How would we re-organize the World Bank?

An immodest proposal by Alan Gelb and Mead Over

This note is a fuller exposition of the ideas in our blog of September 4, 2013, including full-size versions of the three figures and a detailed explanation of their structures.

In response to our blog criticizing the World Bank's current reorganization plans, a few readers wrote to ask us if we could come up with a better idea. So here goes …

If the World Bank did not exist already, we believe there would be an urgent call to create such an institution for the 21st century. But the reasons to create a financial institution whose loans are subsidized by rich country guarantees (IBRD) or capital replenishments (IDA) would not be the same today as when it was first created in 1944 or when it was repurposed to focus on developing countries in 1960.

Today there is no longer an urgent need for a publicly subsidized international financial institution to fill a country's savings-investment gap. Both the size of these gaps and the number of countries needing subsidized money to fill them are declining rapidly. Private financial flows to poorer countries already vastly exceed the subsidized flows from international development banks, and the ratio of private to international development banks funding is growing constantly.

Instead the world needs a source of carefully targeted and evaluated financing which will incentivize individual borrowing governments to adopt policies that benefit their regional and global neighbors as well as themselves and that internalize the negative externalities of the ever-accelerating growth process. To prepare the World Bank for these 21st century tasks, we believe that the best (re)organization of the World Bank would be one that strengthens its capacities in four key areas:

Global Public Goods. Rational countries will always be reluctant to borrow at market rates to promote the wellbeing of, or offset the harm they do to, people outside their borders. Thus the world needs a publicly subsidized international financial institution that will fund global and regional public goods, like disease surveillance, reforestation, emissions control, regional transportation infrastructure and internationally comparable data on these and other topics.

Poverty Reduction. The elite constituencies of most emerging countries often place too low a priority on financing improved prospects for their own domestic poor. So in the interest of long-term global security and in support of a global commitment to fairness, the world needs an international financial institution that will subsidize national governments' policies to reduce poverty and help the poor.

Quality as well as Quantity. The profit orientation of private consulting and financial firms, like McKinsey and Chase Manhattan, greatly attenuates their incentive to assure the long term development benefits of the investments they might jointly design and finance. While a borrowing government might ideally assure these objectives itself, government institutions in emerging countries are at least as handicapped by short term time horizons and the demands of elite constituents as are the governments of rich countries. Therefore, the world needs a publicly subsidized international financial institution that is evaluated on the quality as well as the quantity of the development projects it finances, where "quality" is shorthand for the long-term development impacts per dollar of investment.

World-class staff. Rational countries will be reluctant to support the full cost to a consulting or financial institution of building and maintaining a staff that is expert in the design and evaluation of investments and institutional mechanisms in support of global public goods, poverty reduction and higher-quality, more rigorously evaluated development investments. Therefore the world needs a publicly subsidized international financial institution that, above all, attracts and retains the highest levels of expertise in specific pertinent knowledge and practice disciplines.

As described in our previous blog, the existing "matrix" organization of the World Bank generates creative tension between the staff incentives for quantity and quality of Bank financing. The regional vice-presidents and directors (capping the columns of the stylized organogram in Figure 1) are rewarded primarily on whether they meet or exceed their lending targets, while the global sectoral VPs and directors (at the left of the rows in Figure 1) are mandated to control the quality of the investments. Since individual staff receive their operating budgets from their regional (country) managers, but their career advancement from their global sectoral managers, they attempt to balance the demand for quantity with that for quality.

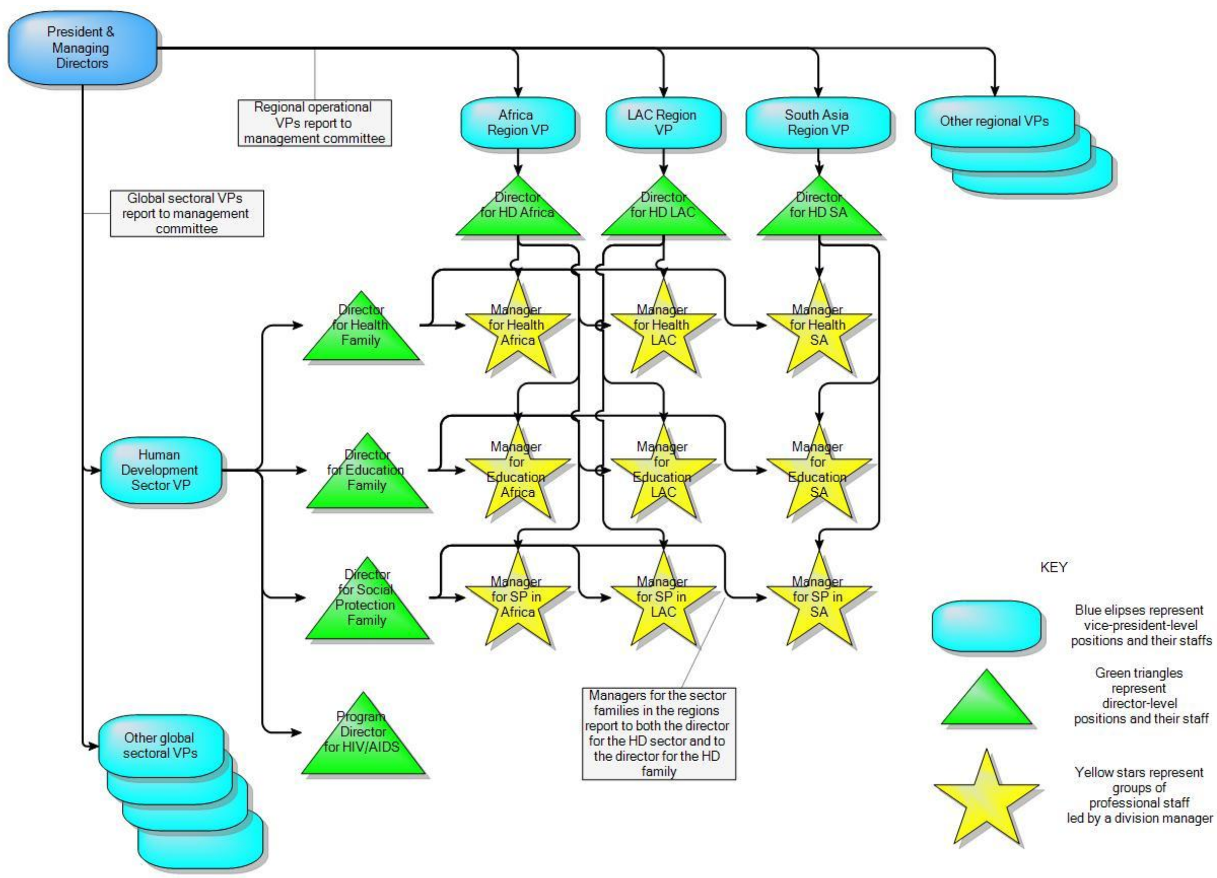

Figure 1. Current "matrix" organization of the World Bank. (Authors' stylized depiction.)

<u>Note on Figure 1</u>. This figure represents our understanding of the current matrix organization of the institution, based on our 50 years of combined experience there before we joined the CGD. Most professional staff whose work determines both the quantity and quality of Bank operations are located in the units identified in the figure as yellow stars, units sometimes referred to as "divisions". These units and the staff they contain are embedded in a matrix with accountability in two dimensions.

The dimension depicted vertically in the figures is organized by geographical regions and in the current organization controls most of the Bank's administrative budget, including the salary budget that determines how many "slots" there are in each division (i.e. in each yellow star) and the travel and consulting budgets that enable the work of these professionals. Each regional vice-president manages a set of country directors (not shown in the figure) who lead the development policy dialogue with borrower countries which determines the allocation of Bank lending across the sectors within that country. Staff in the office of the country-director lead the design and development of macro-economic and poverty reduction interventions. But most operations in other sectors, such as the health, education and social protection sectors depicted in Figure 1, are led by staff, who are specialized, and hopefully expert, in the related disciplines and are located in the yellow stars depicted in the figures. Brokered by their division managers and by the regional sector directors in the green triangles under the regional VPs, these specialized staff "sell" their time to the country directors who allocate the administrative budgets for operations in their coutnries. In addition to helping to broker the expertise of professional staff in their column, the regional sector directors lead the design and supervision of some multi-country operations.

The dimension depicted horizontally is organized by knowledge disciplines or sectors into global "families" or "networks", like health, education and social protection, which in turn are grouped into vice-presidencies, like the vice-presidency for human development, depicted here. Each of the discipline-specific "families" or "networks" is led by a "director," who chairs a "sector-board" composed of all of the chiefs of the yellow-starred divisions in that row of the organization. The director and sector board are responsible for assuring that their network staff stay current on the continually evolving knowledge base for their field and apply this knowledge to assure that Bank-supported operations consistently achieve world-class quality standards. In this role, the director and sector board also determine and apply criteria for hiring and promoting Bank staff and for designing, certifying, requiring and financially supporting staff on-the-job development and training.

The global sectoral leaders represent the World Bank in global fora and project to the world the Bank's vision for how their field of knowledge contributes to advancing the well-being of the citizens of borrowing countries and of the world at large.

This existing matrix structure is a clever institutional design, which in practice has unfortunately not entirely succeeded in assuring the Bank pay sufficient attention to global public goods, poverty reduction, quality of lending and the expertise of staff. However, the current matrix organization is now under attack from an entirely different angle. President Kim and his management team are accusing the current organizational structure of insufficiently supporting their new "business model".

The new "World Bank strategy" that President Kim and his team recently presented to the Bank's executive directors can be thought of as their new "business model." It proposes to put the WB on a sounder financial footing by aligning its incentives more closely with the national interests of the individual borrower countries, and thereby lending more money. This strategy would be entirely appropriate for a private-sector financial/consulting institution, such as might be formed by a hypothetical merger of Chase Manhattan and McKinsey. But in our view, this "business plan" describes an institution which is not worthy of publicly subsidized finance. Indeed, rich countries that subsidize the World Bank to compete with private sector institutions like Chase and McKinsey are truly wasting their taxpayers' resources.

The currently proposed WB reorganization plan would serve this new WB strategy and business plan by subordinating the global sectoral directors to the regional managers. (See figure 2 for our depiction of how we understand the new reorganization would look. Note that the global sectoral experts are moved from relative independence on the left of the matrix to become embedded, each one under a different region.) As we explain in our previous blog, this change would, we believe, inescapably subordinate quality and global public good concerns to the quantity objectives that drive the regional vice-presidencies. It's a great organization to maximize the profits of a hypothetical Chase-McKinsey private sector firm. Not so much for a publicly subsidized entity intended to finance the longer-run, externally beneficial or poverty reducing investments which borrower countries need encouragement to undertake.

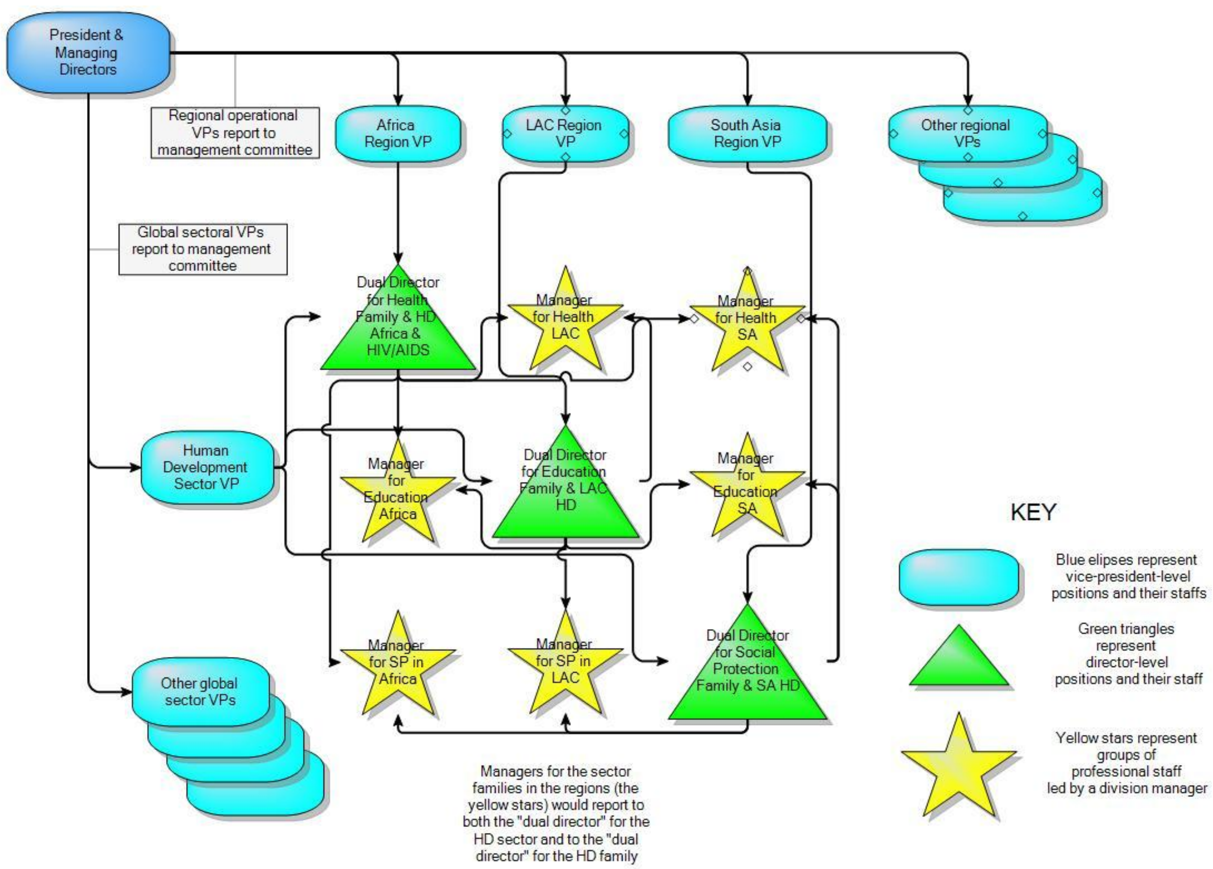

Figure 2. Rumored proposed reorganization of the World Bank. (Authors' stylized depiction.)

Note on Figure 2. This figure represents our understanding of the reorganization that was recently announced to Bank staff. As in Figure 1, most professional staff whose work determines both the quantity and quality of Bank operations are located in the units identified in the figure as yellow stars, units sometimes referred to as "divisions". In the proposed reorganization, these units and the staff they contain are still embedded in a matrix with accountability in two dimensions, as they have been.

Our understanding is that the proposed reorganization would achieve an apparent simplification by combining the green triangles at the edges in Figure 1, to instead embed them in the matrix as represented by the triangles on the diagonal of Figure 2. Clearly such a reorganization would save the Bank a lot of money by eliminating one set of directors. However, we understand that the Bank's reorganization team asserted the objective was NOT to save money, but instead to streamline Bank operations. To the degree that forcing the Bank's global leaders of knowledge and practice to be subordinate to regional vice-presidencies would discourage the imposition of quality standards on Bank operations, Bank operations would indeed be streamlined.

As explained in the text of the blog, we think streamling in this way would perhaps be good for a private-sector consultancy firm or private-sector Bank, but we think this kind of organization would poorly serve the Bank's raison d'etre in the 21st century.

So what kind of reorganization would serve these ends better than either the existing organization (figure 1.) or the proposed reorganization (figure 2.)? One way to think about this is to imagine an organizational structure which would enable the Bank's president to recruit the kind of world-class sectoral experts who would command global attention and serve as global leaders in improving the quality and the global value of Bank investments. To attract individuals of sufficient caliber and international prestige for these specialized jobs, the World Bank will have to compete for the same individuals who would be candidates to serve as deans of the relevant schools on the best university campuses. The World Bank's global sectoral leader for health must command the respect of the deans of schools of public health and of medicine. The Bank's global sectoral leader for education must be drawn from the pool of candidates for positions at the head of world class schools of education. The Bank should be able to compete for the people who would otherwise head schools of engineering, or public policy or management.

The Bank's recent inability to recruit a new VP for human development suggests that people of the appropriate caliber are not attracted to the Bank's current organizational structure. Imagine how much MORE difficult it would be to recruit people of this caliber to serve in subaltern capacities under the regional VPs, to be embedded in that Figure 2 bowl of spaghetti. Good luck with that.

Starting from this point, our proposed reorganization would reorient the Bank's organizational structure in a way that would attract world-class sectoral experts to these leadership positions. We propose eliminating the layer of management between the Bank's president and managing directors and the global sectoral managers by upgrading these global sector leaders to the rank of vice-president. We suggest giving them a special title which denotes discipline-specific expertise as well as managerial prominence, something like "Chief Scientist for Environmental Practice" or "Dean of Education practice". As depicted in Figure 3, these sector leaders would have enhanced responsibility for supporting the Bank's investment in global public goods and for assuring the quality and consistency of the Bank's operational work in their sector across all regions. We propose that the Bank reallocate its trust fund resources and a part of its administrative budget, including all the millions that it currently spends on “change management”, to increase the financing channeled through these global sectoral experts for global and regional public goods at the country level.

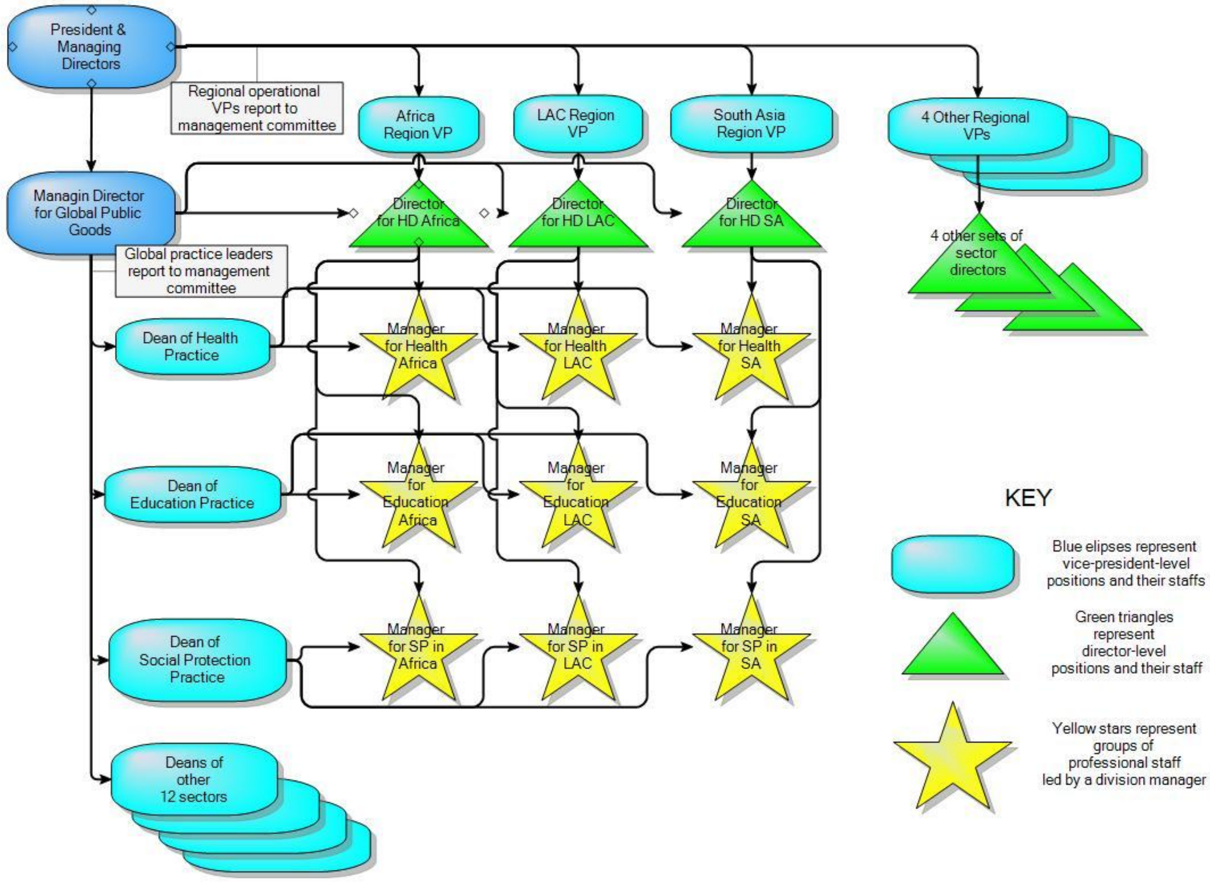

Figure 3. Our proposed reorganization of the World Bank. (Source: a few beers and a napkin)

In our proposed organization, Bank operational staff (in the units represented by yellow stars) would continue to face the challenge of balancing the regional incentives for maximizing the quantity of lending with the sectoral incentives for maximizing its quality and global relevance. However, by

<u>Note on Figure 3</u>. This figure presents our proposed alternative to the organization that was recently proposed to Bank staff. As in Figures 1 and 2, most professional staff whose work determines both the quantity and quality of Bank operations are located in the units identified in the figure as yellow stars, units sometimes referred to as “divisions”. In our proposed organization structure, these units and the staff they contain are still embedded in a matrix with accountability in two dimensions, as they have been in the past and would also be in the reorganization depicted in Figure 2.

We have introduced a “Managing Director for Global Public Goods” and an associated unit as a mechanism to divert some administrative budget away from regional vice-presidents and country directors into the design and supervision of interventions with global and regional objectives.

Our proposal is to promote the global regional directors rather than to demote them as would be the case with the current reorganization plan. Note that in figure 3, the green triangles have been converted to light-blue ellipses, signifying a promotion from “director-level” to “VP-level”. We leave the regional sectoral directors in place to continue playing their current role of brokering the time of professional staff to the country directors. However, we subject them to an additional accountability to a managing director for global public goods in order to strengthen their mandate to design and supervise multi-country or region-wide interventions in their respective regions.

enhancing the level of sectoral leadership and augmenting the financing available via the sector, the balance of incentives would be subtly shifted. The result would be, we think, to turn the rudder of this immense ship slightly away from its quantity and towards its quality objective. The turn might be slight at first, but we believe the benefits of this new reorganization would accumulate over time and it would be vindicated by the continued global relevance of a revitalized and refocused World Bank.