

Ranis, Gustav

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ECONOMIC GROWTH CENTER

YALE UNIVERSITY

P.O. Box 208269
27 Hillhouse Avenue
New Haven, Connecticut 06520-8269

CENTER DISCUSSION PAPER NO. 712

THE WORLD BANK NEAR THE TURN OF THE CENTURY

Gustav Ranis

Yale University

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THE WORLD BANK NEAR THE TURN OF THE CENTURY

Abstract

This paper attempts to assess the World Bank's record of performance as principal lender, generator of ideas and purveyor of advice. It also examines its internal structure, its method of operation and its relations with the other actors on the development stage. Given the recently increased flows of private capital to the middle income countries, on the one hand, and the increased need for IDA money, on the other, we see a need for a redefinition of the Bank's central role. Moreover, we find the dominance of country and global lending targets, along with the absence of meaningful decentralization and capillary action between the conceptual and operating wings of the institution to be the main obstacles to better performance.

On the occasion of the fiftieth anniversary of Bretton Woods we then turn to offering some suggestions for the future. These include a more open and participatory approach with respect to non-Bank ideas, non-Bank lenders and the borrowing countries. We also suggest that the internal personnel promotion culture of the Bank constitutes an important dimension of the problem to be overcome.

Key Words: World Bank Experience, Foreign Capital Flows, Lending Practices, Development Research

THE WORLD BANK NEAR THE TURN OF THE CENTURY¹

Gustav Ranis
Yale University

The fiftieth anniversary of any institution, including those created at Bretton Woods, should serve as an occasion not so much to celebrate past accomplishments as to assess the need for changes required in the light of altered circumstances.

Unfortunately, the World Bank's own just-released effort whose title promises just that², misses the opportunity and is largely a justification of what has been done, i.e., basically a public relations document. While it states (p. 17) that "the Bank Group has made its share of mistakes," one searches in vain for either an enumeration or elucidation of these mistakes nor is there any discussion of just how the Bank intends to behave differently in the future.

The Bank is clearly sensitive to its image and has recently changed the head of its External Relations Division, presumably because it felt the need for repair on that front. It responded to the recent Wapenhans Report by promising to pay more attention to project implementation relative to project commitment. But bigger game than public relations and cutting the embarrassing lag between commitments and disbursements is at stake. The Bank,

¹This paper draws on the earlier piece by the author, prepared for the Bretton Woods Commission and appearing as one of its background papers, "Defining the Mission of the World Bank Group" in Bretton Woods: Looking to the Future, July, 1994. Comments by Frances Stewart are gratefully acknowledged.

²The World Bank Group, "Learning from the Past, Embracing the Future," Washington, D.C., July, 1994.

like most institutions, seems to have difficulty taking a hard look at itself in the mirror.

Fortunately, we also have the recent report of the Bretton Woods Commission, chaired by Paul Volcker³, which has a more explicit and pronouncedly forward-looking cast and indeed advances a number of proposals for the reform of the Bretton Woods institutions. However, the recommendations which emerge relevant to the World Bank seem rather tame and broad, i.e., in the main, to encourage domestic private sector activity while avoiding duplication with private foreign capital flows and to improve internal efficiency in a number of ways.⁴

This paper presents, in Section I, my own interpretation of what I consider to be the critical aspects of the Bank's past modus operandi, both external and internal. In Section II I put forward some modest suggestions for desirable reforms as we approach the turn of the century.

I. An Assessment of World Bank Performance.

The Bank's role as a non-private lender, as a research and idea-generating unit, and as a provider of advice to the Third World, can only be called dominant. Although there are many complaints that its net capital outflow is currently quite limited, the World Bank family's gross lending to the Third

³Bretton Woods: Looking to the Future, op. cit.

⁴to be fair, the accompanying Commission Staff Review goes into a more detailed discussion of some sensitive areas, but these are not necessarily reflected in the Commission's report. Indeed the relationship between the two is, perhaps purposefully, left ambiguous.

World, at nearly \$20 billion a year, continues to make it the major non-private contributor, and certainly the major multilateral lender. It attracts a substantial and growing volume of joint financing from official donors, predominantly the Japanese, as well as a small volume of joint financing from commercial banks. Its private sector arm, the International Finance Corporation (IFC), is focused heavily on providing, and encouraging others to provide, equity capital to the more advanced NICs or near-NICs of the Third World, but, while growing fast, is still not a major player. IDA, at the other end of the spectrum, while its net lending is rising, is finding its gross lending volume squeezed by the ever increasing difficulty of pushing large replenishments through DC governments. Partly for this reason, partly because both China's and India's economic performance has been improving of late, IDA's attention is being concentrated increasingly on Sub-Saharan Africa and a few other poor countries. Yet, as bilateral concessional aid programs have come under the same budgetary pressures, the World Bank family's relative role as a gross concessional lender has been substantially enhanced, even as the total real value of these flows in net transfer terms has been declining and as gross commercial flows have taken on vastly increased importance. (See Table I)

The Bank family's major influence on the lending side may indeed reside in its role as a rating agency for others, both by virtue of its data collection and country analysis efforts and, more importantly, by way of its example as a lender. In this

Table I

World Bank Lending
(billions of \$)

	1970	1980	1990
<u>Gross disbursements</u>			
IBRD	0.7	4.5	12.2
IDA	0.2	1.6	3.8
Total WB	0.9	6.1	16.0
All flows (private and public)	13.1	104.1	99.0
WB as % of total	6.9	5.9	16.2
<u>Net flows</u>			
IBRD	0.4	3.5	2.9
IDA	0.2	1.6	3.6
Total WB	0.6	5.1	6.5
All flows	7.0	61.1	27.8
WB as % of total	8.6	8.3	23.4
<u>Net transfers</u>			
IBRD	0.2	1.7	-4.0
IDA	0.2	1.5	3.3
Total WB	0.4	3.2	-0.7
All flows	4.6	29.5	-26.9
WB as % of total	8.7	10.8	-

Sources: World Debt Tables, World Bank Annual Reports

sense it has, to a considerable extent, supplanted the IMF's traditional "house-keeping seal of approval" function. Not only are private portfolio and direct investment flows powerfully influenced by what the "grey books" have to say about country x, but the bilateral donors and regional development banks look to the World Bank for their own point of departure. While other lenders, public and private, may carp, resent, at times criticize and occasionally even deviate from Bank positions on country risk assessment, or project viability, the Bank's views are hardly ever ignored.

Such increasing dominance by the Bank over the last several

decades can be attributed to its financial muscle relative to other ODA providers, as well as to its growing influence in the realm of ideas, where it has continually asserted its leadership. There is no piece of data assembly or subject for analysis in development in which the Bank has not become heavily involved.

As development emphases have changed over the years -- some have called them fads -- the Bank has consistently been deeply engaged. No input into new thinking, from the painstaking collection of panel data on households to the application of the new growth theory, has been left untouched. The Bank has shown a tendency not to innovate but to quickly take over the leadership on any given theme, e.g. cost/benefit analysis from the OECD, income distribution from Sussex, basic needs from the ILO, and the social consequences of adjustment from UNICEF. More current examples include the environment, women in development, military expenditures and governance. Subjects accepted as topical from either a functional or political point of view are quickly incorporated into Bank language, the required standard country data base, become part of the Bank's research and analysis agenda, and sometimes even of its stated lending criteria.

Needless to add, such continuous modifications of priority concerns, whatever their individual merits, not only cause consternation and cynicism among borrowers but also add to the Bank's administrative costs and to the spreads charged. It is, moreover, realistic to assume that it takes the imprimatur of the Bank before any new emphasis is generally taken seriously -- for better or worse. It is, in sum, a fact of life that the Bank,

disposing over an extremely capable professional staff, and a self-assured, if not arrogant, top management -- especially given the relative weakness, financially and in human resources terms, of its potential competitors -- can be said clearly to occupy the conductor's role within the development support orchestra.

In its most purely intellectual arena of activity, i.e., that of development research, the Bank has, for example, been in a very expansionary mode until recently, spending roughly \$20 million annually on the subject, mostly in-house. It has its own quasi-academic publications, the World Bank Economic Review and the World Bank Research Observer, as well as its influential annual World Development Reports, plus its quarterly Finance and Development (joint with the IMF) -- quite a formidable array. It also puts out an impressive, steady stream of working and discussion papers emanating from its various divisions on virtually every relevant subject. Its dissemination efforts, especially in the third world, are prodigious and overwhelming.

At the same time the Bank has paid relatively little attention to the output of other national and international organizations engaged in similar activities, but with less human and financial resources, including the bilateral aid agencies, the regional development banks, and the U.N. family. Indeed even much relevant output by academia is largely ignored. While there is much cross-referencing and footnoting in most of the Bank's output, one finds relatively little to work done outside the Bank. The wider academic community is, of course, brought in as consultants, as visitors, and as participants in World Bank

seminars, etc., but, in general, inadequate attention is paid to the intellectual world outside, especially within the developing countries themselves where there has been a remarkable development of capacity over the past few decades.

One consequence of this situation, the concentration of an unusually large number of highly qualified professionals within one institution, all anxious to show their wares to superiors within a hierarchy dominated by an accepted set of views, is thus an excessive and costly insularity. In a somewhat closed system there is little dissent, little controversy. Especially the non-Anglo-Saxon academic and policy-making communities, in which challenges to the neo-classical free market paradigm, while on the wane, still persist, are generally dismissed or taken too lightly. For example, it recently took considerable pressure by Japan to get the Bank to reexamine its views on the role of government in East Asia's famous development success cases.

As a direct consequence of its position of predominance in gross public lending, as well as in applied research and the generation and diffusion of new developmental emphases and ideas, the Bank's function as an adviser to governments on development policy has also expanded dramatically. The so-called "Washington Consensus," the conventional wisdom endorsed by the Bank and the Fund, is undoubtedly less monolithic and more subtle and differentiated today than many critics have asserted. The recent official shift from a pure market orientation to the acceptance of "market friendly" government interventions, plus the acknowledgement that governments may do well by organizing

contests and rewarding (or punishing) performance is a case in point. But the kernel of truth remains: the Bank is inhabited by a large number of highly talented professionals, largely economists, who have shown little willingness to dissent or deviate from what the in-house conventional wisdom is seen to be at any point in time, and analyses of government failure continue to have a much easier time than analyses of market failure.

All this adds up to a position of apparently self-confident leadership in lending, as well as in data collection, research, and policy advice. An important by-product of the Bank's rather dismissive attitude towards other institutions is that inadequate consideration has been given to exploring potential divisions of labor in various directions, as originally envisioned for the Bretton Woods institutions. For example, as a result of the need for fast disbursing balance of payments support during the debt and adjustment period of the '80s, the Bank has moved deeply into IMF territory. While the Bank used to concentrate on projects, leaving short-term balance of payments issues and related macro advice to the IMF, most SAL's and SECAL's of the debt crisis years were really thinly disguised first cousins of IMF facilities, i.e. the common objective was to get the money out quickly. At the same time, the Fund has increasingly encompassed some micro-level policy reforms in its list of concerns; indeed Mr. Camdessus⁵ recently included "participatory government" as one of its concerns, a far cry from Bretton Woods. Increasingly the need for fast disbursing loans accompanied by a largely

⁵Interview, IMF Survey, July 25, 1994.

overlapping array of conditionality on macro-economic stabilization and micro-economic structural adjustment issues has at times rendered the two institutions rather indistinguishable.

Concerning the Bank's relations with the U.N. family, to cite another example, the complementarities envisaged early on with UN-ECOSOC and the Specialized Agencies have persistently atrophied throughout the post-war period. In the realm of ideas, UNICEF's pioneering efforts in preventive health, and UNDP's in calling attention to human development as a basic objective as well as a means to development, have not been properly acknowledged. In the realm of actions, legitimate criticism is continuously levelled against the heavily politicized, often inefficient and conference-ridden processes of the U.N., but, less legitimately, little effort is expended in suggesting the paths to a more productive relationship. Also in the realm of actions, the World Bank now finances more technical assistance than the UNDP, although this also was not what was envisioned at Bretton Woods. The regional development banks, though late-comers to the family, have similarly been generally treated as poor cousins who might be invited as money bags into World Bank-orchestrated joint financing ventures but would otherwise be expected not to "get in the way." While the Bank does more non-project lending (up to 27% of the total), is undoubtedly more professionalized, and more willing and able to perform country analyses and provide advice, its project lending portfolio is difficult to distinguish from that of the regional banks. Such disinclination by the lender to put much effort, beyond the

rheterical, into the evolution of a sensible division of labor among the international financial institutions at a minimum has, of course, not been costless. It has led to a substantial duplication of effort and functions, permitted borrowers to play lenders off against each other, and helped undermine public confidence and support for the overall enterprise of aided development.

As to country coverage, the same phenomenon of an essential lack of World Bank self-restraint obtains. Even in the smaller, poorer countries of each region the Bank is active, along with the regional banks. Once the ex-socialist countries of Eastern Europe, which had initially refused to join the Bank, were ready to become active borrowers, the Bank made every effort to expand its activities in that direction, instead of making room for the newly created European Bank for Reconstruction and Development which could have (sensibly, I believe) received a broader than strictly private sector mandate. In its dealings with other lenders the Bank generally prefers to privately criticize their admittedly inferior professional capacity and to proceed to ignore them. It seems to act on the assumption that, if there is a vacuum, by subject or by country, it is best equipped to fill it. If a new problem arises, for example in the realm of governance, environment or political economy, the ideal solution is to hire additional, if more specialized, staff. The alternative of staying out of a given area and instead helping to build up the relevant capacities of others within a negotiated division of labor is apparently viewed as too thankless and time-

consuming; at any rate it does not seem to get serious attention.

Turning to relevant elements of the Bank's internal modus operandi, the most significant characteristic that strikes one is its highly centralized structure. Only in a very few borrower countries does the Bank have full-fledged resident missions, and, even in such cases, the substantive decision-making locus for new commitments and policy advice is located principally in Washington. The Volcker Commission found that the typical World Bank staff member spends only 7% of her time on recipient country contacts. The Bank generally operates through many, relatively brief, visiting missions, some focused on the macro picture, others on specific sectors, still others on preparing project appraisals. Given their brief in-country presence, each mission usually gathers information on the run and subsequently prepares country, sectoral or project reports back in Washington, sending copies sequentially (with changing colors as they approach their final stage) for comment to host country officials. While in country, missions typically insist on meeting with government officials at the highest levels, frequently raising overlapping issues and questions. Under such circumstances, not only is it difficult to be sure about the quality of the data and the analysis but virtually impossible to guarantee full local understanding, jointness and agreement in the determination of resource requirements and conditions precedent. The Bank itself, given substantial turnover in the composition of its mission personnel, is not always in a position to move beyond a relatively narrow, technical assessment of a country's macro and

especially its micro situation. Its advice consequently often lacks realism and depth with respect to the institutional and political economy dimension of the task ahead.

While the Bank preaches decentralization in the context of "governance," it clearly does not practice it. Its own organizational choice has succeeded in avoiding the problem of "localitis," but at a high cost in terms of a lack of continuity, the need to resort more than is ideal to missions staffed by relatively junior professionals and an inherent inability to be sufficiently sensitive to differing institutional, political and even economic characteristics within individual borrowing countries. This undoubtedly has contributed to the accusation, admittedly sometimes exaggerated, that World Bank officials prepare "boiler plate" conditionality lists on which only the country's name and the permissible deficit/GNP ratio, etc. need be filled in.

A second critical feature of the Bank's posture, which has helped make it possible to continue to work in this highly centralized fashion over the last four decades, is that, as an institution, the Bank has rather consistently focused on the quantity rather than the quality of its lending. This will undoubtedly be hotly denied, but I believe the die on this matter was cast early on, essentially during the presidency of Robert McNamara, when annual global and country lending targets were established, even though -- unlike the case of parliamentary-funded bilateral donor agencies -- there was no external mandate to do so. While there has been a continuous evolution of what is

meant by "quality," given the changing set of topics warranting priority attention (see above), the quantity of lending has consistently overcome all else as an indicator of "success," either at the individual country desk or aggregate Bank level.

This comment leads one to the following, closely related, observation, namely that one must acknowledge the co-existence of two separate circulatory systems in operation within the Bank. One, encompassing the President's office, the Bank's research wings, and, usually, the chief economist in each of the operating regions, is concerned with generating, or at least propagating, innovative ideas and analyses, with deciding on the subject and enhancing the quality of the annual World Development Reports, and with focusing attention on whatever the key policy topic or topics may be at the moment, whether income distribution, poverty reduction, environmental concerns or some combination thereof. The other encompasses the operating departments, where the continuous flow of project and program lending approvals is what matters, where the frequent arrival of "new direction" ideas is met with a jaundiced eye and the well-worn bureaucratic response that "we are already doing it," and where it is generally recognized that the bottom line chances for recognition and promotion are largely tied to being polite but getting on with the lending.

The existence of these two circulatory systems, with relatively little real capillary action between them, means that the Bank suffers from a severe case of schizophrenia. When the objectives of quantity and quality come into conflict -- and,

MacNamara notwithstanding, they usually do -- the need for maintaining the flow of commitments invariably overcomes the concern with the quality enhancement of the activity and its overall impact on the borrower country's performance. What the recent Wapenhans Report found in terms of the priority of project commitments over project supervision and implementation is at least equally true with respect to the Bank's SALs and SECALs, which were apparently not the subject of that inquiry.

Consequently not only the quality of the more than 25 percent of Bank lending presumably directly addressed to structural change but also the not inconsiderable policy-related impact of the Bank's project lending has been given somewhat short shrift -- though there have been several internal assessments of SAL and SECAL performance by both the evaluation and research departments, which were, incidentally, quite candid but received little publicity. It seems fair to conclude that, as far as the lending operations of the Bank are concerned, while there is a good deal of posturing about how changing country assessments, new policy packages, and the incorporation of the latest intellectual concerns, etc. impact the lending programs, the actual machinery is not deeply affected. Any intelligent bureaucracy is able to package its lending in ways which reflect current front office "priorities." Certainly all the juices continue to flow in the direction of making the loans and "getting on with it."

An important by-product of the observed dominance of formal or informal lending targets is that the Bank undoubtedly pushes

its loans even when there exist viable alternative public donor or even private capital possibilities. Thus, even in the poorest developing country context we frequently see donor competition for projects rather than for capital, i.e., dollars chasing projects rather than the other way around. This phenomenon is usually explained away by reference to developing country absorptive capacity and project preparation bottlenecks. But one can observe the Bank pushing to take the initiative and competing with other donors for the privilege to lend even in the realm of the relatively fast disbursing structural adjustment and program loans. At the official level, of course, all lending is recipient country request-based and then jointly negotiated. But, in fact, the Bank, like other donors, customarily takes the initiative, convinces the borrower of what it should ask for and, simultaneously, of what it must do, in the way of policy change or other, project-related commitments, to merit the loan. As a consequence, at the very time that various multilateral and bilateral donors are competing with each other to fund projects and programs, both, but especially the latter, are consistently loaded down with a long list of conditions, partly to impress superiors within the Bank, partly to keep up with the IMF -- whose relatively fewer, more stabilization-oriented conditions are usually repeated--, and partly to ensure that most of the other elements of the Washington Consensus are duly reflected.

The fact that the desire to lend is thus overwhelmingly strong, while the list of conditions attached is often too long and insufficiently differentiated to reflect specific local

institutional, political, and even economic realities, is well recognized by the borrowers. Indeed it is no exaggeration to say that both parties, having gone through this particular procedure many times in the past -- with or without benefit of a Consultative Group -- already know full well that, while the loan instrument may be loaded with conditionality, ultimately the need to lend will overcome the need to ensure that those conditions are indeed met. What results, at the risk of some exaggeration, is a rather time-consuming and expensive ritual dance. Few SAL tranche releases have ever been canceled -- at most they are delayed. Few countries, certainly not large ones, have ever had prolonged break-downs in their relations with the Bank.

As a consequence, the lending cum conditionality process has been plagued by mounting cynicism, has become increasingly fatigued and is today not very productive in terms of delivering on its lofty development objectives. If policies are improving, as they have markedly in many countries in recent years, it is mainly because the East Asian example has had a powerful impact and because the debt crisis has concentrated borrowers' minds. The entire process works well only when local polities have decided, largely on their own but possibly with the help of outside technical assistance, to effect certain policy changes and to approach the international community for financial support; Chile and Mexico are prominent recent examples.

All this is, of course, hard to demonstrate conclusively. As in any multi-cook process, it is difficult to pinpoint where the initiative actually resides or to attribute credit or blame;

but in its program as well as in its project lending, the Bank has done relatively little ex post analysis of the process itself or of its contribution to it. Nor has it sought the kind of frank exchange with borrowers, at arm's length from loan negotiations, which might have yielded greater realism, more passivity, and a more effective collaborative style.

II. Considerations for Bank Reform Near the Turn of the Century.

Major unanticipated changes in the international landscape have placed new burdens on the Bretton Woods institutions if they are to remain effective major players. Just as the resort to flexible exchange rates in the early 70's shifted the center of gravity for international monetary decision-making from the IMF to the G-7 and seemingly forced the former to concentrate more on the developing countries, the equally unexpected resumption of large-scale private capital flows is forcing a reluctant World Bank to reassess its basic mission. The fact is that the Bank is being squeezed, on one side, by private capital flows to the successful NIC's and near-NIC's, calling for more activity by the IFC and the Multilateral Investment Guarantee Agency (MIGA), and, on the other, by the increased need for IDA-type funds to deal with the severe problem of stagnation in the poor countries of the "fourth world," especially Sub-Saharan Africa. The Bank continues to play an important role in many countries but it also needs to engage in some honest introspection. Long-term senior Bank executive Ernest Stern, when recently asked (The Economist, July 23, 1994) what might follow the 50th anniversary, responded

"the 51st anniversary". Such complacency won't do; a new landscape requires openness to change.

In general, where the Bank family continues to be active, still in a majority of the middle income and virtually all the low income countries, it would be well advised to better integrate its thinking and lending functions, to exercise more self-restraint in its lending and to attempt to be a better "team player" with respect to other donors, private investors, as well as the borrower countries themselves. The Bank surely recognizes that it is but one player among many, even though a very important one, but the fact that its own future role as a lender is likely to be increasingly dwarfed by private flows has certain implications which are not yet fully reflected in Bank policy. With the World Bank and IDA, together, accounting for less than 20% of total gross lending, the family's total effectiveness would likely be enhanced if the Bank were willing to behave more like a major, if increasingly less dominant, primus inter pares and exercise more self-restraint in lending, while playing a more narrowly defined catalytic role in the intellectual and analytical spheres.

Such a change in posture would have a number of specific applications. First, it would mean a greater willingness to share responsibility with the regional development banks on a country-by-country basis. Given the admittedly superior analytical capacities of the World Bank, it would seem to make sense for it to focus more on the macro analysis and program lending end of the spectrum and to work out arrangements so that

the various regional development banks can carve out their own niches, especially, but not necessarily exclusively, in the project area.

One illustration of what an imaginative division of labor could accomplish resides in the area of "growth with poverty reduction," currently the avowed central objective of virtually all public lending agencies. It is, I believe, generally agreed that country-specific measurements of poverty -- both in terms of (largely market-related) disposable income poverty and (largely government services-related) social income poverty -- remain inadequate; this is even more true with respect to how the "bottom line" indicators of welfare, such as life expectancy, infant mortality and literacy, are distributed across a population. There is an urgent need for more country-specific analysis here. Behavioral issues, utilizing such data, and focusing on how the links between the nature of the growth path and the reduction of poverty are affected by the extent of decentralization, the character of the fiscal system, and the strength and direction of technology change need to be addressed prior to the fashioning of effective action cum lending programs. Such work requires a detailed understanding of local institutions and human resource availabilities -- a domain in which the regional development banks, working with indigenous institutions, would seem to have a comparative advantage -- with the World Bank contributing the macro analysis of growth cum poverty reduction, the assessment of borrowing needs, and the identification of requisite internal policy changes. Yet at present everyone seems

to be "in the act," drawing poverty lines, commissioning parallel data collection and analytical efforts, as well as gearing up their own technical assistance and lending programs. This goes well beyond the limits of a healthy competition in the realm of ideas.

Along the same lines, it should be possible to move towards a flexible country and/or sectoral division of labor. It might make sense, for example, to delegate to the regional banks the responsibility for some small countries and/or some specific sectoral activities in which they could accumulate specialized competence, without necessarily moving to any iron-clad segmentation of functions. The occasional chairing of Consultative Groups by the Inter-American and Asian Development Banks should be encouraged rather than resisted, and efforts should be made to restructure and strengthen the African Development Bank rather than wringing one's hands and essentially ignoring its existence.

At a minimum, where both the World Bank and a regional bank are active, the latter should be fully brought "into the loop" early on, i.e. in terms both of original data collection and institutional knowledge, as well as analytical efforts and the fashioning of lending programs. Jointness in the effort should be viewed increasingly as a two-way street, not a World Bank subcontract. While borrowers would rightly be concerned about anything approaching a monolithic stance by the international lending community, enhanced interplay between the World Bank, which will undoubtedly continue to be more centralized, and the

relevant regional bank could be expected to improve efficiency. The regional banks could typically concentrate on projects in sectors which require more local orientation and expertise, with the World Bank playing the role of macro-analyst and program lender, especially in the large, middle income countries.

Encouraging the regional banks to spread their wings, leaving to them the main responsibility for overall small country lending as well as more specialized large country projects, while retaining in the World Bank major responsibility for most middle income country macro analysis and lending would seem to make a good deal of sense. This is not to suggest any precise, therefore rigid and confining, blueprint for an improved division of labor on a country or sectoral basis, only to suggest that a more cooperative and less dismissive or paternalistic attitude by the Bank is warranted. If the Bank's posture were one of encouragement, of sharing information and assisting the build-up of human capital elsewhere, instead of reinforcing inferiority complexes by the sheer weight of its lending and intellectual capital, it would permit the Bank to concentrate more on what it is really good at.

In a similar vein the Bank's effectiveness would be enhanced if it abandoned its even more patronizing attitude towards the U.N. family and instead agreed that it should concentrate on such subjects as human rights, democratization, governance, concern with military expenditures and the spread of nuclear weapons, sensitive political issues which are more appropriately addressed by one-country-one-vote institutions, with the World Bank and the

regional banks focused more narrowly on the economic core of the development process. Powerful rich countries understandably try to influence the multilateral lending institutions in the direction of their, possibly quite meritorious, bilateral political objectives -- or at least are perceived to do so. Such pressure frequently turns out to be counter-productive as it gives rise to exaggerated conspiracy theories and tends to undermine the credibility of the banks as truly multilateral and development-oriented institutions.

Even with respect to such a "narrower" development canvas, the World Bank's credibility in the borrowing countries would be enhanced if it resisted the tendency, perhaps fueled by the required fresh thematics of each World Development Report, to support ever-changing fads-du-jour. Most people who have worked in the development field for a time realize that there is no "magic bullet," and that, even though learning takes place and attention may appropriately wander from time to time, depending on intellectual progress as well as political necessity, continuous programmatic shifts from growth, to income distribution, to poverty, to adjustment, back to poverty, to the environment, and so on, have resulted in a large measure of corrosive cynicism.

Now that the worst of the debt crisis is over and some disillusionment with SAL's has set in, the World Bank should resist the temptation to return to a safer "projects only" stance. Its non-project lending should instead be increased but shifted from a foreign exchange gap orientation to one focused on

the local, as well as foreign, exchange costs of agreed on structural changes whose real and psychological costs could be eased by the proposed lending package. While it is never wise to be doctrinaire about the precise composition of any individual country program, program lending, in some form, should be retained as a flexible tool which is still very much needed to facilitate major structural reform in many borrower countries. Policy-based non-project lending, accompanied by properly negotiated and fully "owned" self-conditionality⁶, remains the best device to help interested borrowers achieve graduation into NIC status and beyond. Such a shift would, incidentally, also free the IMF to attempt to reclaim its original arena of function and expertise -- though the Fund should retain some of its new and expanded old facilities plus the enhanced flexibility which permit it to make longer term commitments.

As suggested above, some of the smaller country assessment and lending activities could be carried out more effectively by the regional development banks, while the World Bank would be well advised to decentralize further and establish resident missions in at least the larger middle income countries. Decentralization is needed, especially for work in such areas as poverty reduction, the environment, human development and governance, all of which requires an understanding of particular features of the domestic landscape, for example with respect to

⁶Gerry Helleiner has made this point forcefully on several occasions (see, for example, his "Growth-Oriented Adjustment Lending: A Critical Appraisal of IMF/World Bank Approaches" paper for South Commission, Department of Economics, University of Toronto, 1988).

financial markets, the character of the informal sector, of local governments, regulatory norms and the extent to which workably competitive forces are at work in the formal industrial sector.

If, as appears likely, growth with poverty reduction requires not only enhancing the employment intensity of output but also improving the allocation of social income flows provided largely by government, more attention will need to be paid to governance, public sector decentralization and market failure. All these considerations are very sensitive to local institutional differences and strongly suggest the need for a more decentralized structure as well as a more diversified staff on the part of the Bank. In order to be effective in the provision of relevant technical assistance, an important ingredient in Sub-Saharan Africa, for instance, it is almost obligatory to develop more of a local presence.

One of the critical, yet sometimes neglected, roles of the World Bank family must be to facilitate a fuller integration of middle income borrowing countries into the international economy so that early graduation becomes more likely. This requires larger efforts to mobilize foreign private capital flows than can be handled by the IFC. Given its own charter limitations on lending directly to the private sector, the Bank needs to increase its joint financing activities substantially, as well as to explore new opportunities for institution building in the financial sector which can be of substantial help to domestic medium and small scale enterprises.

The fact that the average Bank loan remains at the \$100

million level provides additional evidence as to the persistence of a trade-off between the quantity and quality of lending and as to how the conflict is currently being resolved. At the same time more energy should be expended on IDA replenishments and IDA customers than appears currently to be the case. As the Bank is increasingly squeezed by private foreign capital flows and increased IFC as well as MIGA activity in the middle income countries, the IDA and blend countries should get more attention as well as resources. This makes especially good sense if the G-7 can be persuaded to let the IMF pay more attention to its basic role as guardian of the international monetary system and less to providing financial aid to the poor countries.

Finally, concerning the inevitably enhanced role of international trade, as globalization marches on, the Bank has to date paid relatively little attention to the aggregative impact of its country-specific advice, frequently suggesting export promotion as part of its standard prescription, along with the related liberalization of imports, but usually quite irrespective of the status of the country's own negotiations reducing trade barriers on a reciprocal basis within the GATT. Individual country advice on exports must clearly also face up to the global so-called "adding-up problem" in particular commodity markets. It is increasingly necessary for country programs to be sensitized to such global issues, possibly with the help of closer working relations with GATT and the hopefully soon to-be-created World Trade Organization.

The Bank must, of course, recognize that, in the absence of

joint conceptualization and full agreement with the country concerned, at the outset, as to what needs to be done in the way of reform, and what additional resources are required to do it, no amount of conditionality will really work. Recognition of this critical, if obvious, point implies, however, something less obvious, namely the abandonment of, at least implicit, annual country and regional or global lending targets. While it is institutionally and politically unrealistic to be able to move away completely from some sort of routine minimum annual country lending activity, major "humps" in levels should be reserved for packages negotiated at their own pace and with the initiative clearly shifted to the borrower.

This would require a non-trivial change in the underlying modus operandi of the Bank. It would be necessary for the institution to become more bank-like, i.e. to assume a posture enabling it to sit back, while encouraging would-be borrowers to approach it at their initiative with plans for long term reform packages. The Bank could, of course, provide technical assistance, if requested, to help prepare such packages, although more extensive use of local, as opposed to international consultants, is also indicated. Major country assessments could be carried out with the help of self-destructing, quasi-independent teams, while drawing upon the substantial expertise and experience that has accumulated both within the Bank and in the borrowing country, with individuals serving in their own, rather than their official capacities. Such teams might report to the traditional Consultative Groups or to the Development

Committee, preferably in a way which accentuates the uniqueness of the new device. But the important ingredient is the abandonment of "business-as-usual" lending under which, regardless of the annual ritual dance -- with or without Consultative Group music-- , all parties recognize the essentially non-substantive, routinized nature of the relationship. The sine qua non would have to be the fullest possible agreement and commitment by the borrowing country to an agreed policy cum resources package over at least a five-year period. With packages fashioned in the course of negotiations and adorned with key elements of credible "self-conditionality," the Bank would then be in a position to be more objective in deciding whether or not to continue the flow of resources or to cancel a tranche release, or more, in the case of non-compliance. Such a procedure would not only acknowledge the growing professional competence of LDC policy makers as well as the need for the program to be fully accepted and "owned" by the borrower, but it would also provide some much needed freshness and credibility to a process which has become increasingly fatigued and unproductive. The fashioning of realistic programs of reforms to be supported over a period long enough for the borrower's economic and political risks to be matched by the external resource commitments would not, of course, be easy; nor would it typically occur more than once in a decade in most cases. But what is required is genuine structural change packages along with the additional financial resources needed to hold off vested interest groups, ease the pain of adjustment, as well as provide

the required psychological assurance.

Such a posture would not, of course, displace on-going project lending in a given country but constitute an occasional major additional "ballooning" of assistance. It would also be consistent with leaving shorter term fiscal and monetary stabilization and balance of payment disequilibrium issues to the IMF, with the World Bank restricting itself to a, usually relatively small, number of key structural policy change measures to be carried out over a sufficiently long period of time so that institutional and political realities can be taken fully into account.

The bottom line is that any serious effort at enhancing the quality of the lending process must entail not only a Bank more willing to decentralize and work more closely in partnership with the borrower country, but also one that is willing to enhance the credibility of the process by occasionally refusing to lend and by more than occasionally curtailing its lending in mid-stream. The suggested infrequent ballooning of resource flows would take place in only a handful of countries at any given time, while "business as usual," as previously defined, continues elsewhere.

It can also be assumed that the anticipated success of such an approach would itself lead to a greater willingness by the industrial countries to support the Bank's role, in concert with others, to bring more developing countries up to NIC status. The application of additional catalytic pressure to get, usually reluctant, borrowers to accept graduation from NIC to developed country status at the successful conclusion of one or two such

major lending cum action packages should also be part of the overall negotiating process. This would permit the Bank to turn its attention sequentially to other middle-income countries and, at the same time, demonstrate to the international community the chances for success, one or two countries at a time, in the development effort.

In conclusion, if the Bank is to address the most pressing development problems successfully, it needs to be prepared to assist both the desperately poor countries, e.g. in Sub-Saharan Africa, and the desperately poor citizens in many of the middle income countries, e.g. in parts of Latin America. While the former will require highly concessional IDA-type flows for some time to come, the latter will require the Bank's expertise, more than its financial resources, in ensuring that growth will be egalitarian as well as sufficiently rapid. And, most importantly, as we have been at pains to point out, it will be increasingly necessary to shift the focus of initiative, in fact as well as on paper, and to be sensitive to economic, institutional as well as political differences among borrowing countries.

But the willingness to participate in the formulation of such more subtle and differentiated country analysis and action programs also requires a change in the internal culture of the Bank. If Bank staff are to become more willing to cease lending as well as ensure the superior quality of the lending that does go forward, the rewards, in terms of internal recognition, promotion, etc., must point the way. This clearly has not been

the case in the past, which is one of the main reasons why, all protestations to the contrary, quantity has crowded out quality, as the two internal circulatory systems of the Bank, identified earlier, have meshed only intermittently and imperfectly.

To the outside observer it appears that there are currently two main roads open for rapid World Bank internal promotion: outstanding performance within its research/policy formulation wing, e.g. in the course of heading up one of the annual WDR's, to be rewarded by promotion into one of the senior economist positions in a regional or operating department; or, and more common, outstanding performance in the quantity of lending and in keeping on good terms with senior borrowing country officials. In the wake of the projects-focused Wapenhans Report the Bank recently promised to reward success in implementation relative to the making of new lending commitments. More important -- and also more difficult -- would be providing signals that an effort will be made to reward staff who help fashion programs today which have a favorable growth cum equity result some years down the road.