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The World Bank in the post-structural adjustment era

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Originally created as part of a global financial architecture aimed at reducing the likelihood of global economic crisis and now situated as the preeminent institution in the broad international development community, the World Bank has witnessed tremendous transformation of its mission, structure and operations over its 65-year existence. In this chapter, we focus on the World Bank as a lender of international development funds. We first briefly describe some of the major transformations that the Bank underwent through the mid-1990s in order to set up an extended discussion of the incorporation of the ‘governance and anticorruption’ (GAC) agenda into the World Bank’s lending operations. We show how the GAC agenda emerged as the product of crises of legitimacy and effectiveness linked to the failures of structural adjustment lending during the 1980s and early 1990s. We argue that the GAC agenda remains ill defined almost 20 years after its emergence, for three fundamental reasons: (1) the challenges of creating better governing institutions in the developing world; (2) the disbursement culture that drives bureaucratic decisions within the Bank; and (3) the question of to which constituencies the Bank should be responsive.

These underlying issues are likely to colour any future transformation of lending operations that the World Bank attempts to undertake. We conclude the chapter by showing how these concerns have affected the design and are likely to affect the implementation of the Bank’s newest lending innovation, Program-for-Results (P4R) financing, introduced in 2012.

The ever-changing World Bank

From the earliest days of its existence, the World Bank has been responding to crises of legitimacy, effectiveness and relevance. In this section, we describe an early legitimacy crisis related to the fundamental question of to which constituency the Bank should be responsive and suggest that the answer to the question remains generally unresolved. Then we show how a crisis of relevance introduced major changes in the Bank’s lending operations in the 1960s and 1970s, creating the disbursement culture that underlies more recent crises of legitimacy and effectiveness.

The original arm of the World Bank, the International Bank for Reconstruction and Development (IBRD), was created at the Bretton Woods Conference of 1944 as part of the
ensemble of institutions meant to prevent another global economic crisis like that of the 1930s. As spelled out in the first section of its Articles of Agreement, the purpose of the Bank was

[to assist in the reconstruction and development of territories of members …, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.]

(IBRD 2012, Articles, art. 1)

In its earliest days, the Bank faced two crises in rapid succession: one of legitimacy and one of relevance. The crisis of legitimacy was an early manifestation of one of the World Bank’s key problems, the question of to whom the Bank is responsible. This crisis took the form of a debate over who would actually run the Bank: the country-appointed executive directors or the management staff. This issue led to the resignation of the first president and was only settled when his successor made administrative authority a precondition for his taking the position (Mason and Asher 1973, 46–50; Kapur et al. 1997; Kapur 2002). The legitimacy of the Bank’s bureaucracy as separate from—although still accountable to—its shareholders was established.

Though the issue of management linked to this initial crisis of legitimacy was resolved, the ultimate question of ownership remains. On the one hand, the Articles of Agreement are clear that the Bank is owned by shareholding countries in proportion to the amount of capital that they have pledged to the Bank, something that in and of itself creates a problem of ‘multiple principals’ (Hawkins et al. 2006). But, on the other hand, the Bank must be responsive to the governments that borrow from it. Without its borrowers, the Bank has no raison d’être, and without its middle-income borrowers, in particular, the Bank risks losing some of its financial footing. Perhaps most importantly, the Bank is also responsive to the impoverished populations living in the countries to which it lends, interests that may not directly coincide with those of their governments. That the Bank has some responsibility to a number of diverse constituencies may ultimately have contributed to the growth over time in the Bank’s mandate and operations (Pincus and Winters 2002) and to the pattern of contradictory or under-realized policy changes that has afflicted the institution (Weaver 2008).

Along with the legitimacy crisis caused by uncertainty over to whom the Bank was accountable, the Bank also faced an early crisis of relevance brought on by the progress of recovery in Europe. The Bank’s first loans were for European reconstruction, but with the advent of Marshall Plan assistance from the USA, senior officials at the Bank recognized that the organization’s future would lie in development loans to the poorer countries of the world. The Bank, therefore, began lending money to countries like Brazil, Chile and Mexico, though the lending flows were relatively slow as many of these countries were seen as repayment risks.

In the late 1950s, the creditworthiness of two large Bank borrowers, India and Pakistan, became increasingly suspect. Simultaneously, the United Nations system was considering the possibility of creating an organization that would provide development financing at interest rates well below the market rate. The World Bank president realized that the Bank needed to act or else face a crisis of irrelevance (Kapur et al. 1997, 137; Kapur 2002; Phillips 2009). Therefore, in 1960, the World Bank added a new lending arm, the International Development Association (IDA), specifically chartered to lend to the poorest countries of the world at concessional rates and also specifically having the chartered ability to finance social projects (Mason and Asher 1973, 391–94).

According to Bank historian Devesh Kapur, ‘IDA fundamentally transformed the nature of the World Bank … [making it] much less risk averse and willing to experiment especially in
sectors with a direct impact on the poor’ (2002, 56). Since IDA needed triennial replenishments
from the wealthy countries of the world, its establishment also fundamentally transformed the
ability of the USA and other donor countries to put pressure on the World Bank by creating a
regular hold-up point (Woods 2006; Babb 2009).

With the World Bank now defined by the lending flows of both the IBRD and the IDA,
over the course of the 1960s the institution became fundamentally reoriented toward poverty
 alleviation. President George Woods increased Bank involvement in the agriculture and edu-
cation sectors and began using IBRD revenues to provide additional
World Bank lending and declaring in 1973 that the World Bank’s goal was ‘a world free of
poverty’.

As the World Bank’s orientation broadened in this time period, part of the organizational
culture changed. As James Ferguson describes, there is ‘a prime institutional need of …
bureaucrats to “move money”, to spend the money they have been charged with spending, and
to put their resources into action’ (Ferguson 1994, 70, citing Tendler 1975, 88–90). Beginning
in the late 1960s and to the present day, World Bank lending decisions have been dominated by
a ‘disbursement imperative’ that gives rise to an ‘approval culture’ (Portfolio Management Task
Force 1992; see the discussion in Weaver 2008, 83–90 and Phillips 2009; see also Niskanen
1975; Easterly 2002; Hefeker 2006; Berkman 2008; Easterly and Pfitze 2008). World Bank
operational staff are rewarded for making loans, that is for moving money out the door.
Development impact is difficult to measure, whereas dollar amounts are indisputable; therefore,
it is easy to base professional sanctions and rewards on whether loans are made or not.

Although definitive of the decade following McNamara’s departure from the Bank in 1981,
it was under McNamara’s presidency that the Bank embarked on a programme of structural
adjustment lending. Under McNamara, Bank commitments had increased tremendously, but
actual loan disbursements were lagging behind: projects were approved, but the money was not
making its way from Washington to the borrowing countries (Sharma forthcoming). Beyond
this, even where money was being disbursed, development progress was not following. Some
senior Bank officials believed that this lack of development progress was due to the lack of
policy reform in borrowing countries (Kapur et al. 1997, 507). In terms of both of outputs
(disbursements) and outcomes (development), the Bank was facing a crisis of effectiveness.
Structural adjustment lending provided a solution to both parts of the crisis: new loans would
be large and fast-disbursing, and they would be brokered in exchange for a commitment to
policy reform rather than with the goal of financing specific investment outputs. The balance of
payments and debt problems affecting oil-importing countries after the 1979 oil crisis provided
an external material environment in which there would be eager customers for this new lending
stream (Woods 2006).

The neo-liberal economic policies contained within structural adjustment programmes
marked ‘the death knell for the Bank focus on poverty’ (Kapur et al. 1997, 333) and, in many
ways, the unmaking of the McNamara bank of the 1970s. During the 1980s, the Bank came to
strongly recommend ‘the retreat of the state from economic life and the opening up of eco-
nomic activity … to the free play of market forces’ (Mosley et al. 1991, 23–24). Adjustment
lending increased from 7% of total lending in the 1980–82 period to 26% of lending in the
1987–90 period, while the average number of policy conditions per operation went from 34 to 56
(Kapur et al. 1997, 520–21).

The Washington Consensus policy conditionality found in structural adjustment lending was
meant to improve the basic macroeconomic policies in developing countries in such a way that
development assistance in general would promote growth more effectively. However, by the
early 1990s, the World Bank faced a new credibility problem: the link between structural adjustment and economic growth was proving tenuous at best, while the alleged negative externalities to structural adjustment policies were being well publicized by civil society (Mosley et al. 1991; Killick et al. 1998; Easterly 2005; Abouharb and Cingranelli 2007).

Structural adjustment came under fire from many different directions and for many different reasons. Civil society had become critical of the lack of democracy and transparency within the World Bank, and it labelled the Bank as forcing unwanted policy changes on borrowing countries and the people of those countries (Rich 1994; Stiglitz 2002; Wade 2002; Williams 1990; Woods 2006). The austerity measures called for in structural adjustment programmes were quite unpopular in countries where they were implemented (Nelson 1990; Walton and Ragin 1990), and in some cases, the battle over their implementation appears to have led to government repression of citizens (Abouharb and Cingranelli 2006). The distributional consequences of structural adjustment programmes seemed to fall largely on the poor, further costing the Bank political support (Rich 1994). Austerity programmes often lead to public spending cuts in areas that not only served the poor but that could, in fact, facilitate development, such as education (Jones 2007).

Beginning in the early 1990s, a series of academic studies about the successes and failures of structural adjustment coalesced around the idea that, where structural adjustment had not been successful in terms of spurring economic growth, the lack of results could be attributed more to failed implementation than to failed design (World Bank 1989; Mosley, Harrigan and Toye 1995; Killick et al. 1998; World Bank 1998; Dollar and Svensson 2000; Svensson 2003). Borrowing countries either did not fulfill the conditions specified in the programmes or else fulfilled them in ways that allowed for bureaucratic box-checking but that did not adhere to the true intent of the conditions. Nonetheless, because of the ‘culture of loan approval’, the loans kept coming (Easterly 2005).

The idea that the shortcomings of structural adjustment were caused by the failure of borrowing states to implement reform policies overlapped with the emergence of the new institutional economics (Fine 2001; Weaver 2008; Engel 2009). This literature argued that markets were at their most effective when they were embedded in particular types of institutions that reduced uncertainty and guaranteed property rights (North 1990). The confluence of the crisis of legitimacy surrounding structural adjustment programming and the discursive environment of the new institutional economics set the stage for the World Bank to embrace governance and anti-corruption programming in the mid-1990s.

**Governance and anti-corruption programming at the World Bank**

As the shortcomings of structural adjustment programming became apparent, the World Bank, picking up on the innovations of the new institutional economics, began referencing the quality of governance institutions as the key variable explaining why development assistance had not had its intended effect. This created a perceived need for action on the issues of governance and corruption (Miller-Adams 1999). In this section, we discuss the translation of this perceived need into action, describing the Bank’s efforts in the 1990s, the 2000s and the 2010s to alter its lending in ways that responded to governance and corruption. We conclude that the GAC agenda, after 20 years, remains fundamentally challenged. In the following section, we examine the latest lending innovation at the Bank, Program-for-Results financing, in light of the challenges that GAC-based lending has faced.

Although poor governance was seen as a hindrance to economic growth even during the McNamara years (Kapur et al. 1997, 478), the World Bank was constrained in terms of action...
until the 1990s. First, the IBRD Charter prohibits interference in the political affairs of its members. During the Cold War, the developed-country principals at the Bank often had incentives to promote the continued flow of money to poor-governance regimes so long as they were on the right side of the global political divide. This combination of juridical and geostrategic constraints was such that even discussions of corruption were swept aside as violations of the apolitical constitution of the Bank.

In the early 1990s, the Bank began to think more openly about recipient government institutions. In 1991, the Bank’s general counsel ruled that governance issues could be discussed and funded to the extent that they were driven by economic motives (Weaver 2008, 106). Japan used trust fund financing to underwrite the East Asian Miracle study (World Bank 1993), which pushed back against the structural adjustment era’s emphasis on market dominance and the retreat of the state. This document broadened the discourse surrounding the types of state institutions best suited for promoting development.

It was Bank President James Wolfensohn’s speech at the 1996 annual meeting, in which he denounced the ‘cancer of corruption’, that is taken as the signal moment for the emergence of the GAC agenda at the Bank. The following year, the Bank published a key report on combating corruption. The 1997 Strategic Compact included an increase in positions for financial managers and procurement specialists who would look for and try to prevent corruption within projects. Wolfensohn created a special investigative unit that became the Department of Institutional Integrity (Weaver 2008, 123). From around 17% in 1995, governance-related lending as a proportion of total IBRD/IDA commitments rose to 27% in the late 1990s (IEG 2011, figure 1.1).

In terms of both the internal mechanics of lending operations and in the sectorial distribution of such operations, the GAC agenda was being rapidly mainstreamed within the Bank.

In 2000, the Bank published a new strategy for Reforming Public Institutions and Strengthening Governance. It explicitly called for ‘moving institutional development and capacity building to center stage’, emphasizing the reform of core administrative bodies, the civil service, tax administration, public enterprises and legal and judiciary bodies (World Bank 2000, xi–xiii). The report acknowledged the need for country-specific responses, a longer-term lending vision and new skills among staff (World Bank 2000, xiii). The Bank also formalized the Department of Institutional Integrity, incorporated governance measures into its Country Policy and Institutional Assessment index used to allocate IDA funding (see the discussion in Winters 2010), began including anti-corruption plans in Country Assistance Strategies and began producing what are now known as the Worldwide Governance Indicators.

Paul Wolfowitz’s arrival as World Bank president in 2005 intensified the emphasis on governance and anti-corruption; the development of an institution-wide GAC strategy became his ‘signature program’ (IEG 2011, xi). Taking a very hands-on approach, Wolfowitz used the Bank’s strongest weapon, cancelling or withholding loans in at least nine recipient countries (Weaver 2008, 131), including from Chad in the well-known case of the Chad–Cameroon Oil Pipeline Project (Gould and Winters 2007). The GAC agenda was now driving new lending flows and also the suspension of lending flows.

Wolfowitz’s strategy of suspending lending materially confronted the Bank’s disbursement culture, raising concerns among some staff members. Some European donors saw Wolfowitz’s application of punishments as arbitrary and questioned the efficacy. In addition to this ideational challenge, China materially threatened to halt future borrowing if Wolfowitz did not curtail his anti-corruption crusade and his plans to bypass lending to certain governments (Weaver 2008, 134–36; Phillips 2009, 131). Ultimately, Wolfowitz’s crusade was undone by the special treatment of his significant other as a Bank employee, and he was forced to step down as president three months after the Board of Directors had formally approved a new GAC strategy.
The 2007 GAC strategy document announced that GAC programming was essential to the World Bank’s mandate to reduce poverty. In an explicit reaction against Wolfowitz’s hard-line tactics, the strategy said that the Bank must seek ‘creative ways of providing support’ in poorly governed countries in order to avoid ‘mak[ing] the poor pay twice’ by cutting off funding (World Bank 2007). The document outlined the principles of consistency in operational decisions, supporting country ownership of GAC programming and engaging with a broad range of stakeholders. Building on the international aid effectiveness dialogue expressed in the 2005 Paris Declaration, the document said that the Bank would ‘strive to strengthen, rather than bypass, country systems’ and work to harmonize its programming with other donors (World Bank 2007).

At the same time, the strategy document and the subsequent implementation plan (OPCS 2007) reveals that the tensions in the World Bank’s pursuit of the GAC agenda had not been resolved after 10 years; they remain unresolved today and, as we will show in the subsequent section, appear as tensions also in the World Bank’s latest lending innovation. First, since there is no clear technical roadmap for improving governance, the strategy document lacks an actionable definition of ‘good governance’. There is also a lack of a clear results chain for achieving governance goals. Second, the preference for continued lending in poor-governance situations represents an overly easy compromise with the Bank’s disbursement culture. Third, related to the question of the ownership of the World Bank’s mission, there is an (acknowledged) incompatibility between the Bank’s commitment to fighting corruption in projects that it funds and the Bank’s commitment to strengthening country systems.

In order for an international institution to support governance and anti-corruption, the first precondition is a definition of what these concepts mean. The 2007 strategy defines corruption as an abusive action and provides specific examples of corrupt behaviours (World Bank 2007, 4). Governance, on the other hand, is defined as ‘the manner in which public officials and institutions acquire and exercise the authority to shape public policy and provide public goods and services’, a definition that provides no obvious prescriptive direction for action. Whereas the definition of corruption indicates how an observer would know whether levels of corruption are improving (that is there would be lower levels of bribery, patronage, nepotism, theft and diversion), the definition of governance provides no such guidance (Miller-Adams 1999).

The technical challenge of creating good governance is an enduring problem and one that not only the World Bank faces. It is undeniable that there is a strong correlation in the empirical evidence between broad measures of good governance and economic development; the World Bank, like many scholars, accepts the claim that good governance causes economic development (Knack and Keefer 1995; Barro 1998; Acemoglu et al. 2001; Rodrik et al. 2004). Yet, for all of the talk about the importance of good governance in both the academic world and the world of development practitioners, there are few concrete suggestions about how to bring it about.

This should not be a surprise. There is no teleology by which rapacious state institutions that specialize in securing rents for vested interests and extracting surplus from a weak citizenry evolve into accountable and responsive state institutions that excel in service delivery and welfare provision. Rather, some sort of shock to the system is necessary, and then the form of change that affects the institutions in the system will reflect the array of power and interests within the system (Collier and Collier 1991; Greif and Laitin 2004; Acemoglu and Robinson 2006, 2012).

Structural adjustment lending, for all of its failings, had an intellectual foundation that prescribed specific actions: government policies on trade, subsidies, exchange rates and state-ownership of businesses that can be changed directly. There may be unanticipated political
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obstacles to enacting the relevant legislation or ex post implementation problems, but the mechanics of shifting from de jure high tariff barriers to lower ones are not themselves a mystery. However, since social scientists have not yet been able to specify the mechanics for creating good governance, the World Bank embarked on a mission of generating good governance without a clear roadmap of how to do so.

Because of this, 10 years into the GAC era, it was clear that the anti-corruption part of the agenda was much better defined than the good governance part of the agenda. This remains true today. The superior clarity of what corruption is and how to combat it makes it easier to set goals with empirical indicators and create operational policy that helps achieve those goals. The Bank’s support for good governance has been conceptually constrained throughout the life of the GAC agenda, and the tensions between the principals whom the World Bank seeks to serve only exacerbate the difficulties. According to the 2011 IEG evaluation, “[T]he strategy defined “GAC” too loosely to be coherent … enabling the Bank to satisfy various external constituencies but … also allowing numerous Bank units to legitimize their disparate agendas and vie for scarce internal resources” (IEG 2011, 26, citing Weaver 2008).

Similarly, the strategy lacked a clear results chain by which certain inputs led to World Bank outputs that facilitated the intermediate outcome of improved governance in pursuit of the long-term outcome of poverty reduction (see the discussion in IEG 2011, ch. 2). Therefore, the implementation indicators discussed in the strategy and implementation plan focused mainly on things that the Bank was doing (i.e. outputs), rather than focusing on the manifestation of country governance itself (i.e. outcomes). This lack of vision with regard to how certain World Bank activities and products translate into changed governance made the 2007 strategy less effective than it could have been in terms of providing operational direction for World Bank lending. The IEG evaluation blamed this lack of a results chain for the fact that, ‘by the end of its third year, [the strategy’s] original goal of making systematic and time-bound improvements in the GAC responsiveness of operations was no longer widely recognized by key staff’ (IEG 2011, xix).

Second, the 2007 GAC strategy included an easy compromise between the harsh Wollf-witizian tactics of interrupting lending and the Bank’s lenient disbursement culture: the Bank simply committed to remaining engaged in poor-governance countries. The imperatives of disbursement culture were more broadly reflected in the focus of the 2007 strategy on World Bank outputs. As described in the 2011 evaluation, the implementation plan focused primarily on ‘training Bank staff and augmenting the Bank’s budget’ and then on communicating these ‘GAC efforts rather than [the] delivery and documentation of governance results’ (IEG 2011, 31)—that is, on communicating outputs rather than outcomes. As Jeffrey Winters expressed 10 years earlier, the World Bank suffers from ‘an institutional compulsion to respond [to corruption] in ways that tend to generate additional lending and require the provision of expensive technical expertise’ (Winters 2002, 103). This problem is widely accepted within the Bank: nearly 50% of World Bank staff agree with the statement that ‘the Bank’s lending imperative conflicts with its ability to implement the GAC strategy’ (IEG 2011, xvi).

Third, the strategy is challenged to resolve the tension between protecting Bank resources and using country systems. The document notes that the Bank ‘has a fiduciary obligation, enshrined in its Articles of Agreement, to ensure that its funds are used for their intended purposes’ (World Bank 2007, ii). This responsibility—while important—leads to a desire within Bank operational units to ‘ring-fence’ projects, that is, to seal them off from potentially corrupt country systems by establishing parallel implementation, monitoring and auditing structures. The strategy itself acknowledges that ring-fencing is ‘a straightforward way of addressing fiduciary risks’ (World Bank 2007, 24).
Introducing fiduciary protections into investment operations comes directly into tension with improving country systems through alignment with them. According to the IEG review, Bank staff receive ‘mixed messages on GAC’: “even though [use of country systems] was a core GAC principle, the evaluation found that the perceived risk of complaints to the Integrity Vice Presidency and the possibility of ensuing investigations encouraged ring-fencing of Bank projects” (88). The likelihood of negative professional consequences linked to easily identifiable manifestations of corruption in a single project is much greater than the likelihood of professional rewards for using country systems, where it will be much more difficult to attribute improvements in those systems to a particular instance of usage.

This emphasis on the fiduciary protection of projects is representative of the extent to which the GAC agenda has been light on ‘G’ and heavy on ‘AC’. Having combined its mission to improve governance with a more specific anti-corruption mission, the almost obvious result is that ‘GAC efforts have focused on measures to enhance the integrity of transactions in Bank investment projects’ (IEG 2011, 52). The Bank has done exactly what it is most capable of doing: monitoring and auditing specific fiduciary transactions and punishing fraud when it is revealed. Results from an IEG survey show that World Bank staff are 10 percentage points more likely to say that ‘GAC-in-projects’ material is relevant or usable than they are to say that ‘GAC-in-countries’ material is (IEG 2011, figure 5.1). Therefore, the choice between project-specific measures and the use of country systems ends up being heavily weighted: take the clear and obvious steps to prevent corruption rather than expose resources to fiduciary risks for abstract and imprecise institutional-strengthening goals.

When it comes to having clear plans for reducing overall corruption within countries, the World Bank again has been constrained—for purely intellectual reasons, to begin with. According to the 2011 evaluation, the Bank has focused its support on supreme audit institutions and anti-corruption bodies, but the ‘impact [has been] heavily dependent on the independence and political composition of legislatures’ (IEG 2011, 92). Where committed reformers exist and have power, the Bank has been able to support good governance institutions.

Ultimately, the World Bank is faced with an unavoidable dilemma when it comes to its assumed mission of creating better governing institutions in the developing world. All alternatives ultimately harm one or more key constituencies. The Wolfowitzian approach of withholding funds from states that do not practice good governance helps to ensure that World Bank monies are well spent but limits the potential impact that the World Bank can have on providing immediate help for the world’s poor. Additionally, unless the loans withheld create enough instability that the recipient government fears for its continued existence, it is unlikely that this approach will lead to meaningful changes in governance outcomes. An approach of bypassing corrupt governments may benefit both lender states and the poor, but it still leaves borrowing states unsatisfied and does little to help bolster institutional capacity. There is always the option of tolerating poor governance in the hopes that development will spur governance growth in and of itself, but institutional imperatives aside, the reigning academic wisdom suggests that economic growth is unlikely to happen in poor governance situations.

The latest innovation at the World Bank: Program-for-Results financing

As is standard when the Internal Evaluations Group issues a report, World Bank management produced a response to the findings of the 2011 IEG evaluation of the 2007 GAC strategy. In responding to the recommendation that management update the Bank’s approach to institutional strengthening, management noted the ongoing development of ‘a new results-based lending instrument that will finance the delivery of results in many of the critical areas listed by
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IEG’ (IEG 2011, xxxi). The lending instrument in question was Program-for-Results (P4R) financing, approved by the Board of Executive Directors in January 2012—the first approval of a new type of lending instrument since the introduction of structural adjustment lending in 1980.

The push to create P4R originated in crises of effectiveness and legitimacy facing the entire development industry. The discourse of the global aid effectiveness movement establishes country ownership of programming as its first principle, and then alignment and the use of recipient country systems as its next key principles. By paying countries for development results that have been achieved, P4R can be seen as more legitimate and more effective than traditional foreign aid lending instruments.

Although clearly driven by much more than the desire to implement the GAC strategy, World Bank staff have consistently emphasized P4R’s institution-building benefits in talking about the instrument. However, the three fundamental problems in the Bank’s GAC programming are equally detrimental both to P4R’s institution-building mission and to its more general development mission. Though the newness of P4R limits our ability to discuss its implementation, we observe that P4R is unlikely to offer a solution to these problems. We look at some of the ways that the problems have manifested themselves in the drafting of P4R, consultations surrounding P4R, and the first P4R loans.

The Program-for-Results instrument occupies a middle position between the World Bank’s policy lending, which disburses against policy or institutional reforms, and its investment lending, which disburses against within-project expenses. P4R projects disburse against the achievement of specific indicators. In other words, P4R funding is intended to be an after-the-fact financing for programmes that a country has undertaken after initial agreement with the World Bank. Such results-based financing has been promoted as a form of foreign aid that induces increased accountability and, therefore, effectiveness (Mumssen et al. 2010; Birdsall and Savedoff et al. 2011; for a somewhat more sceptical view, see Pearson et al. 2010).

In the 1990s and 2000s, Bank staff had tried to do programmatic, results-based lending using either the investment- or policy-lending instruments, but they were limited with those instruments. Specifically, investment lending’s strict procurement restrictions made it difficult to finance projects in an output-based fashion. This led to ‘project designs … biased toward activities that are easier to accommodate within the current Bank procedures rather than being primarily driven by delivering maximum results’ and also to ‘cherry-picking’ specific financeable activities rather than focusing on ‘the effectiveness and efficiency of the entire program’ (OPCS 2011, 8). As the concept note for P4R says, this ‘“muddle-through” approach [resulted] in inconsistent and selective application of programmatic approaches … with missed development opportunities and significant frustrations to borrowers and Bank staff’ (OPCS 2011, 36). OPCS Head Joachim von Amsburg said that many borrowing countries considered P4R to be ‘a long-overdue innovation’ (CGD 2012).

Consultations in which the World Bank engaged with stakeholders during the development of P4R revealed dissatisfaction with many elements of GAC that the World Bank was attempting to address with a more results-based programme. Acknowledging the difficulties of building better governance institutions in the developing world, the World Bank routinely pointed out that capacity-building was a key part of P4R (World Bank 2011a, 2011b, 2011c, 2011d), and that they ‘had a good sense of what had not worked in the past with respect to capacity building and felt [P4R] had a much better chance of success’ (World Bank 2011a, 3). In principle, P4R’s results-based focus also addressed a key criticism brought up in the 2011 IEG evaluation of GAC: the issue of rewarding outputs rather than outcomes. The World Bank noted that the kind of results-based lending that is undertaken with P4R provides a greater opportunity to focus on capacity-building than the output-based lending that has taken place
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under the investment lending instrument (World Bank 2011d). Thus, while not a replacement for investment lending, nor the procedures and safeguards used in those projects, P4R’s construction addressed some of the key criticism levelled against GAC lending’s ability to catalyze meaningful institutional change.

Despite significant support from within the World Bank for P4R, some external voices were more sceptical. NGOs worried that P4R funding could be used to finance interventions that have serious negative environmental and social consequences. These NGO concerns influenced the most important shareholder country at the Bank, the USA. The US Treasury Department issued a position paper arguing that P4R be rolled out gradually and with projects triggering the highest level of safeguard alerts excluded from the instrument (United States Department of Treasury 2012). The Bank agreed to these limitations, restricting P4R financing to no more than 5% of Bank lending in its first two years and excluding projects rated ‘Category A’ under the Bank’s safeguards system. (The restriction on the volume of lending will prevent a meteoric rise in commitments like that seen in the early 1980s after the creation of structural adjustment lending.) In addition, the Bank reserved the right of the Integrity Vice Presidency to investigate ‘all allegations of fraud and corruption in the entire program supported’ (OPCS 2011, 48; Nancy Birdsall describes these outcomes as a compromise in CGD 2012).

In general, the presentation of P4R was such that it was complementary to the aid effectiveness discussion in the broader development environment. The instrument necessarily uses country systems, since World Bank financing arrives ex post. In addition, the new instrument was presented as complementary to the GAC strategy. P4R is supposed to ‘support government programs using the program’s institutions and systems, thereby building their capacity’ (OPCS 2011, 43). In addition, the Bank’s concept note argues, ‘Linking Bank financing to verifiable results is itself an indicator that funds are used appropriately. … [T]he verification protocols for [results] will assign clear accountability, the disclosure of program results will increase transparency’ (OPCS 2011, 46).

Both in terms of aid effectiveness and building good governance, P4R seems soundly oriented. However, the three fundamental problems that have affected the progress of the GAC agenda are equally likely to affect the progress and development effectiveness of P4R.

First, the notion that the use of country systems is a means to improve governance is incomplete, belying the lack of a technical roadmap for governance strengthening. Use alone will not improve corrupt or low-capacity institutions. The Bank recognizes this and states, ‘A priority area for both preparation and implementation support will be to strengthen the capacity of the institutions to implement the program’ (OPCS 2011, 9), which might happen either through direct technical assistance or else by incorporating governance results into P4R lending (OPCS 2011, v, 15). But, as with the GAC agenda overall, this is much easier said than done.

Aware of the risks entailed in using country systems, the concept note specifies that P4R operations need to be preceded by a technical assessment, a fiduciary systems assessment, an environment and social risks assessment and an integrated risk assessment. In other words, P4R operations will use country systems but only after thorough review of all aspects of those systems. In the words of Nancy Birdsall of the Center for Global Development, this risks making P4R lending ‘investment-lending-plus’ (CGD 2012).

In June 2012, the Bank’s Executive Board approved the first two P4R operations. One loan to Morocco was the extension of the National Initiative for Human Development, a community-driven development programme that operates largely through civil society organizations, with government systems providing monitoring and auditing functions. The other loan, to Nepal, was for a Bridges Improvement and Maintenance Program. All financing from the World Bank within the loan will flow through Nepal’s own country systems, such that the
‘Department of Roads will see no difference between [Government of Nepal] funding and the Bank’s support’ (World Bank 2012b, 6).

Within the loan to Nepal, 55% of funding will disburse against maintenance activities undertaken by the Department of Roads, 30% against construction and upgrading activities and 15% against performance management. The three disbursement-linked indicators (DLIs) for the capacity-building objectives of the loan have clear goals, providing some insight into how the Bank will undertake governance programming in the context of P4R lending. Performance management will be measured by the percentage of works completed on schedule. Asset management will be measured by the number of districts in which a new bridge management system is operational and by the percentage of the strategic road network that is surveyed annually. Institutional effectiveness will be measured by the development of a grievance mechanism in the first year and the production of reports on complaints and subsequent actions over the next four years (World Bank 2012b, table 2).

On the one hand, these indicators are relevant, clear and, prima facie, demanding. In order for the loan to disburse against asset management, the Department of Roads must roll out the bridge management system over two years and then survey 20% of the strategic roads network each year over the next three years. To disburse against performance management, the percentage of works completed on schedule needs to steadily increase each year (although the DLI demands only a 50% on-time completion rate in the final year of the project). On the other hand, the institutional effectiveness DLI does not explain how it will measure the value of the report on complaints or the value of the actions reportedly taken against fraud and corruption.

This is not to say that these GAC-related DLIs are not capable of helping improve capacity within the Department of Roads in Nepal. If the DLIs are taken seriously by individuals in the highest ranks of the Department of Roads and the Ministry of Finance, they may very well create the right incentives to catalyze performance improvements within the relevant agencies. As compared to the DLIs linked to performing maintenance bridges, however, the outputs in the governance-related DLIs are necessarily more subjective and more susceptible to interpretation.

With regard to the second fundamental tension within the Bank’s GAC programming, the disbursement culture that drives bureaucratic decision-making in the Bank risks quickly introducing a number of pathologies into P4R lending. Nancy Birdsall raises several points on how World Bank staff might react to the new instrument. First, because results will take time to appear, there may be a disincentive for task team leaders to support projects where there is a risk of disbursement being delayed for a number of years until the government has found the best way to meet targets. This would limit the necessary policy experimentation in which governments should engage (CGD 2012). More importantly, disbursement incentives threaten to undermine the results focus of P4R:

[The big question is will the Bank disburse when there isn’t a result that has been agreed? …] Will it disburse in a sensible way proportionally if results are half-achieved, or will there be, once again, the pressure to disburse annually, as planned? (CGD 2012)

The Technical Assessment of the P4R lending to Morocco discusses disbursing funds in a manner commensurate with achievement. The document describes how achieving only 60% of a result would result in a payment of only 60% of the agreed upon amount for the relevant DLI (World Bank 2012a, 48).

In addition, task-team leaders may have incentives to build too many indicators into projects so that they will always be able to find accomplished targets against which they can
disburse—similar to what often happened in structural adjustment loans (CGD 2012). The P4R loan issued to Morocco does little to assuage this concern; there are a total of nine ‘disbursement-linked indicators’ included in the project, the disbursement against each of which ranges from 7% to 13% of the value of the loan.

Another aspect of P4R suggestive of the new instrument not offering a solution to the problems of disbursement culture is the way that the World Bank chose to handle the issue of verification. P4R does not require the mandatory use of third-party verification of results. Allowing the same World Bank bureaucrats that are rewarded for disbursement to assess results creates the concern that assessments will be done in a way that allows for a greater amount of disbursement.

Third, the question of to whom the World Bank should be most responsive remains. If the World Bank exists to provide financing for borrowing countries, then P4R projects are likely to include indicators against which it is easy for the World Bank to disburse. If the World Bank exists to improve the lives of impoverished populations in borrowing countries, then it perhaps must truly demand the achievement of results before disbursement. (The counterargument, however, is also logical: if the government uses up resources on a programme that it expects the World Bank to disburse against, the resulting budget shortfall from non-disbursement may harm the poorest, such that the World Bank should disburse the money despite the lack of results.) If the World Bank exists to serve the interests of its major shareholders, then P4R provides a convenient mechanism through which the Bank can support the programming of other donor nations. However, some donors explicitly worry that P4R might weaken the Bank’s environmental and social safeguards (United States Department of Treasury 2012; World Bank 2011h); borrower governments, such as Argentina, on the other hand, bristled at the idea that World Bank safeguards should apply to projects being financed from their own coffers (World Bank 2011f, 2011g).

Other results-based programmes

Program-for-Results financing is representative of a number of results-based initiatives within the Bank that attempt to address the crises of legitimacy and effectiveness being faced by development institutions. In line with the general move in development economics toward rigorous impact evaluations conducted in the field (Banerjee and Duflo 2011; Karlan and Appel 2011), the World Bank created the Development Impact Evaluation Initiative (DIME) in 2005 and re-launched it in 2009. DIME funds impact evaluations within World Bank projects; as of mid-2010, DIME had contributed to 170 completed and 280 active studies across 72 countries (Legovini 2010). DIME is explicitly aimed at generating knowledge about the effectiveness of development programming and policies, and thereby responds to concerns about the effectiveness and legitimacy of the World Bank as a development institution.

The data underlying some of the DIME evaluations, like much other data collected or produced by the World Bank, has been made available through the Bank’s website. The Bank embarked on the Open Data initiative to allow anyone in the world easily to ‘find, download, manipulate, use, and re-use the data compiled by the World Bank, without restrictions’ (World Bank 2010). As of the end of 2012, there were 8,000 time-series indicators, 850 datasets about World Bank financing, data from 11,000 World Bank-funded projects and 700 survey datasets available (World Bank 2013). Making its data on development available to the public helps the Bank to respond to critics who say that it is non-transparent or undemocratic: both data on specific World Bank operations and also data that the World Bank has collected for academic purposes can now be examined. Ultimately, then, the World Bank hopes that this data
openness will lead to development innovation through crowdsourcing, answering a crisis of legitimacy with an initiative that potentially also addresses its crisis of effectiveness.

Conclusion

In this chapter, we have provided a historical overview of major changes in the structure of lending at the World Bank, focusing in particular on the evolution of the governance and anti-corruption programming that became a main pillar of the Bank’s agenda in the mid-1990s and also the new Program-for-Results instrument. Change and innovation within the Bank have been driven by periodic crises of relevance, effectiveness and legitimacy. But fundamental tensions underlie the changes that we have discussed in this chapter, and these tensions eventually will result in new concerns about the continued relevance, effectiveness and legitimacy of the Bank as the world’s premier development institution.

We have highlighted three internal tensions. First, the lack of a clear roadmap for improving governance has stunted the governance component of the GAC agenda and means that the pathways by which P4R lending will improve governance are unclear and perhaps overstated. Second, the disbursement culture at the Bank has led to GAC lending that focuses on measurable outputs and has constrained the Bank’s ability to use the suspension of lending as a tool. This disbursement culture also threatens to dilute the effectiveness of P4R lending by undermining the incentive structures that are core to the success of the new instrument. Finally, the Bank remains beholden to multiple masters. Depending on whether it is responding to the developed country governments that supply IDA financing and hold the majority of voting shares within the Bank, or the developing country governments that borrow from the Bank, or the developing country populations that are supposed to benefit from the Bank’s programming, the World Bank is pulled in different directions. This makes it easy to argue instrumentally for or against increased use of country systems, for instance. This again has affected both the implementation of the GAC agenda and looms over the implementation of P4R projects.

Though the World Bank has struggled and will continue to struggle with the problems of building better governance institutions in the developing world, its own disbursement culture, and the issue of to whom the Bank is accountable, the institution has on the whole been an important and positive actor for international development. However, more can be done by the Bank to limit the pernicious effects of the enduring problems that we have identified.

Within P4R, the use of third-party verification is one way to limit the impacts of disbursement culture. By ceding verification of results to a neutral party, the World Bank should be able to limit the incentive that bureaucrats have to disburse against results that have not been achieved. If the culture of loan approval is successfully mitigated, this could also lead to disbursement only after country systems have improved, as states that lack good governance are theoretically the least likely to achieve DLIs, even if those DLIs do not relate directly to governance outcomes. Additionally, allowing state participation in the process of specifying DLIs creates greater opportunities for country systems to be used effectively without creating counterproductive strains on the capacity of institutionally weaker states. Greater participation, both by developing states and by non-state actors, is a trend that helps ensure World Bank accountability to all of its stakeholders. While the World Bank may always face the dilemma of to whom it is accountable, the World Bank’s efforts to encourage greater participation facilitate the Bank’s balancing of the desires of the stakeholders as judiciously as possible.

Despite the concerns that we have raised, we ultimately believe that the changes at the World Bank in the post-structural adjustment era have been for the better. The emphasis on anti-corruption has introduced new safeguards and monitoring into Bank projects. A results-based
lending stream provides opportunities for the World Bank to assist in creating incentive structures that bring about development success in borrowing countries. The continued (and sometimes increased) use of the World Bank in the post-structural adjustment era speaks to the fact that there are developing and middle-income countries that want to take advantage of the Bank’s services (Winters 2011). The World Bank remains a vibrant and integral part of the global financial architecture.

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