the last 25, 30 years, mostly in Asia, but not exclusively in Asia, they haven't solved everything at once. Look at China. No one would argue that China has solved everything at once. Or Indonesia, or Malaysia, or any of the other success stories.

They were able to set priorities and get a few key things right, supported, in some cases, particularly Indonesia and some others, by outside actors and by aid, but it was really getting some focus right, and unfortunately, the Bank and the donors don't do this.

The comprehensive development framework which the Bank pushes, in my opinion is a huge mistake, because it does encourage this attitude of let's try to solve everything at once and we've got to fix all of these problems because development is so complicated.

But the good news is that you don't. You set some priorities and get a few things working right and things can go from there.

So I think that's number one, is trying to establish some more discipline and try to fight against this mission creep.

Second, the Bank and other donors have to do a better job of recognizing that not all developing countries are alike, and you've got to differentiate the strategies that you use within developing countries.

There's been a lot of talk in the last few years about selectivity. That we give more aid to countries with better governance and institutions and less to countries that don't perform as well, and that's fine as far as it goes, I think it's fairly sensible, but I think we've got to go beyond that and actually deliver the aid differently to countries that have different kinds of circumstances.

There's a lot of talk these days about budget support, about country ownership, about longer-term commitments, about all kinds of things, as if that's the right solution for all developing countries. And it's not; it's not. There are lots of developing--I'm all for country ownership under certain circumstances but there's a lotta countries where I'm not. Just to take a case in point, Zimbabwe, for example. I'm not all for country ownership, right now, in Zimbabwe. Wish I could be; but I'm not.

So when we talk about it as if it's the solution in all countries, I think we miss part of the debate. I think donors, including The World Bank, have to have different kinds of modalities. In countries that do have better governance, better institutions, and have shown some commitment towards progress, Uganda, Mozambique, Ghana, Senegal, and Africa, and several others, then it makes sense to have more country ownership, to provide longer-term commitments, to send more of the money through the budget as budget support, and otherwise change the ways that we deliver assistance.

In countries with less strong governments, with weaker governance, then I think we have to have more project support, look for a narrower set of activities, and have a mix of donor priorities and country priorities, and in countries with the weakest governance, there's going to be a much narrower set of activities, a shorter time frame, shorter time commitments, much tighter oversight in what's done, a different way to measure results and different ways of delivering money, less of it through the government and more of it through nongovernment organizations.

So I think we have to think along these more distinguished strategies. Donors are beginning to move a little bit in that way, implicitly. DIFID, and some of the other European donors, we're pleased to have Masood Ahmed here, our good friend and colleague who's now with DIFID, is providing budget support in some countries but not others.

The U.S. has set up this millennium challenge account, which whether it works or not we shall see, but it distinguishes among recipient countries.

So there's a little bit of movement along those lines and I think the Bank has to do a better job of having different strategies and why that's important, I think is it helps establish incentives for the recipient country. If you want more budget support, if you want to receive not only more aid but receive aid in ways that you like, you've got to

improve in certain governance, in certain institution ways, and let me give you a specific example on budget support.

I think budget support makes sense in countries that have better public sector financed institutions, and there are ways, now, of ranking and grading public sector financed institutions, the budget and the ministry of finance, and for countries that have met the grade on accounting standards, on auditing standards, on publishing their accounts, then provide more money as budget support, and if they haven't, provide less money as budget support and provide incentives, that if they do the accounting, if they do the auditing, if they do publish their accounts, that, over time, the donors will shift more money to budget support.

They want that. They'll like the budget support. It provides the incentive for them to improve the institution themselves. So I think those kinds of things are the way forward.

Third point, and Bill mentioned this as well, accountability. The Bank doesn't reward results, it rewards failure, and we've got to be much more results-oriented. There's been a push towards that. It's a huge challenge, to try to change the incentives within the institution, to try to reward success rather than just to push failure. Part of that is removing the incentives that are just focused on disbursing money, which has been there for so long. But there's got to be some changes and they've got to come from the board and from management themselves. They're not just going to happen by people saying we ought to do a better job and we ought to focus more on results.

There's some movement in that way. The U.S. has been pushing, from the board, to hook its own disbursements to the Bank based on broad indicators of the Bank focusing more on results and I'm in favor of that approach.

I would disagree with some of the particular specifics of how it's been done but, broadly, I think it makes a lotta sense, as one way to focus the Bank on what are we about and how do we measure our own results, and hopefully that can move down from a general board level to specific projects, and President Wolfowitz was just making that point, and hopefully, he'll be able to carry that through.

So there needs to be much more focus on results, and part of a key to that is the creation of an independent outside evaluation entity that can truly be independent, that can evaluate what the Bank is doing and measure its results, and there'll be a later session today where people will talk about that specific idea.

But we've got to take this issue seriously as Bill proposed and suggested, or measuring these results more clearly. The last point I want to make is on grants, cause there's been this movement to grants, and I think it makes a lotta sense for the Bank to go more towards grants.

But the way they're doing it doesn't make a whole lotta sense to me. The first time around, they were going to allocate grants based on the sector.

If there were certain activities, health education, you'd get grants, if not, you'd get loans, and so you'd have mixes within countries and that didn't make a whole lot of sense.

Now we're going to debt sustainability but that sets up real perverse incentives, that the more debt you've accumulated, you're rewarded by now you get grants, and if you manage your macroeconomic situation fairly well and you haven't accumulated yet, you get more debt, and that doesn't make a whole lotta sense to me, especially since we're about to forgive all the debts.

And so the newspaper that we're about to forgive all the debts to, they are going to borrow more money. I think it should be based on income. The poorest countries in the world should get grants. That's the way we distinguish between IDA and IBRD, and that's the way most donor flows work, and I think it makes a lot more sense. The poorest countries in the world are the ones that face the deepest development problems, and so there's the least certainty that they can achieve the growth necessary to repay loans.

They tend to be vulnerable to the greatest number of shocks, and so, for those reasons, I think grant financing makes more sense, and I believe the way forward on this is that the Bank should set up either a third independent window or a window within IDA for grants only for all countries with incomes below \$500 per capita. That's the way to allocate grants, that's the way to keep those countries out of debt problems, and then, as their incomes grow and they begin to show some capacity to actually get returns, then they can go to an IDA-subsidized loan capacity.

But for the poorest countries in the world, even when they do get a return and there's a good investment that leads to growth, for them to repay the Bank, so the Bank can give that money to another country doesn't make any sense.

The countries ought to be able to keep their own returns and reinvest it. So I think we need to focus to much more grants for the lowest countries within the Bank. Thanks very much.

[Applause.]

MR. MacDONALD: I'm going to exercise my prerogative as chair to ask a question of each of you before we open it to the audience.

Bill, if you were Mr. Wolfowitz, not just for today but for the next five years, what are the three things that you would do? and I'm guessing from your presentation that it's all things you would not do, or you'd do less of. But what are the three things that you would change about the Bank right now?

MR. EASTERLY: Like that's ever going to happen!

MR. RADELET: That they'd ask you or that--

MR. EASTERLY: Yeah.

You know, first, I think, you know, the president of The World Bank should use their position to try to educate the public, the rich country public about just what is feasible, because we have this dramatic explosion of expectations that is now going on, which has been created by, you know, Live Aid concerts, and by Angelina, and Jeff Sachs, and everybody at--you know--aid is now going to do these wonderful things and, you know, and lift world poverty and make poverty history, transform low-income societies into oases of peace and prosperity.

And we know that's not going to happen, unfortunately. You know, it's a tragedy that it's not going to happen but there's nothing that anyone in rich countries can do about that. Now progress is slow.

MR. MacDONALD: What are you going to do?

MR. EASTERLY: So first educate. That, you know, set expectations realistically. You know, just achieve beneficial things that help really desperately poor people with, you know, their health and education and other needs.

Number two is, you know, put in place a system where you do hold staff accountable for getting results on specific tasks like health and education.

And the third would be have staff specialize much more in delivering those tasks.

So with two and three together, I think you're likely to get much better results. That if you have staff specialize, you know, not in being--what we have now, and I was one of them, so I know. What we have now in The World Bank is we have, you know, thousands of generalists and a few lonely specialists whose voice really never gets heard.

We need far more specialists, both specialists in countries and country local circumstances which we know are so important in designing aid interventions, and we need specialists in particular sectoral areas.

Like we need someone who knows enough about malaria, that they know how to adapt the package of interventions that you need to address malaria, and knows how to combine in each local setting, indoor spraying and distribution of bed nets and provision of drugs once people get malaria, and all the other things you need to get malaria under control. Drainage of ditches to prevent standing water, et cetera.

With those changes, I think you could get more results.

MR. MacDONALD: Thanks very much.

Steve, because I'm not an economist simple ideas appeal to me a lot, and therefore your \$500 cutoff grants for the poorest seems like falling off a log, seems like such a good idea, that it should have happened already.

MR. RADELET: Good.

MR. MacDONALD: So I wondered, and you may not know the answer to this, but I wondered what some of the obstacles are. You know, why hasn't that happened already? What are the prospects for that happening? What could make it closer to reality?

MR. RADELET: I think that the obstacle or the reason that the discussion didn't go that way is because it came out of the context of debt. That this has been framed in terms of there's a debt problem; how do we solve the debt problem?

Well, we forgive the debts and then, if these loans were always grants in the first place, we shouldn't pretend and give new loans. We'll give 'em as grants.

So since it starts from the focus on debt, then it naturally leads to, well, let's think about allocating grants on the basis of who's got more debt and who's got less debt, with grants as a solution to keeping debt down.

And that conversation and the focus on debt has really been going on for, you know, ten years, or nine years, since HIPIC One, and actually earlier in a lot of contexts.

So I think that's why it really led to this focus now on allocating grants by debt sustainability. Instead of kind of stepping back and saying, you know, clean slate. And in the long run, once we've forgiven the debts, which is in motion and isn't completed yet, and may take a while, but it seems to be in motion--starting from a clean slate, if you had grants to allocate, what are the best first principles on which to allocate it, and I don't think anyone really stood back and thought about it from that approach.

And so now we're in this awkward position of the Bank had decided, along with the Fund, to allocate grants based on debt sustainability, and then after that, the G8 decided on this 100 percent debt forgiveness deal, which may or may not go through, and the Bank having already decided to allocate grants based no debt sustainability, is now in this very awkward position which they haven't gotten out of yet.

MR. MacDONALD: Just before I ask for your questions, and have your questions ready, Bill, does this grants [inaudible] any relevance to your concerns about accountability and not trying to do the impossible? Is it helpful? Not helpful? Irrelevant? Is there any connection between your concerns and what Steve is proposing?

MR. EASTERLY: Well, yeah, actually, I apologize to the audience for so much agreement among the two speakers, but I agree with Steve.

You know, you should always judge things on, you know, once they have been tried, what was their track record? and if they don't work, discard them. And one thing that has clearly not worked for low-income countries are loans.

You know, there were loans made and there were debt problems created that have, you know, been occupying huge amounts of time ever since the 1980's, you know, ever since we went from the Toronto [?] terms at G8 summits to HIPIC to what is going on today, and, you know, let's just kind a clear the decks, leave that problem behind us, and go forward making grants.

How could you possibly make loans, once you've canceled debts of low-income countries. You know, that would be like a bank, you know, turning around and giving a loan to someone who has just declared bankruptcy. It just makes no sense whatsoever. It would create a new debt problem, you know, five or ten years down the road, that would again absorb the energies of a lot of people and waste them.

MR. MacDONALD: Thanks very much. I'd invite your questions. I see a hand in the back, and then maybe the lady there, after that, and please do go to the microphones. It's a little more trouble but we're preparing a transcript and that way we'll have your thoughts. Please identify yourself.

MR. JACQUET: Thank you very much. My name is Pierre Jacquet from the French Development Agency. I had two very short comments. One is on what Bill Easterly said about being a bit modest about what we can achieve, and it seems to me that brings us to measuring results on the micro side instead of the macro side, and a lot of the literature has focused on the impact of aid on growth, which I think doesn't make a lot of sense, and instead we should go back to the simple idea of measuring, really, in the field, what aid can do to improve the livelihood of people.

So what you are suggesting basically is a shift in the research agenda about measuring research, and that ties with what we are going to say later about evaluations.

Second, I had a comment on grants versus loans. I understand Steve is saying but I have the feeling that it comes from a view of aid that really goes from government to government, and I think the future, including of The World Bank, lies with providing aid to sub government, municipalities, NGOs, and the private sector. The key of development, even in very poor countries, will have to be a dynamic private sector.

It could be informal, but still, it's a key for future growth and development, and in that case I don't see the rationale for subsidizing the private sector. If we can help the private sector identify productive ventures and help these ventures to take shape, then we should provide market loans, and the subsidy, if any, should go to making sure that the poor people have access to the services provided.

So I see the future of aid as being a combination of grants and loans, and indeed, when we intervene with governments, poor governments should receive grants because

they won't be able to face a debt service, but increasingly, aid will have to go well beyond governance and therefore I think that grants versus loans debate is based on an obsolete view of aid in a government to government paradigm, and that has to change.

Thank you very much.

MR. MacDONALD: Thanks very much.

I see people are lining up and I think I'll therefore take a few questions. I did say the lady here would be next, so although you didn't get in line, you're next, and then I'll take two questions after that and then I'll ask our panel to respond.

MS. JACOBI: Thank you. My name's Ruth Jacobi. I'm from Sweden. I thought it was fascinating, listening to Mr. Easterly and Mr. Radelet, and very convincing, and yet there's something that worries me, and that is that it sounds almost as if we're going back again, 10 years, 20 years, 30 years.

I mean, we've made progress with, you said comprehensive development framework, which was a big mistake, or this whole broad looking, broad approach to development, and somehow, with getting your emphasis on accountability, on results, you're going back to projects and bed nets--yes, we do need that and specializing. But it is a fact that institutions do matter, policies do matter. Macroeconomics do matter. Ownership does matter.

And how do we avoid throwing out "the baby with the bath water?" Because it is of course easier to drill a well than to have a macroeconomic, sustainable, long-term environmentally sustainable gender, well-balanced project. But it's not either/or.

We have to work with institutions. We have to work with a macroeconomic framework. We have to work with participation, ownership and sort of democratic processes.

We don't have to do all at one time, and you're right there--we don't have to do everything at once. We have to get the priorities right. But these things do matter. And how do we include them, because development is not either just a little project. And what I was most worried about, in a way, was when you were saying, Steve, on ownership, you know, you don't believe ownership in Zimbabwe. OF course you don't. Who would believe in ownership in Zimbabwe, if you mean the government and the people sitting there? But it is a fact that you can't do any sensible, long-term sustainable development unless there is some kind of ownership, if not of the government, then of the people, the population, the ones directly involved.

So you can't just sort of say, you know, ownership depends. And the same goes with budget support. You need that as well but you have to adapt it to the individual situation.

MR. MacDONALD: Thanks very much.

Our next two questions could be a little bit briefer and then we'll turn back to our panel. Thank you very much for that very interesting comment.

MR. HERMAN: I'll try. Chris Herman with the Environmental Protection Agency. On the question of the Bank being focused or unfocused, the current proposal is to try to focus 40 percent of new money on infrastructure. In poor countries, I'm wondering whether or not this might not recreate the problem of unsustainable debt, and I wonder if people could link the issue of debt affordability to the new focus on infrastructure.

Thank you.

MR. ROODMAN: Hi. I agreed with almost everything that was said.

MR. MacDONALD: Tell us who you are, David.

MR. ROODMAN: Yeah. Sorry. David Roodman with CGD. Bill, I would differ on one very minor point, which leads to a broader point. I think you mischaracterized Steve Knack's paper slightly. I don't think that he showed that more aid may have reduced the quality of institutions. Rather, he showed, I believe, that fragmentation of the aid flow coming into a country, among many donors, may be reducing the quality--

MR. EASTERLY: That's a different paper, David.

MR. ROODMAN: Okay; so I'm wrong. But it leads me to a broader point.

MR. KNACK: Well, you're right that it's different paper.

MR. ROODMAN: Right. Right about--I characterize one of his papers correctly and he's really got some, several very important papers!

The point is, do you believe that this fragmentation and the proliferation of projects and donors and all that is a big problem in low-income countries? If it is, then I think that the discussion as it's been framed so far today, in some ways perpetuates that, because it's all about what The World Bank can do as The World Bank without looking at the bigger picture; right?

So it seems to me the bigger picture and the right question is, What can The World Bank do to help the aid business as a whole be more effective and efficient in low-income countries?

Are there ways that it can use its leadership, its bully pulpit, it's money, you know, it's leverage to address this larger problem? Easily asked. I'm not sure if it's easily answered.

MR. : I thought you were talking about the proliferation of Steve Knack's research but I—

[Laughter.]

MR. ROODMAN: I trust you've been listening better than I have, I'm not going to try to summarize, but to ask either of you to respond to the parts that interest you.

MR. EASTERLY: Okay. Well, I completely agree with Pierre Jacquet's comments, so there's nothing further to say. This very compelling comment about are we throwing out the baby with the bath water, it's very important to distinguish two separate issues.

One is what can aid do and the other is what causes development. And I think all of us are interested in both questions. As practitioners, we're interested in what, you know, aid can achieve on the ground, and we're also interested, you know, in, both as intellectuals and practitioners, and, you know, what is it that causes development and all those things you mentioned of course matter.

Macro stability matters, institutions matter. But it's not so clear that aid can do anything about those things. I'm not at all convinced that aid can do something about those big factors.

So I think, you know, being much more modest, I don't think it's throwing out, you know, the whole institution's perspective on development and if researchers can figure out a way that they can tinker at the margins to somehow make institutional outcomes better, then more power to them.

But I don't see any evidence of that so far. And so just focusing on what can aid do I think leads to this more minimalist, modest, but very feasible and accountable set of objectives that, where aid could do a lot of good for poor people.

Infrastructure. You know, infrastructure is one of those piecemeal things that you can hold agencies accountable for. There is some danger, that when you do very large infrastructure projects, they will have lots of unintended consequences, including environmental ones, that will be very hard to--you know, it will almost act like a big structural adjustment loan, that will change the economy in all kinds of unexpected ways.

So I think you want to be very careful about large infrastructure projects, that they don't, you know, screw up a whole society in ways that you don't expect, and again, modesty is what is called for there. Think small, you know, identify critical infrastructural bottlenecks that you can address piecemeal, rather than some grand infrastructure scheme that totally transforms an economy.

On fragmentation, on David Rudman's point on proliferation, you know, I think the reason you have a problem of fragmentation and proliferation is what someone mentioned, was this sort of outmoded way of thinking about aid. I think Pierre Jacquet

mentioned this. That, you know, aid has to go from some official agency like The World Bank, then to the government and then go out to all the projects.

So aid has to be very centralized, both, you know, from the donor, then to the government, the government has to centralize and plan everything and make everything work.

And then of course you have a horrific problem of coordination, of overwhelming the government officials with 185 donors, 300 projects. But aid doesn't have to work that way.

You know, I was talking to someone, the other day who suggested that, you know, aid could--she used a great metaphor for how aid could be much more decentralized.

You know, she said aid could be more like an online dating service. You know, there are people who want to give and there are other people who want to receive. I'm not sure how that applies to the online dating service, exactly, but--[laughter.]

I'm getting in more and more trouble, so I should shut up!

[Start tape side 1B.]

MR. EASTERLY: [in progress] called globalgiving.com, which I think highly of.

MR. RADELET: Great. A couple things. On Pierre's comment, I think sticking with The World Bank giving IDA loans is in fact the obsolete method that we have to get rid of, and going to grants for the lowest income countries is in fact the way forward, that provides the flexibility that you need.

When you give loans to governments, when The World Bank does government to government loans, which is what they do, you go to the central government, and they can't provide money to NGOs, they can't do regional projects across countries, because they have to loan money to the government and have the government guarantee.

When you go to grants to poor countries, the Bank could, in fact, begin to think about providing money to nongovernment agencies and could think about regional projects where they're providing financing to multiple countries for a road network at the same time, without worrying about government guarantees as much.

So I think actually going to grant financing provides exactly that kind of finance, and I'm absolutely with you in terms of going beyond central governments to sub governments, regional and local governments, and to NGOs, and I think we've got to do a much better job, especially in the context of discussions about absorptive capacity and all of that.

Funnelling all money through governments is asking for absorptive capacity constraints. It creates a chokepoint in ministries of finance, where all the money goes through one budget.

You know, I like the idea of budget support in some countries but that doesn't mean all money has to go through the budget cause it sets up a chokepoint.

In terms of giving donors in the poorest countries to provide money to private entities, that's where I'm less certain. I think there's an awful lot of roles that aid can play in terms of either going with NGOs or government infrastructure, that can help support the private sector that way. There's no question, the private sector is the main engine for growth.

But even in the poorest countries, there's an awful lot of financing available through savings, that can be channeled through private markets, and I'm just not quite sure that we need aid agencies--it's a debatable point--about going to private entities. But otherwise, I think grants are the way to go forward.

On Ruth's point, institutions matter, policies matter, but in a lotta countries they're just not that good, and that's my point on differentiation. In the countries where the institutions are good or better, the policies are better, where the budget systems are in place, let's go for it with that methodology, with those kinds of things.

But my point is that in a lot of other countries those conditions aren't there and that we need to have different approaches in the countries and recognize that the conditions that you laid out, that for long-term development, that we need that ownership, we need those institutions.

If they're not in place, we can't just wish them to be in place, and we have to have different mechanisms in those kinds of countries to begin to get some progress and to try to encourage that development. So I'm with you but again I think--and I think you made the point that we need to adapt, that it's these different circumstances in different kinds of countries.

Just quickly on the infrastructure project. I don't see a conflict with that on debt. Again, in the poorest countries, the infrastructure projects can be financed by grant finance through, you know, road projects and those kinds of things, so I don't see that there's necessarily a conflict there with debt.

And Bill's already talked about the proliferation of projects idea and I think he's right on that.

MR. MacDONALD: I want to end this as close to 10:00 as I can, we started almost half an hour late, but I know that people can't necessarily expand their day at the other end. What I'd like to do, however, is ask those people who've already got in line to go ahead and pose your question, briefly, or if it's a comment or statement, we are making a

transcript, this is part of an ongoing conversation, both Bill and Steve owe papers for the volume that we're going to publish from this symposium, and if they don't get back to you privately, then they'll get back to you in those papers. So your comments are very important. The three of you that are in line, please go ahead. If somebody else, one other person has a "burning issue" they can say quickly, we could take a fourth.

Michael Finger [ph], please--

MR. FINGER: Hi. Michael Finger. I've been associated with The World Bank as an employee and before that working at the U.S. Treasury Department which supervised U.S. Government's contact with The World Bank and I must say that in these 30 years, I've heard the same comments and the same suggestions from the beginning.

Everybody wants to talk about strategies, about the incentives for pushing out money, about loans versus grants, et cetera.

Well, what I conclude from the fact that conversations such as this, 35 years ago, had exactly the same content as this conversation today, is that you guys, the critics, the loyal opposition, have performed abysmally poorly. You've affected nothing. Nothing has changed.

In fact you have made the situation worse in that meetings like this, and comments such as yours reinforce the idea that the important people, the heroes at The World Bank are the people who sit around in good suits and talk about management and strategies and all that kind of thing.

Mr. Wolfensohn fired 24 vice presidents. That was not a mistake. His mistake was that he hired 24 new ones in their place.

And nothing changed. As long as the discussion indicates that the important part of what The World Bank does is the kind of things, here talking about strategy, my children can stand up here 35 years from now and say I remember my father telling me all this stuff a long time ago.

So my question, What can you guys do to really make a difference, to change the sense of who's important at The World Bank from what it is and from what you suggest it is by what you do, to what you want to say it is? Can you put one picture on the screen of somebody who's squatted one mosquito somewhere? Can you put one picture or write one story? Or maybe even make a nice little TV vignette out of it, of somebody who's managed to get the collection agency in Senegal to, in fact, represent the interest of its constituencies?

Can you make those people the heroes of the development business? Not make managers the hero of development. But if you could find a way to do that, then, when my children stand up here, they won't be able to say I heard all that stuff a long time ago.

MR. MacDONALD: Thanks very much. Can we have briefer comments. There are three guys there and I'm going to give you each 30 seconds.

MR. COOK: Just a quick question. Jonathan Cook from World Wildlife Fund. This was actually just a question for Steve.

I'm just wondering if you would distinguish, and if so how, the sort of results of incentive-based programs like the MCA from the kind of conditionalities, policy conditionalities that have become quite controversial at places like the Bank.

MR. MacDONALD: Thanks very much. Next.

MR. SAVADAW: My name's Bill Savadaw [ph]. I'm a senior partner at Social Insight and I worked for ten year at the InterAmerican Development Bank.

I wanted to tell a story about swatting mosquitoes in Guyana but 30 seconds won't do for that.

I wanted to just really push on this issue about fundamental incentives in the Bank, and say that I don't think things will change unless people get rewarded for not doing projects that are bad, as much as they get rewarded for doing good projects, and this is because the projects that I've been on that worked, and that you've seen that actually work, are where you go in and the team that comes from the development bank or an international agency is a partner in giving technical on-the-job kind of training or something like that, and the ones that don't work are where they come in and there's no counterpart, and you should just not lend in those ones.

But if the pressure's there, it's in the pipeline, it has to come out, it's very hard to say no.

And the other side of that, and this was a proposal I made at the IDB, wasn't taken up, maybe The World Bank will take it up, is that the challenge of thinking what would the annual report look like if you refused to have any mention of how much was lent that year and how much was disbursed that year, until you got to the appendix.

What would you have to write in the annual report to say this is what The World Bank helped countries achieve this year?

MR. MacDONALD: Thank you both.

MR. BRACKEN [ph]: Joel Bracken, the University of Iowa, and until recently a resident consultant for three years at the public sector reform unit in the Africa region of the Bank, and my question's very simple and it builds on the previous question, and on Steve Radelet's comment about the decentralized nature of the Bank.

Down in the trenches, how do you say no? So here's a radical idea I'd like you to respond to. What if compensation for country directors and perhaps staff, lower down, were in effect given on a deferred and bonus basis, i.e., you have your basic salary, five years hence that person's tenure in a particular country, since this is country-specific and the nitty-gritty of specialists, you see what happens and then you have a deferred bonus of some percent over the base.

MR. MacDONALD: Sounds like a great idea to me. I want to thank our panelists and get on to the next panel. Bill and Steve, thank you so much.