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## Innovation at the World Bank: Selective perspectives over three decades 1975 - 2005

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## WIDER Working Paper No. 2013/129

### Innovation at the World Bank

#### Selective perspectives over three decades 1975-2005

Roger Grawe\*

November 2013

#### Abstract

The World Bank is uniquely positioned to identify and disseminate innovative development practices. Based on his thirty-year experience as a World Bank staff member, the author takes an institutional perspective on the innovation climate at the World Bank focusing on dominant development paradigms, client and stakeholder relationships and the organization's operational toolkit as key factors influencing the climate for innovation. The interaction and impact of these factors are illustrated through selective examples of innovative programmes or practices.

Keywords: innovation, institutions, development, projects

JEL classification: C21, F35, O1, O4

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The author worked at the World Bank for thirty years between 1975 and 2005, serving variously as country and lead economist in India and southern Africa, manager for human development operations in southern Africa, and Country Director for Central Europe and the Baltic States. Many former colleagues contributed significantly to the ideas in this paper, but their formulation and inclusion here is of course the sole responsibility of the author.

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## 1 Introduction

Innovation is widely regarded as an indicator of organizational and individual success. Innovative persons are admired and rewarded.<sup>1</sup> Innovation is cited as an important determinant in the rise of successful firms and, conversely, stagnation and decline are associated with loss of innovative capacity.<sup>2</sup> Countries are increasingly assessed in terms of their innovation systems combining the contributions of government policy, knowledge and research organizations and private enterprise. Thus it should come as no surprise that innovation has long figured in the development lexicon in general and the World Bank's (WB) vocabulary in particular. A simple definition of innovation recently in use by the World Bank Institute (WBI) involves 'transforming useable knowledge into new and better products or services or more efficient, less costly ways of producing, delivering or using products and services'.<sup>3</sup> In the context of the World Bank, innovative products and services can refer both to the WB's own lending and knowledge products and services as well as more generally to those financed or otherwise supported by the WB through projects or development partnerships. Ultimately both categories of innovation should contribute to better development outcomes.

In recognition of the presumed contribution of innovation to development, WB President Robert Zoelick highlighted the need for the organization to foster innovation and specifically charged WBI with this responsibility. WBI has responded in line with its intended role as a catalyst for change by encouraging innovation through competitions (e.g. Apps for Development, a global competition, and also an internal Innovation Fund), promoting the WB's Open Data initiative on the presumption that openness encourages innovation and encouraging social enterprises through WB supported activities such as the Development Marketplace. This approach is effectively developing a product line specifically designed to support innovation in the WB's own products and services as well as those of its clients and partners. This represents a much more explicit and publicly accountable approach linked directly to innovation than the WB has ever before undertaken. The coming years will demonstrate whether this innovation product line will be supported by its new leader, Jim Yong Kim and mainstreamed in the WB's activities.

The rhetoric of innovation has long been used to describe particular WB project interventions and other initiatives. During the 1980s, for example, the WB's annual portfolio reviews attributed deterioration in project performance indicators, such as speed of completion, to more 'innovative projects' reflecting the increasingly complex interaction of technology and social milieu. By the 1990s, the same annual reviews considered project complexity rather more negatively and regularly cited excessive complexity as a key factor in declining portfolio performance.<sup>4</sup> The terminology of innovation flipped around to describe simple, 'results-oriented' projects and increasingly came to describe activities primarily geared to

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<sup>1</sup> Innovation skills have been one of the main attributes used by the World Bank in its staff performance evaluation system.

<sup>2</sup> Schumpeter's theory of business cycles relied extensively on the creative and destructive power of innovation and has greatly influenced subsequent thinking.

<sup>3</sup> World Bank Institute (2010).

<sup>4</sup> These trends in assessing project results are documented in the annual reviews of development effectiveness carried out by the WB's Internal Evaluation Group (IEG) between 1973 and 2003 and available on IEG's website [www.worldbank.org/ieg](http://www.worldbank.org/ieg).

transfer knowledge. The recent WBI innovation product line picks up on the nexus between access to information, knowledge generation, and social media/communication technology in laying out a future innovation at the WB; but its leverage on the operational core of the organization is still at the margin.

This paper steps back somewhat from the current innovation initiative at the WB and draws on the author's personal experience as a WB staff member over a thirty year period (1975-2005) to consider the factors which have influenced the general climate for innovation at the World Bank and identifies selected examples of innovation at the WB across these three decades to illustrate the evolution of the WB's innovation culture. Key questions to address are the extent to which innovation has been externally or internally driven, how factors in the WB operating environment have influenced incentives for innovation and how the broader context of WB institutional and organizational change has influenced and interacted with innovation. Following this introductory section, section 2 of the paper considers the contextual issues, which have most influenced the environment for innovation during this period. These include (i) the evolution of development paradigms, their affect on WB leadership and interaction with WB operations, (ii) the evolution of client and stakeholder relationships, including dramatically increased openness and transparency, and (iii) the proliferation of WB lending and knowledge products. Section 3 identifies particular examples of innovation during these decades focusing on dissemination, sustainability and success factors. Section 4 draws some conclusions about the innovation climate in the WB.

## **2 Institutional change, the context for innovation**

What elements in the operating environment of the WB during the 1975-2005 period played key roles in determining the organization's innovation climate? The focus in this section will be on institutional factors that shaped the actions of staff, not on individual incentives for or against innovation. This approach derives from the analytical framework recently developed by Akerlof and Kranton, which they characterize as 'identity economics'.<sup>5</sup> In this framework, actions of actors within organizations are heavily influenced by their 'identification' with the organization and the degree to which they consider themselves as 'insiders'. Monetary or other individualist incentives play a role but this is often subordinate to factors influencing organizational identity. This analysis would seem to correspond well to the WB, where competition for entry positions is intense with perceived commitment to the organization's development goals an important criterion, the structure of monetary rewards is relatively flat, and until recently, most staff enjoyed open-ended tenure, once hired. If, as hypothesized, WB staff were characterized by a relatively high degree of 'insider' identification, then the innovation climate of the organization will be deeply influenced by institutional parameters and changes in the type and scale of innovation will track changes in these parameters.

During the four decades since 1970, the WB underwent dramatic changes. It grew from a professional staff of 1166 in 1970, concentrated in the Washington DC headquarters, lending US\$2.3 billion to a global staff of over 9,000 in 2010, 38 per cent of whom were based in 120 country offices outside Washington DC, lending US\$58.7 billion. Nevertheless the WB's growth paled in relation to other mega trends affecting global development during this period, in particular the growth of trade, private capital and information flows to developing countries. For the WB to have remained relevant as a leader in global development, it had to

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<sup>5</sup> Akerlof and Kranton (2010).

manage a significant process of change and adaptation to a rapidly evolving global environment.<sup>6</sup> This period was also characterized by a series of global financial crises beginning with the oil price shocks of the 1970s, and marking each succeeding decade through to the deep financial crisis of 2008. The need for instruments to assist countries in crisis management has provided the context for an ever-expanding set of financial products offered by the WB both as a global borrower and lender.<sup>7</sup> The diversification of lending products was also influenced by the significant expansion of WB membership, which grew from 105 members in 1970 to 187 in 2010. Most significant during this period were the opening of operational relationships with China in 1980 and the other communist countries of southeast Asia later in the decade, with the conflict ridden countries of southern Africa, ultimately including South Africa, in the late 1980s and early 1990s, and with the transition countries of central and eastern Europe including the former Soviet Union also beginning in the late 1980s. This broadening of the ‘client base’ had a fundamental impact on WB operations as a result of radically different political and institutional frameworks in these new borrowers. The needs and demands of more diverse set of borrowers interacted significantly with changing development paradigms, operational toolkits and the ‘terms of engagement’ between the WB and its borrowing members. Each of these institutional parameters had an important impact of the climate for innovation within the WB.

## 2.1 Development paradigms

Changing development paradigms and their influence on WB programmes have been extensively analysed.<sup>8</sup> During the years of Robert McNamara’s presidency and under the influence of Hollis Chenery as Chief Economist, the driving model of development for the WB emphasized aggregate resource gaps, which government driven projects and programmes financed by the WB and other donors were designed to fill. This analysis treated both private sector and non-government flows as marginal to the challenge of filling resource gaps. The WB’s own research agenda was extensive and diverse covering the broad range of activities that developing country governments supported. Following McNamara’s seminal speech at the Nairobi annual meetings in 1973, poverty and equity received increasingly attention both in the WB research agenda and in operations.<sup>9</sup> The use of crude project indicators such as numbers of individuals raised from poverty and the ostensibly more sophisticated techniques of shadow pricing and poverty/social weights in the prevailing paradigm of project cost-benefit analysis certainly brought attention to the issue; but WB project choice and design seemed to be little impacted by such techniques, which were largely ex post exercises which could be relatively easily manipulated.<sup>10</sup> Recognizing the need for better data on which to base pro-poor projects and policies, the WB initiated the Living Standards Measurement Surveys (LSMS) in 1980. By that time, the broad focus on poverty reduction had unquestionably become part of the WB’s organizational DNA and created a benchmark by

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<sup>6</sup> This process is well described by Marshall (2008). An exhaustive (and official) history of the WB’s first fifty years is Kapoor et al. (1997).

<sup>7</sup> The financial framework of WB operations has been a major area of innovation over this period (see Kapoor et al. 1997).

<sup>8</sup> See especially Yusuf (2009). This discussion draws heavily on Yusuf’s analysis.

<sup>9</sup> Key references from this era are Chenery et al. (1974) and Streeten (1982).

<sup>10</sup> Given the dearth of relevant data and the arbitrariness of key assumptions, reliance on experience and qualitative inputs probably served the interests of the poor at least as well as poverty headcounts and distributional weights in cost-benefit analysis.

which all stakeholders both inside and outside the WB would come to judge its effectiveness.<sup>11</sup>

With the inauguration of the Reagan and Thatcher governments in the US and UK, the appointment of Bank of America president Tom Clausen as president of the WB in 1981, followed by the retirement of Hollis Chenery and his replacement by Anne Krueger who served as Chief Economist for four years between 1982 and 1986, the dominant development paradigm of the WB shifted from a macro concern with resource mobilization and distributional outcomes to a micro concern with getting prices right and liberalizing product and financial markets as the key mechanism to enhance resource flows to developing countries. In this process, characterized and subsequently demonized as *structural adjustment*, the role of the WB expanded to provide guidance on structural reforms, particularly at the sectoral level (the IMF taking the lead on aggregate fiscal and monetary matters). To leverage these reforms, the WB provided ‘bridging’ resources, fast-disbursing structural adjustment loans/credits, to support reforming governments during the (presumed short) interim period before the positive impact of liberalizing markets took effect. In the event, this interim financing extended over many years as markets adjusted far more slowly than anticipated, due to deeper than anticipated distortions in many economies, capacity constraints in implementing policy reforms and slow growth and further shocks in the world economy.<sup>12</sup> Although there were many development analysts who warned that supply rigidities would prove more resilient than the WB’s paradigm suggested; but the WB was not yet in a listening mode.

Although the poverty focus of the WB had been eclipsed at the top management level by a market-focused development paradigm, poverty remained a concern of individual country programmes and most operational WB staff. WB researchers also persevered with important activities such as the LSMS.<sup>13</sup> Outside the WB, other international organizations, notably UNDP and UNICEF, raised concerns about the impact of unmitigated adjustment policies, often based on the same development paradigm that the WB had promoted in the previous decade.<sup>14</sup> As external criticism of the distributional impact of extended periods of structural adjustment policies grew, the WB responded with efforts to identify, monitor and redress the ‘social impact of adjustment’. The Conable presidency of the WB brought a more eclectic approach guided by Chief Economist Stanley Fischer, who strongly supported adjustment policies, but also gave renewed support to poverty and equity concerns.

The end of the cold war and ensuing active membership of all communist and former communist/socialist bloc countries (with the notable exceptions of Cuba and North Korea) led to a period during which a set of policy prescriptions, summarily characterized as the

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<sup>11</sup> The decadal World Development Reports of 1980, 1990, and 2000/01 each focused on poverty and offer a valuable comparative framework for the WB’s evolving poverty reduction paradigm. See also Yusuf (2009).

<sup>12</sup> Of course the preponderance of WB lending continued to be in the form of project finance; however the project focus shifted as structural adjustment dragged on to support structural policy reforms by tackling perceived supply side constraints to adjustment.

<sup>13</sup> Without the LSMS, much of today’s discussion around poverty reduction could not take place. Grosh and Glewwe provide an interesting account of the early years of LSMS in M. Grosh and P. Glewwe, *A guide to Living Standard Measurement Surveys and Their Data Sets*, LSMS Working Paper#120, The World Bank. 1995.

<sup>14</sup> These initiatives were indeed led by economists with strong WB connections during the McNamara-Chenery growth with redistribution era, Mahhub ul Haq (UNDP) and Richard Jolly (UNICEF).

Washington Consensus,<sup>15</sup> appeared to vindicate the structural adjustment policies of the previous decade. Unsurprisingly the consensus was short-lived. The wide range of adjustment policies followed by the transition countries demonstrated that no one set of policies guaranteed success and indeed the success of heterodox policies in some countries, the accumulating evidence of sustained and rapid growth in China and Vietnam with their pragmatic mix of state and market, and the prominence of institutional and informational factors in the cutting edge of economic theory all contributed to what appears in retrospect to be a breakdown of any single development paradigm, at least as applied in the World Bank. Reflecting this heterogeneity, the presidency of James Wolfensohn signalled an era of seemingly limitless expansion of development ‘priorities’ enshrined in the aptly named Comprehensive Development Strategy. Perhaps not coincidentally this ‘everything matters’ approach developed simultaneously with the putatively opposite view associated with aid skeptics such as W. Easterly that the largely donor-driven succession of development priorities during previous decades had actually had little measurable impact on which countries grew and performed well and which did not.<sup>16</sup> The common element in these otherwise orthogonal perspectives is a concern with poverty reduction. Beginning in the mid-1990s and continuing for the next decade, poverty assessments and poverty reduction strategies assumed increasing importance in the WB array of ‘due-diligence’ analytic tools, which were put in place to operationalize the now multi-dimensional and all-inclusive WB development paradigm.<sup>17</sup>

## 2.2 Client/stakeholder engagement

The changing terms of engagement between the WB and its clients and stakeholders closely followed changes in the WB development paradigm and constituted a second key institutional parameter affecting the innovation climate. In the 1970s the WB largely operated in a cocoon of confidentiality.<sup>18</sup> Project documents were restricted and remained out of public purview even as projects were implemented. Country assistance strategies, erstwhile Country Programme Papers were numbered documents discussed only with senior WB management, not even with the executive directors (EDs), let alone the officials of the concerned country.<sup>19</sup>

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<sup>15</sup> Yusuf (2009: 69) provides a concise summary of the ten policies generally associated with the Washington Consensus and usefully distinguishes those which could apply with little controversy to countries seeking to escape from or avoid macroeconomic instability from those which could be counterproductive if applied dogmatically without sufficient regard to country circumstances, appropriate sequencing etc.

<sup>16</sup> This is not to say that we know nothing more after 50 years of development theorizing! Our understanding of microeconomic relationships in developing societies is clearly much greater and our capacity to analyse what works at the household and community level has greatly improved with the sophisticated techniques of econometric and experimental analysis. At the macro level, the importance of high investment ratios seems unassailable certainly in the early stages of development; but how to attain those rates is analytically still elusive.

<sup>17</sup> Poverty assessments were supplemented by periodic development policy reviews, investment climate assessments and especially following the Wolfowitz/Zoellick presidencies, governance assessments. Knowledge assessments were not mandated as due diligence analysis; but were frequently undertaken at the behest of interested governments. This array of systematic and periodic analytic work at the country level became an important factor in the WB innovation climate.

<sup>18</sup> Such an atmosphere was not surprising considering that investment bankers had held the top leadership of the WB prior to the McNamara Presidency. See Kraske (1996) for a perceptive survey of WB presidents through Conable.

<sup>19</sup> Of course this did not prevent leaks. For example the India CPP (Country Programme Paper) appeared practically verbatim in the India press within days of its circulation within the WB. This created the anomalous



Analytic reports such as sector and country economic memoranda were distributed to the EDs but could only be released to the public with the concurrence of the subject country. In practice of course they circulated widely, especially when they served as background material for aid co-ordination meetings: but there was little dialogue with non-official stakeholders, and certainly not with the press. WB staff members were discouraged from meeting the press on the presumption that all government discussions were privileged and therefore covered by the general confidentiality cocoon.

Two developments during the 1980s began to unravel this isolation. The first was the advent of adjustment lending under the shifting paradigm discussed above. As non-project or programme lending grew in importance, the relationship between the WB and its development partners became more interdependent. First and foremost was a deeper (if occasionally fractious) partnership with the IMF and between the IFIs and the main bilateral donors whose funds were often necessary to ensure that the estimated financing requirements for the structural adjustment programmes would be in place. Project documents for Structural Adjustment Loans (SALs) necessarily incorporated the macroeconomic and sectoral analyses and projections that had previously only been circulated through the tightly controlled Country Programme Papers. The discussion of SALs by the EDs opened the door for more strategic discussions of WB country strategy. As the WB's focus on policy dialogue grew, borrowing governments also began to demand access to country strategies sufficiently upstream to make their inputs (and to be forewarned of WB thinking). Perhaps marking this change in relationship, WB staff began in the 1980s to use the term 'client' in reference to borrowers, a term which certainly signalled a shift in mind-set.

In the public arena, the opposition to structural adjustment policies by many civil society organizations created a much greater interest among the press and public in WB activities. While the WB initially resisted greater public engagement, management soon realized that both the WB's own interests and more importantly, the interest of its 'clients' would be better served by an engagement with civil society organizations and the media which would at least serve to explain the rationale for continuing reforms. The second factor coming into play during the 1980s was the growing influence, sophistication and militancy of the environment movement. WB investment projects came under increased scrutiny for their environmental impact and by the end of the decade project appraisal began to incorporate environmental safeguards systematically. This opened the door to dialogue with environmental interest groups including project beneficiaries (another term which only came into general WB parlance around 1990) and other stakeholders affected by WB projects. Although this dialogue was often adversarial, especially in the initial stage, WB management and staff became convinced that the WB's development impact could be strengthened through engagement with civil society. Over time the impact on project selection was significant leading to a diminution in lending for large-scale infrastructure projects. There was no turning back once the confidentiality cocoon started to unravel.

This was the state of play until the mid-1990s when James Wolfensohn became president. One of Wolfensohn's first acts was to initiate dialogues with some of the WB's most vocal critics among NGOs, academia and the media. Wolfensohn cajoled, badgered and bullied his senior managers to follow suit and this opened the door for a much broader engagement for

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situation in which India country strategy could be discussed publicly in India but not by the executive directors of the WB nor with Indian government officials.

all staff with a broad range of development stakeholders.<sup>20</sup> Within the WB, country strategies became the main focus of discussion at the Board, displacing the detailed discussion of individual projects on the Board's agenda.<sup>21</sup> In recognition of the now central role played by country strategies and the importance of building consensus around these strategies, WB country managers were urged and then mandated to initiate a range of consultations with diverse stakeholders. Indeed the consultation process grew to encompass the full range of WB operational activities including projects and analytical products.

Already by the 1990s, WB project and strategy documents had begun to come more systematically into the public domain. During the late 1990s the emphasis shifted from simple publication to active dissemination. To mark its recognition that 'ownership' of policy reforms and broader development strategies was crucial to successful implementation, WB terminology shifted from 'client' to 'partner'. The process of decentralization of WB staff, particularly country programme management, to offices throughout the world reinforced this change in terms of WB staff engagement through much closer day to day contact with government officials and other stakeholders.<sup>22</sup> To support this process, Wolfensohn significantly enhanced the external relations function, building a cadre of external affairs officers in all country offices. While these staff were often peripheral to the nitty-gritty of WB lending, analytic and advisory work, over time they began to play a greater role in helping to 'position' the WB in an increasingly local context and thereby strengthen the interface with key partners in civil society. This led to enhanced consultation and dissemination activities and a variety of programmes to promote engagement with local civil organizations through small grants, development marketplaces and other initiatives. At the project level, the concept of beneficiary deepened to a belief that citizen participation in project formulation and implementation could play a significant role in improving development outcomes in many sectors. By 2005, the relationship between the WB and its development partners at the government, NGO, community and citizen level had profoundly changed from the 1970s mode of operation. These changes affected all aspects of WB operations, not least the context for innovation.

### **2.3 Operational toolkit**

The WB's operational toolkit has been significantly affected by the evolution of WB development paradigms and changing terms of stakeholder engagement. During the 1970s, the WB followed a rigid project framework. The famous 'project cycle' placed primary emphasis on an appraisal process that followed a highly structured set of procedures. There was also, at least in theory, a sharp distinction between borrower and WB responsibilities. Borrowers identified and prepared projects, which were then presented to the WB for appraisal.<sup>23</sup> Appraisal was (and still is) an expensive and time-consuming effort. If the

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<sup>20</sup> Of course there were many managers and staff who were more than ready for such a change of style.

<sup>21</sup> Standard investment operations were shifted to a special procedure, which allowed their approval without individual discussion at Board meetings.

<sup>22</sup> It is no coincidence that decentralization succeeded in the mid-1990s after many previous failed initiatives in earlier decades. The IT revolution significantly lowered the cost and revolutionized the quality of co-ordination across multiple offices.

<sup>23</sup> Warren Baum in *The Project Cycle*, World Bank, 1970, laid out the conceptual framework for the project cycle most completely and authoritatively. It was operationalized in a set of detailed administrative directives and guidelines which constituted the WB Operational Manual which has been updated and modified only rarely with considerable lags to accommodate actual or desired practice. As of 2009, the core appraisal guidelines in the Manual had been drafted in 1984.

appraisal was successfully concluded, formal borrower negotiations were held (always at the WB's Washington headquarters), resulting in project legal agreements which defined in detail the financing plan of the WB and the actions to be undertaken by the borrower, most of which were covered by a plethora of legal covenants. Following negotiations, all projects were formally presented to the WB EDs for approval. Implementation was the responsibility of the borrower with the WB undertaking periodic 'supervision missions' to monitor progress, validate disbursements and fulfill its fiduciary responsibilities. This quite formal set of operating procedures, which had been developed initially to assure the WB's solid AAA credit rating, was supported and enforced by a formidable 'back office' of disbursement, procurement, legal functions whose requirements influenced the details of project formulation in far greater measure than development theory. Project and loan officers spent significant portions of their time in 'feeding the beast'. And while the fiduciary rationale for this structure was apparent, there seems no doubt that the emphasis on meeting internal WB requirements not only drew both resources and attention from building capacity for adequate fiduciary management in many borrowing countries, it also skewed the focus of innovation from results on the ground to a focus on shortcutting and improving procedures.

The WB's operational environment was significantly influenced by the prevailing interpretation of the WB Articles of Agreement, which mandated that WB lending should support productive investments.<sup>24</sup> As a result of its own interpretation of this stricture, the WB in the 1970s was in the anomalous position of being able to invest in tourism infrastructure but not in primary healthcare. Secondary and tertiary education were considered productive investments while primary and pre-school were not.<sup>25</sup> McNamara's concern about population growth brought population projects under the productive umbrella (which brought in some support to related health activities such as maternal and child health). WB finance was generally restricted to the foreign exchange component of capital expenditures, which also militated against lending to sectors dominated by 'recurrent' spending in local currency. The WB chose to support recurrent expenditures only on an exceptional basis. The Articles were also interpreted to preclude fast disbursing programme support although this was introduced de facto through financing imports linked to investment requirements. As the crises of the 1970s and early 1980s intensified, this interpretation was broadened to general import financing to accommodate the advent of structural adjustment lending. The new interpretation of the Articles hinged on the importance of structural adjustment policies measures to raise investment levels and restore growth; but for good measure also relied on the presumed BOP financing gap linked to import requirements. A key factor in facilitating the growth of structural adjustment lending was the change in disbursement regulations allowing the WB to disburse against general imports (subject to a few excluded items—the 'negative' list) rather than 'positive' lists of allowed imports that characterized the early stages of programme lending.<sup>26</sup> Without this 'innovation' in

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<sup>24</sup> WB management and its board of governors has been and continues to be very reluctant to consider amendments to Articles of Agreement resulting in Talmudic interpretations and re-interpretations as circumstances change. This reluctance presumably stems from a fear that once open to amendment the Articles could be challenged and altered in ways inimical to the WB.

<sup>25</sup> In part, these distinctions stemmed from the distinction in borrowing governments' budgets between recurrent and capital expenditures. Investments in primary education and primary healthcare drew resources from recurrent budgets while governments only borrowed to finance 'capital' expenditures that, in theory, earned a rate of return. This artifice ignored the basic fungibility of funds and logic of public choice based on social return.

<sup>26</sup> A positive list specifies precisely which imports the WB would disburse against. A negative list allowed the WB to disburse against any imports except a few prohibited items, such as armaments and other military goods.

procedure, it is doubtful that programme lending could ever have become a permanent element of the WB toolkit, at least at any significant level.

Over time the obvious fungibility of resources was increasingly acknowledged and investment rationale for BOP support broke down; but still in the early 1990s, senior WB management refused to consider institutional improvements in public finance management or in public administration as an acceptable basis for adjustment lending. Eventually the increasing sophistication of public expenditure reviews built a convincing case linking the management of public finances to economic productivity and growth. With the advent of Wolfensohn's Comprehensive Development Framework in the late 1990s, the policy basis for structural adjustment lending expanded to cover virtually any segment of the CDF that could be considered a constraint on growth. Fungibility also caught up with disbursement regulations, which eventually allowed the WB to disburse against lists of government expenditures not just imports. By 2004, the broad development rationale for programme lending was officially recognized when Development Policy Lending replaced Structural Adjustment as the official WB terminology. Nevertheless, throughout the entire period, ever mindful of the original interpretation of the Articles, the WB's operational policy and legal watchdogs continued to monitor the proportion of programme versus project lending mandating various guidelines to keep programme lending within a range generally around 20-25 per cent of both total WB lending and individual country programmes.<sup>27</sup>

During the mid-1980s, it became clear that structural adjustment was a long-term proposition that was likely to engage developing countries and the WB for the foreseeable future. Given that the main staffing strengths of the World Bank lay in its sector expertise, the development of sector adjustment programmes and loans (SECALs) was a natural development. Countries undergoing significant macroeconomic adjustment usually suffered from severe distortions in one or more sectors and the SECAL was designed to promote those policy and market reforms that could go deeper into alleviating these sector constraints. As the consensus around stable macroeconomic policies took hold during the 1990s, adjustment lending evolved into an amalgam of macro and sector policies grounded in a country policy framework (initially documented by the Policy Framework Paper and then from the early 2000s, the Poverty Reduction Framework Paper (PRFP)). Although these frameworks were intended to be country driven and owned, the input of IMF and WB staff was dominant during the initial years; however as countries gained experience and confidence with this approach (usually by the second round of PRFPs), they began to assume greater authorship and ownership. The WB also became more willing to accept diverse and, sometimes, uneven country frameworks in order to live up to its own rhetoric of putting the country in the 'driver's seat'.<sup>28</sup> To support these frameworks, Development Policy Loans and Poverty Reduction Support Credits (PRSC) became a much more flexible option for tackling a relatively few number (at least in intention) of 'binding constraints' with a focus on public sector management, governance, and institutional reforms in contrast to the focus on prices and markets that had dominated the adjustment era. PRSCs also introduced a multi-year

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<sup>27</sup> There is of course a strong development logic underpinning project lending based on learning, knowledge transfer and capacity building. The slower disbursing profile of investment projects also supports the financial structure of the WB as capital increases have become increasingly contentious. The proportion of programme lending has risen as high as 40 per cent during financial crises such as 1998 or 2009 when the WB responded with large amounts of fast disbursing resources.

<sup>28</sup> The experience of dealing with institution building in the transition countries several of which succeeded with heterodox policy frameworks also contributed to a more flexible approach.

lending frame with additional flexibility in adjusting the size of the operation to the degree of progress on the mutually agreed annual programme.

These developments in programme lending notwithstanding, investment lending continued to dominate the WB's operational toolkit, accounting for 60-80 per cent of the total lending throughout the decades. For investment lending, the Project Cycle as articulated in 1970 continued to be the standard operating procedure. This framework had been developed primarily out of the WB's experience with discrete infrastructure investments during the 1950s and 1960s, with an emphasis on the WB's financial and economic appraisal of 'off the shelf' previously prepared projects, which, if approved for WB financing, were then implemented by the borrower under a rigid legal and disbursement framework subject to semi-annual WB supervision missions.<sup>29</sup> In these projects the key decisions at the appraisal stage involved alternative engineering options and the main risks were linked to physical implementation and input/output pricing. Already in the 1970s this description was losing its general validity as WB operations responded to the new directions as laid out under McNamara's focus on poverty mitigation through rural development, agricultural growth, population, and urban management. Beginning in 1973 the WB began to undertake assessments of project performance following the completion of WB assistance; and, more or less simultaneously, the evaluation department of the WB began annual assessments of the projects completed during the year.<sup>30</sup> In 1983 when the Operations Evaluation Department (OED) completed its 10th annual review of project performance, the stock of projects being completed still largely reflected the 'engineering' model. The overall success rate was 90 per cent and 80 per cent of projects were judged to have significant institutional development. However warning signs that the prototype was breaking down were noted: a significant jump in project completion delays was linked to increasingly 'innovative' projects while a special assessment of agriculture projects during the previous decade suggested that only 50 remained viable five years after the final WB audit.<sup>31</sup>

By 1988, the cohort of completed projects under OED review revealed a marked deterioration in overall success (albeit still measured by ex post economic rates of return) with only 80 per cent satisfactory. By this time sustainability had become an explicit concern and weak institutional development, poor macroeconomic policy frameworks, and environmental linkages were identified as key impediments to sustainability. The response was to increase the procedural requirements for appraisal including assessing sector finances, undertaking environmental and institutional assessments as appropriate, and identifying and filling capacity gaps. These provisions did little in the short-term to stem the deterioration in project performance. By the early 1990s project success rates were down to 60 per cent with only 50 per cent of projects considered ex post as sustainable. The OED review in 1993 cited an across the board increase in project complexity, risk and implementation capacity demands during the 1980s as key elements in this unsatisfactory project performance. As a result the WB undertook a major initiative to improve project implementation with increased resources

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<sup>29</sup> Already in the 1970s the distinctions between WB and borrower responsibility had begun to go down with an increasing amount of preparation work undertaken jointly by the WB and borrower, largely under the rubric of 'pre-appraisal' missions. It was also conceded that project identification was a joint WB-borrower exercise in most countries.

<sup>30</sup> This process was formalized in 1975 with the establishment of the Operations Evaluation Department (OED), which reported directly to the Board of Governors (through the Executive Directors), not to WB management. The EDs also chose the head of OED. OED was renamed the Independent Evaluation Group (IEG) in 2003.

<sup>31</sup> OED, Annual Review of Project Performance, World Bank, 1983 and various years.

for supervision, stronger management oversight and reporting. This potentially represented a major shift of focus from new lending which had been the most prominent measure of WB productivity (both for staff and the institution as a whole) to improving the performance of the portfolio which offered at least the prospect of much greater development gains—a small increase in the productivity of the overall portfolio could be matched in development impact only by an implausibly large increase in the productivity of new loans.

This emphasis on increased management oversight of project implementation and on improving the quality of new projects paid off during the following decade with steady improvement in the aggregate performance of WB projects so that by the early years of the post-2000 decade, the proportion of successful and sustainable projects (as assessed at project completion by staff and reviewed by OED/IEG) rose to the levels which had characterized the portfolio 20 years earlier. This achievement was all the more notable considering the dramatic increases in process complexity during this period. The process which had begun with the first environmental assessments in the late 1980s now included a full panoply of safeguard triggers related to natural habitats, forest, pest management, physical and cultural resources, involuntary resettlement, indigenous peoples, dam safety, international waterways and disputed areas. Greater reliance on country systems in these areas as well as in the nuts and bolts of financial management and procurement has also meant much more complex preparation procedures. These developments exposed tensions between the evolving partnerships as exemplified in the CDF and improved accountability and performance of the WB's traditional project based toolkit. Among the dilemmas cited in OED's 1999 review of development effectiveness were short vs. long-term perspectives, comprehensiveness vs. selectivity, speed vs. broad-based consultation, ownership vs. conditionality, country-led vs. donor accountability.

While OED emphasized adaptive learning, flexibility, increased participation, and appropriate sequencing as ameliorative measures, WB management put increasing emphasis on developing modified project instruments—putting more tools in the kit. Sector wide maintenance and investment loans had been evolving throughout the 1990s allowing the WB and other donors to support the entire health, education or road system in a more integrated manner. Learning and innovation loans were introduced to support small pilot activities with loan amounts restricted to US\$5 million or less with approval delegated to regional management. Adaptable programme loans were designed to build a sequence of support with simple operations linked to the level of institutional development and implementation capacity. Expanding instrument choice by better matching WB lending instruments to country circumstances was viewed as the key to improved performance. However, none of these alternative instruments simplified WB loan processing, which by now was governed by over 30 operational directives. As a result, instruments which were intended to support pilot activities or the first stage of a multi-operation sequence required as intensive and detailed preparation procedures as complex programmes of policy reforms or major infrastructure construction. By 2009 WB management finally articulated and presented the case for fundamental investment lending reform to the WB Board.<sup>32</sup> The WB's analysis makes the revealing admission that the most operationally relevant innovations of the previous decades have been less related to the introduction of new products and more concerned with process and procedural modifications in the interpretation of the myriad of rules and guidelines that govern the WB's operational engagement with clients, for example in the reform of expenditure eligibility criteria, disbursement guidelines or modifications of procurement

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<sup>32</sup> World Bank (2009).

rules. This conclusion to decades of experience with WB investment lending suggests that internal WB ‘back office’ procedures have been a major determinant of WB operational effectiveness and strongly contributed to the ‘insider identification’ of staff, thereby significantly shaping the innovation climate at the WB.<sup>33</sup>

A final aspect of the WB operational toolkit that has grown enormously in importance since the mid-1990s has been the generation, dissemination and promotion of knowledge and the use of non-lending resources (grants, trust funds and other partnership mechanisms). This brought together the analytical framework promoted by Joseph Stiglitz during his tenure as WB Chief Economist (1997-2000), focusing on the development of the knowledge economy, with Wolfensohn’s recognition that the traditional financing tools of the WB could make only a limited impact on global poverty so that much greater leveraging was needed with both clients and partners using the CDF as the umbrella. Partly as a result, the WB became much more rigorous in carrying out key diagnostics at the country level, especially development policy reviews and poverty assessments, which were eventually supplemented by institutional capacity assessments in key operational areas such as financial management and procurement, and governance assessments as a first step to operationalize anti-corruption initiatives. Through dialogue with a broad range of development partners both at the country level and globally the WB started to support knowledge generation by other organizations through activities such as the small-grants programmes and the development marketplace. These initiatives opened up the WB to partnerships in which it might play only an instigating or catalytic role but which nevertheless tackled a key development objective. This development during the past decade has been a key factor contributing to the current WB innovation initiatives building on the development marketplace, open data and social networking.

This section opened with the hypothesis that as an organization with a strong ‘insider identification’, innovation by the World Bank would be greatly influenced by its own institutional parameters. Three were singled out: (i) the dominant development paradigm promoted by WB leadership; (ii) client/stakeholder engagement; and (iii) the WB’s own operational and procedural toolkit. Each of these parameters has undergone significant change during the three decades between 1975 and 2005 in the direction of greater diversity, flexibility and openness. As a result the climate for innovation has become less paradigm-driven, more based on partnerships and openness and less restricted by internal procedure. Examples of particular innovations along this path are illustratively considered in Section 3.

### **3 Examples of innovation in World Bank activities**

The selection of particular case studies and examples of innovation in WB activities is greatly influenced by the author’s experience working on India, southern Africa and central Europe. These particular examples have been chosen to illustrate the interaction of actions at the country level with the broader institutional elements described in Section 2.

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<sup>33</sup> The future of investment lending reform is still in abeyance. The Concept Note alluded to changes in the Articles of Agreement, the can of worms, which has confounded all previous attempts at reform. An example of the enduring power of the Articles to thwart some aspects of innovation may be found in the Latvia Housing Learning and Innovation Loan, which had a provision to support reverse mortgages for elderly Latvians. As a consequence of the ‘productive purposes’ directive of the Articles the Loan was not able to support those reverse mortgages, which would be used for consumption, but only those for flat renovation or improvement. This arbitrary restriction made this component of the loan unattractive to virtually all prospective clients and contributed to the cancellation of the loan by the Latvian authorities.

The following summaries provide a brief overview of particular innovations and their main characteristics and lessons:<sup>34</sup>

### **3.1 Training and visit system in agricultural extension: 1970s-1990s**

Origin—system pioneered by Daniel Benor in Israel and Turkey, observed and endorsed by President McNamara.

Dissemination—series of state level projects in India in the 1970s, spread to Africa by the end of the decade, became the main focal point of agricultural interventions and only approach to extension supported by WB. Links to agricultural research and crop-based programmes followed.

Main innovative aspects—involved the WB in institutional reforms and administrative systems as the major developmental objective (for the first time on such a major scale). System relied on rigid routine of extension activity, easily projectized and replicated with little variation across settings.

Sustainability—T&V fell out of favour by the late 1990s following the overall decline in performance of agriculture both in India and Africa.

Key institutional factors—top-down support and alignment with prevailing development paradigm of the 1970s; easily projectized and replicated through standard WB procedures; difficult to adapt to changing paradigms and accommodate increased partnership and client ownership.

### **3.2 Nutrition and early child development: 1970s-2000s**

Origin—WB staff interest initially in development economics department (operational research) and central projects staff leading to a set of working papers and policy notes. Nutrition Unit formed in mid-1970s with senior staff seconded from India Administrative Service.

Dissemination—initial nutrition project in Tamil Nadu, continued focus of internal staff advocacy and development of periodic projects especially in Latin America and to a lesser degree India.

Main innovative aspects—side-stepped traditional service delivery system; focused on mother-child interaction with first steps toward empowering women in household; supported a key intervention recognized in development and scientific literature, but not widely supported (except by UNICEF).

Sustainability—little traction beyond small core staff commitment, relatively few projects developed with the result that poor nutrition remains one of the key

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<sup>34</sup> Selected documentation concerning these innovations is included in the bibliography. There is however no general overview or evaluation of WB involvement in Roma issues.



shortcomings in the development performance of most low-income and even many middle-income countries.

Key institutional factors—largely outside the dominant WB development paradigms, difficult to projectize/replicate, no external/internal champion.

### **3.3 Social funds: 1980s-2000s**

Origin—initial idea from charismatic Bolivian leader, received unexpectedly positive assessment by WB team combining both experienced old-hands and young, enthusiastic newcomers, after which mid-level management support solidified around the initiative.

Dissemination—after initial Bolivia project, concept transplanted to Africa as staff moved; replicated rapidly in wake of concerns about social impact of adjustment, becoming a standard element of anti-poverty programmes in 1990s with alternative approaches developing in Southern and West Africa. Spread in various forms to all regions.

Main innovative aspects—demand-driven based on beneficiary community choices; short circuited normal bureaucratic delivery mechanisms with private sector management techniques (and personnel); significant internal breakthrough in allowing more flexible procurement than previously allowed by WB.

Sustainability—after mixed OED evaluation in 2002 questioning poverty alleviation efficacy, Social Fund projects virtually disappeared from WB lending to be replaced by other forms of participatory and community support projects which had developed in the wake of the initial success of social funds and subsequent link with CDF.

Key institutional factors—strong political support among clients aligned with global development paradigm of both 1980s and 1990s, focusing on stakeholders as implementers; key elements fit into replicable project framework while retaining sufficient flexibility to meet local circumstances; core of dedicated WB staff as global resource; procurement innovations set precedent for replication, overcoming WB back-office inertia.

### **3.4 Heavily Indebted Poor Country initiative (HIPC): 1980s-2000s**

Origin—Senior WB Africa management initiated global partnership to enhance resource transfer to reforming sub-Saharan countries, demonstrating need for co-ordinated approach to include debt relief/forgiveness. Coincided with internal reorganization, which brought Africa under a single vice-presidency and increased country focus in setting WB priorities.

Dissemination—Special Programmes of Assistance for sub-Saharan Africa initiated in 1987. As Africa initiative grew it coincided with global debt forgiveness campaign of 1990s that gave strong external push to WB (and IMF) to develop comprehensive approach to debt that would include multilateral write-downs (financed by partners not by WB itself). This led to HIPC initiative in 1995.

Sustainability—HIPC continues with 36 countries at the completion point in 2010.

Key institutional factors—alignment with development paradigm of 1980s and 1990s emphasizing support to policy reform initially, but shifting to focus on poverty reduction measures through resources released from debt payment; external pressure (and support) from debt relief campaigns and key bilateral partners; senior WB management support including three successive Presidents (Conable, Preston, and Wolfensohn).

### **3.5 Initiatives to improve outcomes for Roma: 2000s**

Origin—poverty assessments in central European countries identified Roma as core poor in late 1990s triggering more focused analytic work. Personal interest of George Soros through his Open Society Institutes (OSI) network boosted interest of senior WB management notably President Wolfensohn.

Dissemination—new instruments and activities such as small grants and the development marketplace brought contact with Roma organizations. Comprehensive analytic work disseminated through high-level conference in 2003 with participation of Soros, Wolfensohn, several prime ministers and other senior officials from central and south-eastern European countries.

Sustainability—2003 conference led to establishment of Roma Education Fund with WB and OSI support, which has successfully leveraged high level EU support. Conference also created Roma Decade as co-ordinating body for participating countries. Decade secretariat function is modest and rotating chairmanship relatively weak. Few WB projects/components developed and Decade has reverted to OSI for external support.

Key institutional factors—aligned with development paradigm around poverty reduction and social inclusion. Initial mid-level and senior WB management initiative received strong top down support from Wolfensohn and civil society partnership (OSI); but staff rotation weakened core team commitment;<sup>35</sup> use of knowledge tools critical in start up phase but not sufficient for sustained support without projects; engagement contributed to EU support.

## **4 Overall assessment of WB innovation climate: 1975-2005**

This overview of the climate for innovation at the WB during the 1975-2005 period suggests the following conclusions:

1. Overall the WB provided a fertile ground for potential innovation, given the diversity of country experiences, the commitment of staff and the store of knowledge; but the conditions for successful sustained innovative activities were clearly shaped by institutional parameters, including the operative development

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<sup>35</sup> Unlike social funds which spread globally through the rotation of staff, the Roma initiative was location specific, so sustainability depended on the commitment of new staff, which was much more challenging, especially following the change of senior management and WB leadership.

paradigm, the extent of client/partner engagement and WB products and associated operational procedures.

2. Innovations were initially aligned to the WB's operative development paradigm; but sustainability required flexible implementation as development paradigms evolved and changed.
3. Strong external impetus or other outside support figured in almost all successful innovations especially when linked up with senior WB management. While the continuation of external support was a supportive factor in sustainability, it was equally important to gain mid-level management and staff buy-in to ensure that innovations continued to be supported by the WB toolkit.
4. A core of dedicated and convinced WB staff was a key factor in sustained innovations—mechanisms either formal or informal needed to be in place to manage the impact of staff rotation, retirements etc. and to maintain networking around successful innovations.
5. Innovations that built constituencies among clients and partners with a focus on operational activities (going beyond the dissemination of knowledge) had greater/more extended periods of success.
6. The degree to which innovation can be projectized was a key factor in sustainability and impact. This involved different attributes as the nature of the WB operational toolkit changed, e.g. top down approaches which suited the 1970s have little chance of success in the participation-focused, more open 2000s.
7. WB procedures and back-office functions required so much intellectual energy and staff time, that ways of minimizing these or adapting them to special circumstances consumed much of the innovative 'capital' of WB staff. Based on this experience, procedural reforms enhancing flexibility and simplification could be expected to foster a stronger climate for innovation; but the track record of such efforts demonstrates that simplification and flexibility are easier to conceptualize than to implement.

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