The World Bank: Why It Is Still Needed and Why It Still Disappoints

Martin Ravallion

Abstract

Do we still need the World Bank, given how much the global financial sector has expanded since the institution was founded? The paper argues that there is a continuing role for the Bank and that it is complementary to private finance. But fulfilling that role calls for a significant change in the Bank's culture. Most fundamentally, knowledge must drive the Bank's lending—both informing the nature of that lending and learning from it—rather than simply serving lending when called upon. The focus of knowledge generation should be on: (i) identifying and addressing the key country-specific constraints on rapid poverty reduction, and (ii) solving the cross-country coordination problems needed to deal with shared threats.

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Much has changed since the World Bank was founded 70 years ago. There have been prominent calls for radically reforming, or even closing, the institution on the grounds that international capital markets have developed greatly over those 70 years. It is also claimed by some that the Bank's efforts are wasted due to poor governance in developing countries.

Does the Bank still have an important role? If so, does it fulfill that role, and if not, how might it do better? The paper begins with a brief account of the Bank's origins and what it does. The paper then argues that the Bank still has an important role for which supplying the public good of development knowledge is the key. The discussion then turns to the Bank's performance and how the institution might better fulfill its role in today's world.

It is argued that three things need to change. First, the Bank needs to be more ambitious in identifying and addressing the most pressing knowledge gaps we face today. Second, its lending operations must be driven by knowledge of the binding constraints on poverty reduction in specific country contexts and its analytic capabilities must be brought more systematically into its operations from the outset. Third, the Bank's present country-based model needs to be supplemented by a model, or possibly a new institution, with greater capacity for supporting the provision of global public goods.

Origins

The decade or two after World War 2 (WW2) saw many of the world's poorest countries gain their independence from Colonial rule, and they were hoping to rapidly become less poor. Economics taught policy makers in those countries that a higher investment rate is crucial to assuring faster economic growth. Being a poor country makes it harder to finance the required investments from domestic savings. Yet rich countries should have ample savings available that might be profitably diverted to this task. In an ideal world, global capital markets could be expected to play an important role. But in the post- WW2 period those markets were thin and/or were not trusted as a source of finance.

The United Nations Monetary and Financial Conference, held at Bretton Woods in 1944, created the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD); the latter is a core component of what came to be known as the World Bank Group, or more often the World Bank.[1] The IMF was charged with managing trade deficits to avoid de-stabilizing currency devaluations, while the Bank was to be the channel for longer-term development finance.[2] The Bank's initial focus was on rebuilding war-damaged Europe (its first loan was to France), but the Marshall Plan soon took over that task, so the Bank turned its attention to the developing world. Since then the IBRD has borrowed from international capital markets to lend to developing countries.

Today the Bank has about 190 member countries, and employs over 12,000 staff working from 120 offices globally. The Bank's administrative costs are mainly financed by the

[1] On the Bank's founding and history see Kapur et al. (1997).

[2] For an interesting discussion of the roles of the two institutions see Stiglitz (1999).

earnings on its equity and the interest margins on its loans or other charges to donors for administering aid. The Bank's AAA credit rating (stemming from conservative lending policies relative to its capital) allows it to lend on favorable terms. There is also an aid facility, the *International Development Association* (IDA), which provides grants and loans at very favorable terms (with a large grant element) targeted to poor countries. Within the World Bank Group there is also an arm that lends to private institutions, the *International Finance Corporation* (IFC), and an arm that provides insurance and credit guarantees for private investors, namely the *Multilateral Investment Guarantee Agency* (MIGA).

In 2014 the aggregate disbursements of the World Bank Group were $44 billion, of which $19 billion was IBRD, while $13 billion was IDA. (The disbursements of IFC and MIGA in 2014 were $9 billion and $3 billion respectively.) Cumulative lending (IBRD+IDA) over 1945-2011 was $788 billion, spread over about 180 countries of which the largest share went to India (11.3%), followed by Mexico (6.5%), Brazil (6.3%), China (6.3%) and Indonesia (5.5%).

The Bank's Executive Board comprises representatives appointed by the six largest shareholders (currently China, France, Germany, Japan, the U.K. and the U.S.) plus 19 members representing groups of countries. Membership alone entails a minimum weight in voting, which then rises according to ownership of the Bank's capital stock. The President presides over the World Bank Group and chairs the Board. The Bank's lending operations have long been organized around country teams, led by a country manager/director. The countries are assigned to six regional groupings each with its Vice President. This country-based model is backed up by cross-cutting technical support units—under various labels over the years, and now called *Global Practices*—and other central units, including *Development Economics* (DEC) under the Chief Economist who reports directly to the President. There is also an *Independent Evaluation Group* (IEG), which reports to the Board.

While global financial markets were thin when the Bank was created, that is no longer true.[3] The developing world has seen rising flows in the last few decades. In 2012, World Bank (IBRD+IDA) lending represented only about 5% of the aggregate private capital flows to developing countries which amounted to $775 billion. Some observers have taken this as evidence that the Bank is no longer needed to address the failings of international capital markets. By this view the Bank should cease lending to credit-worthy countries.[4]

There is some degree of competition between the Bank and private lenders. Despite the Bank's favorable loan terms, governments may prefer to go to other lenders less demanding than the Bank, which imposes various safeguards and other administrative hurdles. Yet the fact that we have seen a rise in Bank lending alongside private financial flows appears to be more suggestive of complementarity than substitutability. Rival development banks have also emerged. The three largest regional development banks—the Inter-American Development

[3] In 1945, the global stock of international investments (measured by asset values) represented 5% of world GDP; 50 years later it had risen to 62% (Obstfeld and Taylor, 2004).

[4] See, for example, Gilbert et al. (1999) and Meltzer et al. (2000).

Bank, the Asian Development Bank and the African Development Bank—have expanded operations since the 1960s though collectively they are still smaller than the World Bank. Recently, China has taken the lead in a new Asian Infrastructure Investment Bank (AIIB), which has a rapidly expanding membership at the time of writing. The New Development Bank (NDB) has also been created by the BRICS countries (Brazil, Russia, India, China and South Africa). Instead of expanding private finance displacing public development finance globally we have seen both thriving. There is clearly more to the story.

Arguments

The World Bank is far more than a development aid agency, but the motivations for aid are at the core of the rationale for the Bank's existence. So that is a good place to begin.

Why aid?

The case for aid has ethical and political dimensions as well as economic ones. Let us start with the ethical case. One can discern two distinct arguments for greater global equity. First, there is empathy for the plight of those born into less fortunate circumstances. Philosophers such as Singer (2010) argue that national borders, distance or characteristics such as race are not morally relevant to the case for helping disadvantaged people. This case is strong in emergencies, but also holds weight in normal times given the extent of global inequality.[5]

Second, there is a case made for compensation for actions (or inactions) by rich countries that are costly to poor ones. Examples include past colonial exploitation, global warming, trade and migration restrictions that rich countries impose on global integration, and the support some rich countries have given to corrupt local leaders in poor countries.

While aid is the focus here, it should be noted that it is not the only instrument available for promoting global equity. Trade policy reforms by rich countries that help promote the exports of poor countries and more liberal migration policies can also help. So too can policies that control international money laundering or restrictions on the sale of military equipment to states that use the threat of violence to support unpopular but powerful elites.

The classic <u>economic</u> argument for aid is to finance, supervise and evaluate public projects that promote social welfare. Of course, private lending is also relevant to that aim, including helping poor people. The economic argument for aid is that there are socially-valued projects that the private sector has little incentive to do. Market failures are central to this case, and the discussion returns to these.

To the extent that the efficiency gains from such projects are captured within relatively poor recipient countries, this argument for aid also has a redistributive element. Advocates of aid also point to expected gains to donor countries, such as in promoting trade or addressing

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[5] By the most credible estimates available, the richest 1% of people in the world have almost 180 times the average income of the poorest 25%. This is based on the estimates made by Lakner and Milanovic (2013).

global public bads, such as pandemics or political instabilities that threaten the economic or political interests of rich countries. By this view, global poverty is costly to the rich world. These arguments have overlapped somewhat with foreign-policy concerns, such as in addressing the perceived threat of communism spreading further during the last half of the 20th century. Politics has long played a role in aid decisions.

Why the World Bank?

Over its history, the Bank has made many efforts to adapt, re-invent and rationalize its role, especially given the development of the global financial markets. The complementarity between private and public global finance for development has been seen to stem from two main sources. First, the Bank can lend for things the private sector finds unattractive—projects with high social returns but low private returns. Second, the Bank can support private sector lending such as through information and credit guarantees, leveraging its own resources. The Bank's role as a source of development knowledge underpins both sources of complementarity.

The Bank has long argued that the goals of its project lending are different to those of private financial institutions, with the Bank adopting a broader social welfare objective, emphasizing poverty reduction through equitable economic growth and delivering social services to poor people.[6] The rationale for the Bank's role has rested on efficiency gains in the presence of market failures as much as on equity.

There are a number of sources of market failure relevant to the Bank's lending operations, including environmental externalities. However, the market failure that has been most prominent in rationalizing the need for the World Bank has concerned global capital markets. If those markets work well then developing countries can raise enough finance that way. Against this view, it has been argued that capital markets encounter persistent problems of uninsured risk (including from asymmetric information), externalities and contract enforcement.[7] The information problems facing the private sector in lending to poor countries are especially salient; the lending is clearly risky, but firms do not know how risky. The public good nature of the knowledge needed for development can impede private sector action. While private capital flows have increased substantially, the flows are still quite volatile, with potentially de-stabilizing macroeconomic effects. Private capital flows have also tended to be selective, not reaching all countries and sectors.

The Bank's efficacy in addressing market failures rests heavily on its performance as a generator of relevant knowledge. This is a demanding task; for example, measuring social costs and benefits is typically harder than for private ones. Sometimes this knowledge comes in combination with the Bank's lending, which can be a tool for both imparting knowledge (notably through learning-by-doing) and generating it (notably in evaluation). Many observers (within and outside the Bank) have seen the advantages of bundling knowledge

[6] The 1990 WDR on poverty (World Bank, 1990) was influential.

[7] In the context of arguments for the World Bank see Stiglitz (1999).

with lending.[8] This includes clients that have access to private capital, such as the Bank's top borrower (IBRD+IDA), India, which clearly retains its interest in Bank loans in part because of the technical support that comes with them. Sometimes the knowledge function exists more-or-less independently of lending, as illustrated by the Bank's various research and data products (which we return to).

But why do we need a World Bank? There are regional development banks as noted. Alternatively, citizens may entrust their own governments with the task, through a public aid agency. Or individuals can be left free to make their private contributions, possibly through (less bureaucratic) non-governmental organizations. The architecture of the current configuration of multilateral institutions has never been especially clear. The argument for having a global multilateral institution rests on the view that it is better placed than the alternatives to serve as the agent for channeling finance raised in the rich world to the poor world. The public good nature of development knowledge points to potential inefficiencies in decentralized provision. A well-functioning global institution can also generate economies of scale in knowledge and lending that are out-of-reach for a bilateral agency or even a regional institution. There is also scope for addressing free-rider problems. Global poverty relief delivers a collective benefit that is unlikely to be realized fully if we rely on independent discretionary efforts. The moral case may well be very strong, and the potential benefits large for all, but action may still be less than optimal unless institutions exist to solve the free-rider problem.

The arguments made in favor of multilateral aid (including the regional banks) reflect perceived deficiencies in bilateral aid. While a few of the best aid agencies today are bilateral, the aid policies of many bilaterals have come under criticism over the last 70 years. Too often country preferences for aid reflect foreign-policy considerations and historical ties rather than genuine need or efficacy.[9] Bilateral aid has often been tied to recipient countries buying goods and services produced by the donor.[10] Evidence points to bilateral aid being used to buy support in major world fora, such as the UN Security Council (Kuziemko and Werker, 2006). There is also some evidence that bilateral agencies have been less likely to invest in institutions (which we return to). Furthermore, projects by bilateral donors are not always well coordinated with that of other donors. And the "pet projects" of development ministries (possibly serving the interests of a local lobby in the donor country) need not make a lot of sense in the context of a sound strategy for poverty reduction. In theory, the Bank can serve an aid coordination function, embracing both bilaterals and regional banks.

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8 For example, Gilbert et al. (1999) made a compelling case for that bundling as the key rationale for the Bank's existence in a world of more developed capital markets.

9 For example, the simulations by Collier and Dollar (2002) suggest that an allocation of aid that minimized aggregate poverty would differ greatly from the allocation in the 1990s. According to their calculations the poverty-minimizing allocation of aid would almost double the total impact of aid on the number of poor in the world.

10 Temple (2010, p. 4431) estimates that this practice reduces the real value of aid by 15-30%.

Escaping traps

A source of market failure that has been prominent in arguments made for aid, and the World Bank in particular, concerns the scope for poverty traps—low-level equilibria in which uncoordinated individual private agents have no incentive to escape, while a better equilibrium also exists. An influential early paper by Rosenstein-Rodan (1943) (who went on to be a prominent economist at the World Bank, 1947-53) pointed to the complementarities between the investments made by different firms in an under-developed economy. Given the linkages in economic activity, if all firms invested then they would all do well, but no individual firm has the incentive to invest when others do not. This is an example of a coordination game with multiple Nash equilibria. In the inferior equilibrium development stalls—a poverty trap.

The idea of coordination failures prompted Rosenstein-Rodan to advocate what came to be known as a "big push"—a large injection of aid in poor countries. More recently, Sachs (2005) also invoked the poverty trap idea to argue for an increase in development aid. Information interventions can also help break out of poverty traps even without a large aid injection. Coordination failures stemming from complementarities in the investment decisions of firms can likewise be resolved through better public information.[11] The information can provide more accurate signals on a country's investment climate. But the information must be credible. The government can be expected to be biased as an information source, since it has an incentive to represent well the country's investment climate. In principle, a trusted external agent such as the World Bank can help.

Relaxing constraints

A useful way of synthesizing these ideas about the role of aid, and the World Bank as a delivery mechanism, is in terms of the existence of constraints on development that the private sector or bilateral agencies cannot easily address. The constraints may take the form of a poverty trap, but they can exist without a trap. Any of the classic efficiency arguments for government intervention can be thought of in this way. Relaxing the constraints may call for complementary public inputs such as spreading technical knowledge, supporting more capable public administrations, and helping to supply public goods. Hausmann et al. (2008) provided an influential formulation of the development problem in terms of binding constraints specific to each country. The idea is to assess for each country what exactly is restraining poverty reduction and to target policy reforms accordingly. One or more constraints may emerge that are "binding," such that reforms in other areas of policy will not succeed until these constraints are relieved.

Market failures and dysfunctional institutions often lie at the core of the binding constraints. These are often fostered by entrenched inequalities in key (income and non-income) dimensions, as has been identified often in Bank research.[12] Bad institutions can persist

[11] In the specific context of industrialization see the model in Englmaier and Reisinger (2009).

[12] See, for example, World Bank (2006).

because they serve the interests of politically powerful people, who risk losing that power under better institutions. At the same time, the potential beneficiaries of the better institutions have no credible means of compensating those in power. Reform can be paralyzed by such commitment problems.[13] In a world of limited commitment, powerful beneficiaries of the status quo will rationally try to block collectively beneficial reforms.

Global public goods

All of these arguments rest on knowledge. It has long been argued that development knowledge has features of a public good and that the World Bank today has a role in supplying that good based on experience and evidence—based on actually doing development. The private financial sector has little obvious incentive for publicly documenting what they have learnt. Efforts in supplying global public goods (GPGs) are still heavily dependent on voluntary contributions by individuals or countries, with likely under-provisioning (given the aforementioned free-rider problem). An institution such as the Bank could be well suited to resolving the deficiencies of decentralized knowledge provision.

The Bank is no stranger to that task, though more at the regional level than globally. A famous example is the Banks' first health project, the *Onchocerciasis Control Program* (OCP). Under President Robert McNamara in the mid-1970s, the OCP coordinated across many African countries to use helicopters to spray the black fly larvae that lead to river blindness.[14] The program is deemed to have saved 600,000 people from blindness and brought back into cultivation a vast area of land near rivers that had been abandoned (Evans, 2014).

A more recent example is the Ebola outbreak in West Africa that still threatens the world. The deficiencies of health care in poor countries were suddenly a visible threat to people living in rich countries, many of whom previously knew little about those deficiencies. In 2014, World Bank President Jim Yong Kim provided an exemplary response in deploying \$400 million (\$170 million of which was new funding) for supporting the development of better health systems in the affected countries. The deployment was rapid by World Bank standards (though not as rapid as some NGO responses, such as *Doctors Without Borders*). The \$400 million came out of an IDA fund put aside for the poorest countries. Other Ebolas are around the corner, as well as financial crises and shocks from climate change. A global financing institution such as the Bank could in principle play an important role in the provisioning of such GPGs.

These arguments point to a potentially important role for a technocratic, knowledge-based, global institution. How well does the World Bank fulfil this role, and could it do better?

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[13] For further discussion see, for example, Acemoglu et al. (2005).

[14] The spraying solution was radical but expensive. 10 years later a new drug, ivermectin, was developed by Merck and Co. and donated free of charge for as long as it was needed.

Performance

Governance and politics

Aid has at times been captured by corrupt local elites, although there is a risk of generalizing too much from some (often notorious) cases. But what does this imply for aid policy? Two views are evident. Rawls (1999) argued that rich countries have no moral obligation to help poor countries as long as the latter are reasonably well governed, suggesting that aid is only justified in poorly governed states. By contrast, others have argued (in effect) that aid should cease in such cases—that poor governance within developing countries means that an institution such as the World Bank has little chance of success. Aid critics such as Easterly (2007) and Deaton (2013, Chapter 7) have made arguments along these lines.[15]

I would characterize the Bank's position as a hybrid of these two views. Bank support is essentially cut off if the institutional environment is too poor. This would be evident in a very low score in the Bank's *Country Policy and Institutional Assessments*. There is some threshold that must be reached. Once reached, aid expands, with the aim (in part) of improving governance and the institutional environment more generally. Creditworthiness improves and IBRD lending also starts to flow. Later, external assistance starts to stabilize when institutions are sufficiently well developed. Beyond some point, both aid and development-bank lending decline.

The parameters of this model are open to debate. The arbitrariness of the Bank's graduation thresholds based on income per capita has been a long-standing concern. (The Bank's criteria are widely used by other aid agencies.) These thresholds are contentious; for example, by some measures the bulk of the world's poor do not live in the aid-eligible countries.[16] A more flexible approach based on relevant economic factors (such as credit worthiness and domestic capacity for redistribution) is long overdue. For now, let us take the parameters as given.

The key feature of this model is that governance is endogenous to aid policy. But, unlike the aid critics who argue that aid promotes bad governance, here the endogeneity is positive. Another feature not acknowledged properly by either aid critics or the Bank is that such a model can readily yield multiple equilibria in institutional development, as explained in Ravallion (2015, Chapter 9). This has important implications for aid policy. For example, getting out of the low equilibrium of weak institutions—what I dub a Poor Institutions Trap (PIT)—will not be possible with only a small positive incentive for reform; the country will just bounce back into the PIT in due course. The dynamics of institutional development entail that escaping the PIT requires a more substantial gain in institutional quality. The model also has implications for fragile states. These may be found at one or more unstable equilibria in institutional development. But with a big enough shock even an economy at the preferred (locally stable) equilibrium could be destabilized and end up in a PIT. By this

[15] Also see my assessment of Deaton's arguments in Ravallion (2014).

[16] For further discussion see Kanbur and Sumner (2012) and Ravallion (2012).

interpretation, aid and domestic efforts at institutional development are trying to get countries out of a PIT and help protect them from falling into one.

This argument points to a role for the Bank in longer-term institutional development. Its engagement in a country should not be capricious—buffeted by short-term political shocks in its client countries or foreign-policy considerations amongst its major shareholders. Here there is an important distinction with unilateral aid programs, as discussed above. The Bank does appear to take a longer-term perspective on development than most other aid agencies. This is evident in the attention given to institutional development.[17]

There have been concerns about the Bank's own governance. While it is plausible that a multilateral agency will be less influenced by the foreign-policy positions held by rich countries than the country's own bilateral agency, the Bank is clearly not immune to the influence of its more powerful shareholders, especially the U.S., which retains considerable (formal and informal) power. This is evident in many ways, including the selection process for the Bank's president, its weight in formal voting at the Board, and (more subtle) policy positions and even in project implementation.[18] The U.S. is not alone, however, in attempting to influence Bank policy and processes. All of the major shareholders and borrowers have done so at one time or another.

The influence of the major shareholders has been a longstanding concern for some borrowing countries, which have felt under-represented in decisions relevant to them. Reforms in 2010 increased the voting rights of borrowing countries, notably (but not only) China which is now the third ranked in terms of IBRD votes (after the U.S. and Japan).[19] Some critics have argued that the reforms did not go far enough in "democratizing" the Bank's governance.[20]

It is not clear that these concerns about the Bank's governance played an important role in China's push for creating the new development Banks—the AIIB and NDB.[21] This may well have had more to do with international politics than with the Bank's governance. Whatever the reason, one must wonder if it was the best outcome. One might have guessed that it was good fortune that China had built up large reserves that it was willing to lend for infrastructure at the same time that the Bank's major shareholders were unwilling to put up more capital. But instead of China boosting IBRD capital and/or expanding its IDA contributions, we have seen new rival development Banks emerging.

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[17] Birdsall and Kharas (2014) identify 31 objective indicators of aid performance and measure them for 23 bilateral agencies and 8 multilaterals. For the group of indicators dubbed "fostering institutions," IDA is ranked third from the top, behind Denmark and Ireland. (IDA is ranked second in the group called "reducing burden," and is in the top 10 for the other two, namely "maximizing efficiency" and "transparency and learning.") Also consistent with the view that multilateral agencies put higher weight on longer-term institutional development is Knack's (2013) finding that multilaterals are significantly more likely to use the recipient country's performance management system than unilateral agencies, who rely more on their own parallel systems.

[18] For evidence on the last point see Kilby (2013) on the differences in project preparation times.

[19] China has also been a major user of Bank knowledge products.

[20] See, for example, Bretton Woods Project (2010).

[21] Branigan (2015) quotes one source suggesting this may have played some role.

Political economy and governance issues are also relevant to assessing the Bank's impact, although this is not sufficiently acknowledged. The Bank's development assistance is to some degree fungible, to the extent that the recipient government can essentially treat it as generalized budget support, and spend it how it sees fit.[22] It may well be that doing a project with an external aid agency improves its quality and enhances the knowledge generation. But that is a different thing to saying that the project would not be done without the aid; that we do not know. Evaluating the Bank's project can still be valuable, but one can have little confidence that one is evaluating the impact of the Bank's support. That said, fungibility is less plausible in some relevant circumstances. It is less of a concern in heavily aid-dependent countries, or for projects that require the external technical assistance that comes with the aid.

Treating aid as fungible, the performance issue is the impact of overall aid flows from all sources. Much has been written on this topic, though focusing more on aid's impact on economic growth than on poverty reduction or human development. Even within the "aid and growth" literature there are conflicting findings, confounded by identification problems. My own review of the evidence suggests that a credible case exists for believing that past development aid has helped promote economic growth (Ravallion, 2015, Chapter 9).

Knowledge Bank?

The arguments reviewed above about the Bank's role call for its expertise at least as much as its deep pockets. In his 1996 address at the Annual Meetings, the Bank's President at the time, James D. Wolfensohn, laid out a vision for the Knowledge Bank, implicitly counterpointed to the Lending Bank. Wolfensohn saw the Bank as essentially the broker that taps into existing knowledge and redirects it to needy clients. This is an important task, but it is still a rather limited vision. There is also an important role in identifying pressing knowledge gaps—our key areas of ignorance—filling them and making the knowledge public. Here I will treat the Knowledge Bank as a potential generator of global public knowledge and not just a broker. A key performance question is whether the rhetoric of the "Knowledge Bank" over the last 15 years has matched the reality.

The Bank's knowledge products span a wide range from traditional published papers and books to special-purpose reports and briefs tailored to specific settings, many of which are never published. Publication processes generally entail peer review, which provides a degree of quality control. While unpublished knowledge products customized to client needs are very important to the Bank's impact on the ground, their quality is uneven in my experience. The quality of the review processes for these un-published products has been a source of concern.

The Bank's more operationally-oriented knowledge products (published or not) have always struck me as remarkably self-referential, with rather limited signs of new knowledge entering from outside the institution. If something has not already been tried within the Bank then

[22] Bank research has found evidence of such fungibility; see Feyzioglu et al. (1998).

there is a perceived risk. The Bank's size means that there is plenty of internal experience to draw on, but today the Bank is just one player in the development community. Demonstration effects of new ideas can be powerful in this setting, and here oases of innovative thinking within the institution have played an important role. But they are oases.

How one judges the Knowledge Bank's performance depends on the counterfactual. I suspect that most well-informed observers will agree that the Bank is more neutral and technocratic than most bilateral aid agencies or regional banks, and less prone to capture by local elites than the governments of recipient countries. Nonetheless, there is scope for doing better. Some specific proposals are found below.

Policy advocacy

The Bank (and Fund) has often been criticized for falling back on a set of "neoliberal" economic policies that came to be known as the "Washington Consensus."[23] The policies included fiscal discipline, cutting generalized subsidies, tax reforms, market interest rates, liberalizing trade and foreign direct investment, privatizing state-owned enterprises, de-regulation to encourage competition and assuring legal security for property rights. Advocacy is antithetical to the ideal of the Knowledge Bank. But are these critiques valid?

From a marketing point of view, the label "Washington Consensus" could hardly have been worse (and, understandably, it was not much used <u>within</u> the Bank). The label reinforces the impression that this was a consensus formed amongst an elite group in one rich country, making the policies an easy target for some critics.[24] The fact that voting rights on the Bank's Executive Board are dominated by the major shareholders did not help. It was understandable that some observers in client countries saw this as U.S.-led policy advocacy.

The critiques of the Washington Consensus were not always well informed about the economic rationales for those policies, which made sense in some settings. Research has often shown that macroeconomic instability is costly to poor people.[25] Some credit must be given to the Bretton Woods institutions for promoting better macroeconomic policies in the developing world over the last 20 years. Nor have critics had a clear understanding of the relevant counterfactual for assessing the policies. There were some exaggerated claims about adverse impacts on poverty; careful analysis often painted a more nuanced picture.[26]

However, some of the criticisms were valid. The early Bank and Fund programs for "structural adjustment" paid too little attention to the implications for poverty reduction and human development. A welcome change in thinking within the Bank was underway by the late 1980s. Add-on programs to "compensate the losers from adjustment" were becoming

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[23] The term "Washington Consensus" was coined by Williamson (1989) though his usage was more descriptive than prescriptive.

[24] See, for example, Broad and Cavanagh (2009).

[25] A review of the evidence on this point can be found in Ravallion (2015, Chapter 8).

[26] See, for example, World Bank (1994) and Jayarajah et al. (1996).

common. There was also a mounting effort to use evidence to understand the social impacts of economy-wide and sectoral policies.

It came to be recognized that the Washington Consensus left important things out; notably it lacked an explicit focus on the social welfare goals of reform. But more fundamentally, the Washington Consensus was too formulaic to be credible. It insisted on a common set of policies for countries in very different circumstances. The governments of developing countries could see for themselves that there were multiple paths to development success, not all of which followed the Washington Consensus. The route taken by China since 1980 stood out as an example for all to see.

The old structural adjustment loans are now called *Development-Policy Loans* (DPL)—quick disbursing loans to support the government's policy reform plans, and typically accounting for about one quarter of total Bank lending. While DPLs appear to often draw on high-level expertise, it is not clear how well they are tailored to addressing the most important binding constraints in each country. This is even less clear for the investment-lending portfolios. A series of innovations have tried to make the rationales clearer, such as the *Country Assistance Strategy* (CAS) papers. But too often these appear to be little more than post-hoc rationalizations for the lending program, rather than decisive independent analyses of what needs to be done to assure more rapid progress against poverty in the specific context. I am not the only observer to note the generally declining quality of these types of papers over time; they do not appear to be getting the attention that they once held.

This has long been recognized as a problem. In 2014, the Bank introduced *Systematic Country Diagnostics* (SCDs), in which the Bank's country teams try to identify the main problems the country faces (as an input to the *Country Partnership Framework*, developed with the government). In principle, the SCD is not confined to issues identified by the government, acknowledging the desirability of the Bank's independent view. However, the official SCD guidelines say that it is to be done "in close consultation with national authorities" (World Bank, 2014b, p.1). It remains to be seen how independent the SCD will prove to be in practice.

The extent to which the Knowledge and Lending Banks work together has varied across sectors and over time. Human development (health, education and social protection) has been an area where the link is strong, as has been the case in agriculture and rural development (though with declining attention to this sector over time). An important change came around 1990 with the recognition that poverty and inequality mitigation has to be designed into reform programs from the outset. This was a move in the right direction.

An increase in social protection (SP) spending by developing-country governments came with financial support from the Bank (World Bank, 2014c). This is also an area that is less attractive to the private sector (compared to infrastructure, say). But here too, the Bank's policy stances seem to strive too much for universality. Social-protection policy advocacy turned "targeting" (avoiding leakage to the "non-poor") into something of a fetish—oddly confusing the ends and means of SP (Ravallion, 2015). Lending and policy advice was dominated by a "flavor-of-the-month" approach, as exemplified by the rush to create Conditional Cash Transfer (CCT) schemes (providing transfer payments conditional on keeping children in school and attending to their health care) across the developing world, including in settings in which there was little obvious reason for thinking that the problem was on the demand side given the evident failings of public service provision—failings that Bank research has pointed to often.[27]

The popularity of CCT programs was to some degree informed by evaluations that had demonstrated impact.[28] So it can be argued here that knowledge led lending, although some CCT advocates did not appear to pay proper attention to other research findings on the supply-side delivery problems in health and education. For some other social policies, the enthusiasm amongst practitioners ran well ahead of evaluative research. An example is Community Driven Development (CDD). Weak local states led to well-intentioned efforts to empower local communities to drive the development process rather than the state. In line with a number of other development agencies, substantial Bank funding was provided for CDD projects. But this was motivated more by faith than evidence. Careful evaluative work later pointed to concerns, including project capture by local elites. A more nuanced view emerged amongst researchers, which acknowledged the potential benefits of citizen participation but also warned that local states needed to be strong to assure that participation was effective and pro-poor (Mansuri and Rao, 2012). Citizen participation is not a substitute for local state capacity.

Development data

The Bank had long been the one-stop shop for development data. For a long time much of this was through compilations of data at country level, initially in the Bank's annual *World Development Reports* (WDRs), but breaking off to form the widely-used *World Development Indicators* (WDI). Since 2010 the Bank has had an official policy of open access to these data; the main immediate implication of this new policy was to make the WDI available free. In time, greater openness has been evident in other data and knowledge products.

The Bank's data compilations are valuable, but one can also feel a degree of frustration in what has <u>not</u> been accomplished. The sorry state of the national accounts in much of the developing world cannot be entirely blamed on the World Bank and IMF, but they clearly bear some responsibility.[29] Most troubling of all is that the Bank has not used its own power as much as it could have to encourage governments to make public their own data, which can also help improve its quality. I recall attending a meeting with Bank President Robert Zoellick in 2010 at which he expressed justified alarm on realizing that the Bank provides

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[27] See, for example, World Bank (2004).

[28] Well-documented research on a program in Mexico, Progresa, was very influential, as was a subsequent Bank research report; see Fiszbein and Schady (2010), which also reviews research on Progresa. At the time of writing the fashion seems to be shifting toward unconditional cash transfers.

[29] Jerven (2013) points to serious concerns about the quality of national accounts data for Africa.

budget support to some countries that do not provide fully-public budget documents. Zoellick pushed hard on this point and budget transparency improved. But it is no less puzzling that an institution so committed to poverty reduction does not insist on open public access to the micro data needed to monitor success against poverty, which comes in large part from the statistics offices of the countries themselves. This should surely be a pre-requisite for Bank support.

Of course, data alone are not knowledge, which also requires that data be policy-relevant and analytically absorbed. From the 1980s, the Bank's data efforts started to be more analytically driven, and (so) policy relevant. With the founding of the *Living Standards Measurement Study* in the 1980s—an initiative of President McNamara after he saw all the missing data on poverty and inequality at country level in the back pages of an early WDR[30]—and subsequent initiatives in enterprise and facility-level surveys, the Bank soon emerged as a major source of micro-data sets. With these and other initiatives, the institution became the forefront of empirical knowledge generation in development. The Bank's evaluative work became more empirical and more micro-focused in the 1990s. In household survey data collection and analysis, especially on issues of poverty, inequality, social protection, human development and financial inclusion, the Bank has been a clear leader in both the development and academic communities. Complementary initiatives in software development to make micro-data more accessible have greatly expanded policy-analytic capabilities.[31] The bulk of that capability is found in the rich world, but there have been signs of progress in many developing countries. Facilitating data collection and access to relevant analytic tools should remain central to the mandate of the Knowledge Bank.

The Lending Bank rules!

Knowledge-based development support requires human capital, and incentives that encourage open critical analysis—analysis that does not fall back on policy orthodoxies, but focuses on the development problems facing each country. The Bank is capable of attracting qualified and motivated staff who can deliver on the knowledge demands of development if the institution adequately supports their efforts. A common complaint one hears from operational staff is that they do not have the time to maintain their human capital, let alone invest in it. The pressures are strong to deal instead with pressing Bank administrative processes—a veritable gauntlet of procurement rules, safeguards and approvals—and to raise and manage external funding. (There has been a huge expansion in the use of more short-term donor "Trust Funds" to support what should be core knowledge work of the Bank.) While there are exceptions in some countries and time periods, there has not been the kind of permanent support for investment in human capital within the institution. And there is a reason for that: this kind of Knowledge Bank can easily run into conflict with the priorities of the Lending Bank.

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[30] Looking at the 1979 WDR, MacNamara was shocked to see that only 17 developing countries had data on poverty and inequality, even though estimates of the key macroeconomic aggregates from national accounts were available for virtually all countries. McNamara asked his research staff to go and collect the missing data.

[31] A good example is the ADePT software platform for economic analysis of micro data.

Just as most economists today resist assuming that governments are necessarily benevolent, one should not presume that the Word Bank is a monolithic, technocratic, poverty-minimizing agent. More complex motives emerge out of its governance and the multiple interests of its various stakeholders. Like any organization, one motive is to maintain (and if possible) expand the institution itself. And the profits from its lending have historically been an important source of revenue for its staffing. It can be no surprise then that the Bank's "lending culture" rewards operational staff for the volume of their lending. More worrying is the weak incentive for assuring the quality of that lending and its poverty impacts. This is not a new concern. A high-level Bank report in 1992 was forthright about these concerns (Wapenhans, 1992). There have been organizational changes (in 1987, 1996 and 2014). With reference to the changes in the 1987 and 1996, IEG's assessment is that: "These changes have not led to a significant change in learning in lending because they touched neither the culture nor the incentives." (World Bank, 2014d, p.vii). The same report expresses hope that the new structure introduced in 2014 based on "Global Practices" will help assure greater "learning in lending" but it is not clear that there are good grounds for that hope; the lending culture appears to thrive.[32]

A key role is played by the managers/directors of the country teams in Bank operations. Managers want to please their bosses by delivering a large volume of lending, but they also want a reasonably large staff and budget. The worry is that they will push lending to satisfy their bosses and ensure a decent budget for their unit without giving any consideration to the transfer of knowledge. How can we assure that their choices are consistent with supplying and generating knowledge through lending? Bank insiders have often thought about this question. Box 1 reports an example from my correspondence with Lyn Squire, in which he recounted a proposal he made in the mid-1990s when he was a manager in Bank operations.[33] Squire's idea tries to assure that the choices made by operational managers do not leave out the knowledge element of lending. His proposal does this by providing two types of loans, one that disburses easily at very little administrative cost and a second "Knowledge Loan" that requires a staff and budget.

Another example of a (public) proposal for reform is found in Over and Ravallion (2012), as summarized in Box 2. Here the idea is to assure that staff incentives are aligned with development goals. To do this, merit increases and promotions could be tied directly to the staff member's development impact, as assessed by independent evaluations of projects.

[32] See, for example, the comments in Morris and Gleave (2015).

[33] Squire later retired from the Bank and founded the Global Development Network, which I return to.

Box 1: A proposal for two types of loans

"I once had an idea for dealing with the Lending Bank versus the Knowledge Bank. The idea recognizes that managers want two things: a large lending program and a large department. Basically, the idea is to have two types of loans. The first type is a budget-support loan that is intended to move money super easily. This may be linked to the quality of the public budget, performance on poverty, or whatever, but the point is to move as much money as is considered desirable to satisfy Lending-Bank priorities and manager aspirations. The key thing about this first type of loan is that it is a big loan but administratively cheap and does not therefore require a big department. That is where the second type comes in. This is a Knowledge Loan, to be judged exclusively on its contribution to knowledge. These loans are unlikely to be major money-movers but will be expensive in terms of administrative costs.

From the perspective of managerial goals, the first type ensures a large lending program while the second results in a large administrative budget. Managers will choose a combination of the two depending on their preferences. No manager wants to preside over a tiny department. So they will want KLs. The manager keen to have a large empire (staff and budget) will push as many KLs as possible. From the point of view of development goals this proposal assures that the lending objective can be pursued by managers without compromising the knowledge transfer.

I shared this proposal with my vice-president when I was in operations. I never heard back from him."

Lyn Squire

Box 2: Better incentives for staff performance in a development agency

The idea is that each professional staffer in a development agency accumulates a "Development Portfolio" consisting of the number of "shares" of all the development projects or policies in which she has devoted time during her career. The portfolio is essentially her résumé. A trusted party associates a virtual "value" to the shares of every project, so that any individual's portfolio can be valued, to give the owner's "Development Impact Wealth" (DIW). Staff compensation is then based on the DIW; merit increases can be tied to the changes in DIW since last year, while promotions are tied to the level of DIW.

How could this work in practice? At the beginning of each year, managers could advertise their staff needs for each project or task in terms of weeks of staff time. In association with each task, the managers designate a number of shares per staff week, which those working on that task will acquire as they complete their work. As staff members allocate their time across tasks, they acquire the shares associated with them.

Up to this point in the project cycle the shares have not yet been valued. There is a portfolio of stocks, but it is not yet DIW. The valuation requires that it is possible to score the impact of an individual development task. Classical development projects in the major development organizations are already receiving valuation scores shortly after project completion. (At the World Bank, the IEG performs this service.) Assessing DIW could begin by using these scores to value the shares in each staff member's portfolio as soon as the first post-completion evaluation report is issued. This information base could be updated when new information becomes available, including from impact evaluations. With such a system, staff would have an incentive to allocate their time to projects which are likely to gain in value.

Another margin for adjustment is the "time price" of projects—the inverse of the shares per staff week. Here one would not want to treat all projects the same way, as this would exacerbate a problem already evident—a preference to work in "easy" countries and on "easy" projects. A staff member should be able to "buy" shares of hard projects less expensively in terms of time than she can acquire shares of easy projects. Here an internal market mechanism can help, whereby the time price of easy projects are bid up while those of difficult projects are bid down. In practice, a degree of sensible regulation of such a market may be needed.

The development professionals who supervise a project after its birth are often even more important to the project's success than are those who design it. So they too should receive shares in the project, commensurate with its difficulty and their time commitment. But all who work in development must accept the inevitability of "country-risk" – when the political winds shift in the client country and the project is terminated despite its success. The DIW system can encourage staff risk-taking partly by granting more shares per week for work on riskier projects.

Source: Over and Ravallion (2012).

Governments and investors in client countries are aware of the concerns raised above. Two damaging perceptions of the Bank amongst clients risk undermining the credibility of its policy advice and knowledge dissemination. First, there is the perception of World Bank "loan pushers" knocking on the government's doors, sometimes competing with regional banks.[34] Private investors looking to the Bank for better information signals may thus be concerned about bias due to the lending culture. This is not helped by the second perception of the undue influence of powerful shareholders. For the Bank to fulfill the role identified in the last section it is crucial that all parties (especially clients in developing countries) have confidence that the institution is not beholden to a few powerful stakeholders, for only then can the Bank be accepted as the source of the objective policy advice and information that is needed by both the public and private sectors. I emphasize "perception" both times because I acknowledge that there is a risk of exaggeration; we really do not know how serious these problems are in reality (though anecdotes abound). But perceptions can be damaging. The Bank's reputation as an honest broker appears to be intact, but it has clearly taken a beating.

[34] For further discussion of the relationship with regional banks see Kanbur (2005).

Does the Bank lead private sector investment in developing countries? Certainly, the virtual absence of Bank engagement in a country (with either the government or private sector, through IFC) would be a bad signal to risk-averse private sector investors. It is also plausible that the private sector draws extensively on World Bank data and reports. Beyond these observations, the extent of the signaling value to the private sector from Bank lending is unclear, though this is more because of the lack of systematic evidence than contradictory results. There has been more research on this issue for the IMF. It has been argued that the presence of a Fund program can provide a supportive signal to the private sector, encouraging private capital flows to a country that would otherwise be seen as too risky. This can help stabilize capital flows. Nonetheless, there is only mixed evidence on how important this signaling role is in practice.[35]

A number of factors dull the incentives for Bank staff to invest in providing the deep and adaptive knowledge at country level on the political and economic constraints to longer-term development. This takes time, but operational staff members are encouraged to move onto another country every few years. This can be damaging in terms of both human capital and accountability. The institution imposes other constraints. A paper by a DEC researcher that identifies serious deficiencies in the policies of any prominent borrower will have a hard time getting cleared—and clearance by the Bank's country director for the country concerned is a requirement for publication.[36]

There is a trade-off here between assuring that research within the Bank is relevant to its short-term needs (on the one hand) and maintaining research independence, which is a key source of innovation. This is not an easy balancing act. While there is a risk of "ivory-tower" researchers becoming isolated from operations, it is also the case at times that Bank research needs to be protected by its management from the efforts of the sectoral and regional empires to influence the themes and messages of that research. The terms of that trade-off are improved by the longstanding requirement that researchers provide a certain amount of direct support to operations, which can also be a source of ideas for future research. But the trade-off remains, and needs to be more explicitly acknowledged and managed.

Nor is the country-lending model well-suited to the task of addressing global public bads. While the model can help for some GPGs, there are others—controlling global warming and pandemics are examples—for which their undersupply is due to coordination failures across countries. If one was to sit down today to design a mechanism to support such GPGs through a global financial institution it is unlikely that one would come up with the Bank's current country-lending model. The institution's ability to help on GPGs is constrained by its country-based model. As Birdsall (2014) points out, President Kim's $400 million Ebola response in 2014 was a fortuitous fit with the country model, rather than the application of an institutional mandate for addressing pandemics and supplying GPGs more generally. Indeed, there have been recent cuts in other Bank facilities for funding global initiatives.

[35] For an overview of these and other issues related to the functions of the IMF see Bird (2007).

[36] It is rare for a research paper to not be cleared, although edits are often called for. And, of course, the need for this clearance is anticipated in choices made about what to research and how to present the results.

If the Bank is to take on seriously this global role it cannot depend on the initiative of a single President or fortuitous piggy-backing on the country-model. A new model is needed.[37] However, there appears to be little appetite for this at present. The Bank's major shareholders have shown little enthusiasm for providing the extra capital required, and the Bank's borrowing countries fear the competition with traditional lending. Birdsall (2012) argues that a new independent arm of the Bank may be needed, financed by China and other emerging economies.

Imbalances in the Knowledge Bank

There are imbalances in the Bank's knowledge agenda. Some hard questions are avoided, notably when there are serious trade-offs. (Readers of the WDRs have often noted the penchant for "win-win" arguments.) The Bank's sectoral silos have not been well suited to identifying trade-offs across sectors. DEC is one of the few places where knowledge generation is not so compartmentalized and trade-offs can be addressed, although it is not easy to identify good examples in current work programs. More attention to budgetary trade-offs in fighting poverty is needed, and this would also be welcome for many of the Bank's clients facing hard allocative decisions.

Evaluation is an important area where progress has been uneven. Identifying socially valuable projects is key in the traditional "project aid" rationale. Here the Bank's performance today in justifying its projects *ex-ante* must be judged to fall short of the ideal. While the Bank was once a leader in social cost-benefit analysis (CBA), this is no longer true. The Bank's operational policy directives call for CBA, but this is not implemented for three-quarters of Bank projects; the proportion of projects quoting an *ex-ante* rate of return has fallen over time, as shown in World Bank (2010). Given that the social value of its projects is key to the traditional rationale for the Bank's existence, the retreat from CBA is a concern.

It is not clear why we have seen this decline in the use of CBA. To some extent it is a compositional effect, whereby sectors that are less amenable to traditional CBA have grown faster, but that is not the whole reason. CBA appears also to have fallen out of favor among Bank staff and managers in part because of concerns about the quality of the key inputs to CBA, notably on the benefits side—both the magnitude of the benefits and their monetary values. The decline in CBA at the Bank has come with a rise in the use of *ex-post* impact evaluation, offering the hope of better knowledge inputs to future CBA. However, this is not a strong case for avoiding CBA. It is still desirable to document the *ex-ante* assumptions rationalizing any project. Why is the project needed? How does it relate to overall development goals? What are the market, or governmental, failures it addresses? What are its distributional goals? What are the trade-offs involved? CBA provides the economic framework for addressing these questions.[38]

[37] Morris and Gleave (2015) discuss further what needs to be done for the Bank to take a bigger role on GPGs.

[38] For further discussion see Devarajan et al. (1997).

Possibly the declining interest in CBA reflects the realization that aid is fungible. Doing a rigorous CBA of the specific project the aid is ostensibly funding may tell you very little about returns to what the aid is actually funding. Also, portfolio effects are typically ignored; these arise when the multiple elements of the program package interact but are evaluated separately, creating a bias in aggregation.[39] A broader approach is needed, focusing on a representative set of the things governments spend on, even if not ostensibly financed by the Bank. Here we have seen more holistic country-level approaches to assessing country performance, which aim to put the specific project in a broader context. Various analytic documents (*Poverty Assessments* and *Public Expenditure Reviews*) have played a role here, and can be seen as complementary elements to CBA in the overall evaluation of country programs. But we clearly need <u>both</u> levels of evaluation. The Bank's economists need to be brought back into *ex ante* project evaluation.

Nor do the bulk of World Bank lending operations get properly evaluated *ex post*. A recent IEG report finds that only about 10% of Bank (IBRD+IDA) investment projects in 2010 had an impact evaluation (World Bank 2012a). While there has been progress in expanding this coverage—in 1998 only 2% of Bank projects were so evaluated—it remains that the bulk of Bank lending operations are not properly evaluated before or after. Nor is it the case that the evaluated subset can be considered to be representative of the whole.[40]

Methodological preferences on the part of researchers (notably for the use of randomized control trials in the last 10 years) have fostered this imbalance, in that the (limited) *ex post* evaluative effort has been skewed toward the types of projects for which those methods are feasible.[41] Some types of projects are not properly evaluated, notably when a simple assignment of participants and non-participants does not exist, or is severely contaminated by spillover effects. Evaluations tend also to be biased toward short-run impacts; there have been remarkably few impact evaluations that can claim to have tested for the long-term impacts of Bank investment operations.[42]

Knowledge about the impacts of the Bank's project lending has thus expanded in an uncertain and uneven way, while the full range of lending operations and the bigger questions of development policy do not get the attention they need. For the purposes of drawing valid inferences about development impact, it would probably be better to randomly select what gets evaluated, within the universe of development policies, than to insist on only using randomization at the level of each evaluation.

The Bank's size and the pressures on each unit to stay big also foster knowledge products that are essentially "make-work" schemes with little real value, and even risk impeding

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[39] For further discussion see Ravallion (2015). This applies to *ex-post* and *ex-ante* evaluations.

[40] This is evident from World Bank (2010), on *ex ante* evaluation, and World Bank (2012a), on *ex post*.

[41] For further discussion see Ravallion (2009). Also see the analysis of Bank evaluations in World Bank (2012a).

[42] The only example I know of in the context of Bank investment projects for directly supporting poverty reduction is found in Chen, Mu and Ravallion (2009).

progress by reinforcing orthodoxies that may be outmoded or of limited relevance in specific country contexts. As the Bank gets bigger, the potential for make-work activities rises. What is counted as a "knowledge product" by the Bank includes many things that make negligible contribution to knowledge.

The World Bank is a prolific publisher. (Although, as noted, some important knowledge products are not intended for publication.) It is easier to count publications and citations than to assess impact on development thinking and policy making. Bank research should meet relevant scholarly standards but it should not be judged by narrow academic criteria (such as the prestige of academic journals). Similarly to lending, Bank research should not simply duplicate what is done in academia. Its aim must be to inform policy debates and to provide a constructively critical perspective on Bank operations.

One objective clue to the influence of Bank publications can be found in the very broad citation data that can be assembled from *Google Scholar* (GS).[43] Using these data, Ravallion and Wagstaff (2012) find that it is hard to discern more than a negligible impact for a great many Bank publications. There has clearly been some vanity publishing—material that would not get accepted by any academic press or (certainly) commercial publisher.[44] However, a sizeable minority of the Bank's journal articles and books has been quite highly cited and within that set a number have clearly had considerable influence. The most cited single book in the Bank's history is not in any of its (expensive) flagship series (including the WDRs), or even by a Bank staff member; it is Deaton (1997), with over 3,000 citations in GS. This book was commissioned by the Bank's research department to assist users of household surveys in analyzing the data. This is an example of an important but under-used class of Bank products that reach out to trained practitioners—helping to bridge the gap between cutting-edge research methods and more routine applications.

Research and analytic capability is crucial to the rationale for the Bank. A significant share of that capability needs to be in-house, given the difficulties of structuring incentives for outsiders to deliver what is needed (Squire, 2006). The program of the Bank's research department aims to span all sectors of the Bank's work. The research is led by the department's own staff and managers, but involves many outside researchers (across a great many countries). The department also provides a bridge to academic and other external knowledge. (It is one of the few places in the Bank in which staff probably read more material written outside the institution than within.) The department is relatively small—about 1% of the Bank's administrative budget, although it clearly accounts for a much larger share of the Bank's visibility. Its small size (relative to the needs it serves) calls for much selectivity, and there are gaps in its coverage.

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[43] GS casts a broader net than other bibliographic databases, including citations by books, working papers, reports, conference proceedings, open-access journals, new and less well-established journals. GS is also more "global" in its reach, as it includes research outputs from everywhere in the world and all languages.

[44] For example, none of the 19 chapters of a volume of papers cataloguing "the transformation of the Bank" under President Wolfensohn has ever been cited.

If the Bank was truly committed to the knowledge role that is fundamental to justifying its existence then it would surely invest more than it does in research.[45] The Bank appears to spend less on research as a share of its budget than comparable organizations and there has even been a real decline in Bank spending devoted to research over recent years (World Bank, 2012b). Of course, research is not the only knowledge product. However, funding of the broader class of analytic work has also become less secure, being more dependent on "soft money" (notably Trust Funds). The Bank's owners and senior management team should assure that the Bank's knowledge work is better funded, and from core Bank resources.

There must also be effective demand for knowledge in operations. The bulk of the Bank's senior operational staff appears to value Bank research for their work, and come to know it well.[46] However, there are some notable differences. Those staff working on poverty, human development and economic policy tend to value and use Bank research more than staff in the more traditional sectors of Bank lending—agriculture and rural development, energy and mining, transport and urban development. The latter sectors account for 45% of lending but only 15% of staff reporting that they are highly familiar with Bank research (Ravallion, 2013).

There are two sides to this problem. Stronger incentives for learning within the Bank must come with more relevant and accessible research products. Unless we see both, it is likely that weak effective demand for Bank research by the traditional lending sectors will persist.

The Bank should not have a monopoly on development knowledge although the risk of that happening today is small. The Bank's knowledge role should continue to include facilitating independent research outside the Bank, especially in developing countries. A good example is the Bank's support of the *Global Development Network* (GDN) since its inception in 1999. GDN supports researchers from developing countries on a competitive basis, with both financial support and through connecting researchers globally.

Conclusions

Eliminating global poverty calls for a global institution—it is unlikely to happen if we rely solely on private investors, bilateral aid or non-governmental organizations. This is in part the role for the World Bank today, but it overlaps only partially with its original role, as conceived at the Bretton Woods Conference 70 years ago. Its role today is complementary to (rather than competing with) the private financial sector, other development banks, and academia. Fulfilling that role calls for a more ambitious vision of the Bank's role as a development knowledge leader. Its central focus should be on both the constraints on development at country level and the cross-country coordination needed for supplying key global public goods. Fundamentally, knowledge must lead all lending and other support.

[45] By "research" I mean contributions to knowledge rather than recycling and repackaging existing knowledge.

[46] These points are based on a survey of senior Bank operational staff discussed in Ravallion (2013).

This is not what we see today, despite the "Knowledge Bank" rhetoric of the last 15 years. The existing knowledge efforts have not been ambitious enough and have often been misguided. We still see some high-quality work, though not always on high-priority topics. We see more *ex-post* evaluations of specific non-randomly selected interventions (though often of high quality, at least in terms of internal validity), but less rigorous *ex ante* evaluation. And too much of what is labelled "knowledge" is little more than sectoral lobbying (of uneven quality) and make-work schemes (rarely good). There is a chronic and growing underinvestment in the kind of research that is needed to identify and address pressing development issues, both globally and at country level. Too often the Bank's "country strategy" essentially mirrors that of the government, which may or may not serve broader long-term development goals. This is hardly surprising; friction with the government threatens the volume of lending. The powerful lending arm still rules and there is trouble if any idea threatens lending.

The solution is not to abandon Bank lending and leave development finance to the private sector. The complementarities with private finance point to a continuing relevance of the Bank's (project and policy) lending. The traditional country-based model remains relevant today as a means of identifying and solving pressing development problems at country level. The idea of bundling knowledge with lending is still very attractive to the Bank's clients.

The issue for the Bank today is to assure that it's lending is truly well-informed. Knowledge must drive lending not simply serve it when called upon. This will require a quite fundamental change in the Bank's culture such that managerial and staff incentives are re-oriented from lending to learning. This will be a challenge. Another challenge ahead is in addressing global problems that require country coordination. A model confined largely to addressing the individual needs of country clients is not well-suited to addressing the global public bads that threaten us collectively.

An institution such as the Bank—committed to global poverty reduction—should be heavily invested in knowing what is needed in its client countries and in global coordination. It should be consistently arguing for well-informed pro-poor policies in its client countries, no matter how unpopular they are with the powers that be. It should be using its financial weight combined with its analytic and convening powers to support global public goods. Today's World Bank may well be doing better than any other institution on each of these fronts, but that is a sad comment on our global institutions. It is plain to my eyes at least that a World Bank that served these functions well would work differently to the institution we have today, although that difference may not be evident in the Bank's organogram.

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