The World Bank in the Nineties

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Tempora mutantur, et nos mutamur in illis. “Times change and we change with them” is not a new adage. More global changes have probably taken place in the last few years than at any time since World War II. The scourges of that war led visionary men and women to envisage a new world of peace and prosperity underpinned by the United Nations and its specialized agencies, including the Bretton Woods institutions. By contrast, most of the world’s recent transformations seem to have occurred by way of reaction, rather than by the deliberate design of great visionaries. They also aspire, however, to establish a new world order of peace and prosperity.

The World Bank and the affiliated institutions it helped create have played an important, although at times controversial, role in leading economic development in the changing world of the last 50 years. This group of institutions (the World Bank Group) has yet to play an even greater role, and certainly one that will not be free from controversy either, if shared prosperity among all nations is to become the primary global goal, that is, if worldwide development that does not harm the environment is to be broadly recognized as the first challenge presently facing the world community.

Such a challenge would have required the establishment of a world institution with the capacity to harness financial resources and accumulate developmental knowledge and experience, if no such institution already existed. The World Bank has already supported over 6,600 operations in 140 countries with more than $360 billion and has become the largest center of research on development economics. Notwithstanding any shortcomings it may have, the World Bank is clearly the most qualified institution to meet this global challenge.

Recent changes in the World Bank have been pervasive, notably those covering its membership, operations, internal structure, and even its own culture.

Membership

The Articles of Agreement of the International Bank for Reconstruction and Development (IBRD) were originally open for signature on behalf of 45 countries. These included the then four independent countries in the
continent of Africa (Egypt, Ethiopia, Liberia, and South Africa), and five countries in Asia (China, India, Iran, Iraq, and the Philippines). The rest were countries in Europe and the Western Hemisphere.

The IBRD began its operations in mid-1946 with 38 member countries, including only 9 countries from Africa and Asia. At its inception, the IBRD was thus mainly a "Western" institution, both in its membership and geographic orientation. Its early loans went exclusively to European countries and its senior staff were nationals of Western countries. Today, the IBRD's membership includes 180 countries, the majority of which are located outside of the West. Since mid-1991, membership has increased by 23 countries, including one that is a major source of Bank borrowing (Switzerland) and one that is a major recipient of Bank loans (Russia).

This expansion has affected the membership of the Bank's Board of Executive Directors, increasing it to 24 members (from 22 members in 1991 and from 12 members at the Bank's inception) and changing the composition of several constituencies represented in this Board. It has also affected the Bank's operations, causing it to address for the first time the challenges of extreme and rapid transition to an open market economy by countries long entrenched in centralized systems that kept ownership of all significant means of production under strict state control.

Practically all independent countries are now members of the Bank, with the notable exceptions of Cuba, Democratic People's Republic of Korea, and the Federal Republic of Yugoslavia (Serbia/Montenegro). This globalization of Bank membership is, in fact, a reflection of major changes in the political and economic conditions in many parts of the world: the disintegration of the Soviet Union and the Yugoslav Federation, the end of the Cold War, and indeed the increasing globalization of the world economy.

The increase in Bank membership, which has also been broadly reflected in the membership of its affiliated institutions, coupled with adverse changes in the economies of some existing members, have increased the number of the operationally "IDA-eligible" members. These are the member countries eligible to borrow from the International Development Association, the Bank's concessional affiliate, because they meet certain requirements, including having a defined low annual per capita income ($905 or less in 1995 dollars is the operational cutoff figure at present, except for a few island economies in Central America and the Pacific). While these members totaled 53 countries in mid-1985, at present, IDA-eligible countries include 80 members (71 under the cutoff figure), of which 8 are east European and central Asian countries, that joined IDA after 1985.
Eligibility to borrow from the IBRD under its so-called graduation policy, has also been affected, with the graduation of six countries (Oman (1987), Bahamas (1989), Portugal (1989), Cyprus (1992), Barbados (1993), and Korea (1994)) since the formal adoption of the graduation policy in 1982. This policy, it should be noted, requires the Bank to review the eligibility of a country to borrow from the IBRD when its per capita income reaches a certain level ($5,295 in 1995 dollars), with a view to determining a phasing-out period for Bank lending, after which the country “graduates” from Bank borrowing.

**Operations**

The growth of Bank membership to encompass almost all countries is broadly explained by the simultaneous widening and intensification of international linkages in trade and finance. Such “globalization,” as the phenomenon came to be called, has been driven, according to a recent World Bank study, “by a near-universal push toward trade and capital market liberalization, increasing internationalization of corporate production and distribution strategies, and technological change that is fast eroding barriers to the international tradability of goods and services and the mobility of capital.”

Liberalization of trade in goods and services has now been sanctioned by the Uruguay Round trade agreements reached in 1994 and the establishment of the World Trade Organization in early 1995.

Improved economic policies and performance in many developing countries, often guided by World Bank adjustment operations, are among the major reasons for the simultaneous, sharp increase in private flows to these countries, especially the flows that do not create debt. The latter flows account for two-thirds of all private flows, which themselves account at present for over 70 percent of all long-term flows to developing countries. Among private flows, foreign direct investment now accounts for more than 50 percent. Estimated net flows of private capital in 1995 reached $167 billion, representing an increase of 5.2 percent over 1994. This increase may be compared with the increase of 3 percent in 1994 (over 1993) and with the much higher increases of 54 percent in 1993 and 63 percent in 1992.

While the indebtedness of severely indebted countries remained large, various processes of debt restructuring and forgiveness, supported in many instances by loans from the Bank or grants from IDA, have also eased the debt burden on most of these countries. Simultaneously, the grave imbalances that characterized the economies of most developing countries at the beginning of the 1980s have been largely corrected,
often through IMF Stand-by and other agreements and Bank adjustment loans. The latter accounted on average for 36 percent of World Bank commitments and 27 percent of its disbursement in fiscal year 1990. Adjustment operations have peaked, however, in many countries, and their size has started to decline. By fiscal year 1995, adjustment operations constituted 24 percent of commitments and 22 percent of disbursements. Investment operations, which are the core business of the Bank, accounted for 92.5 percent of the total number of operations and 87.2 percent of total commitments in the Bank’s portfolio at the end of fiscal year 1995.

International consciousness of the dangers to the world environment, raised by the efforts of many governments, the UN system, and thousands of nongovernmental organizations across the world, has made the protection of the environment a major concern for all countries, not just the industrial, developed ones.

Finally, the worldwide movement towards liberalization and openness has not been limited to trade and finance. It has covered the flow of human skills, knowledge, techniques, training, and other elements of “human capital.” Subsequently, it has started to reach the essence of political regimes.

These developments combined have greatly influenced the types, scope, and modes of operations of the World Bank.

Private Sector Development

Placing greater emphasis on private sector development and reliance on market forces has probably been the most noticeable development in the Bank’s operations since the initiation of adjustment lending in 1980. This development has taken many forms. First, adjustment lending, which initially concentrated on macroeconomic reforms, was enlarged to include promotion of free trade, privatization of public sector enterprises, development of financial systems, liberalization of investment regimes, legal and regulatory reform, and even judicial and civil service reform. Second, these same purposes were supported by sectoral investment loans when the conditions of adjustment lending were lacking and a well-defined reform program could be agreed upon. Third, the Bank explicitly used its policy dialogue and newly adopted “country assistance strategies” to influence the developing countries’ shift to reliance on market forces, often using the volume of lending as an incentive. Fourth, the Bank, after experimenting with some guarantees of private loans for investment projects under the so-called Cofinancing Program of the early 1980s and the Extended Cofinancing Program of the late 1980s, adopted in 1994 a
broad policy for “mainstreaming” its guarantee operations and started to experiment with a variety of financial instruments aimed at financing or facilitating the private financing of private investments.

In fact, Bank economists have long favored reliance on the private sector, some even arguing that the state should not do, or should not be supported by the Bank to do, anything that the market can do. The IBRD Articles of Agreement envisaged the Bank primarily as a guarantor of (or a participant in) private loans for productive purposes and a promoter of foreign private investment,¹³ that would provide direct loans only when the borrower cannot otherwise obtain financing on reasonable conditions.¹⁴ A number of factors led the IBRD to behave differently in the past, however. It cannot, under its Articles, lend directly to private enterprises without the guarantee of the state in whose territory the project is located.¹⁵ Governments were not readily willing to provide such guarantees. They thought it more beneficial to borrow directly from the Bank for their own projects and for state-owned enterprises, which proliferated under import-substitution plans in many developing countries. Direct lending to governments and publicly owned enterprises was also a more convenient, less time-consuming vehicle for a greatly expanding Bank in the 1960s and 1970s. Furthermore, failure of public enterprises was not apparent to the Bank and certainly not to its borrowing members.

An affiliated organization, the International Finance Corporation (IFC), was created early in 1956 to provide financing to the private sector without government guarantees and, after a long hesitation, another affiliate, the Multilateral Investment Guarantee Agency (MIGA), was established in 1988 to encourage foreign investment mainly by providing guarantees against noncommercial risks.¹⁶ Through these affiliates, the World Bank Group was seen by its members as paying adequate attention to the private sector.

Enthusiasm for the “magic of the market place” under the Reagan administration in the United States and the Thatcher government in the United Kingdom certainly influenced the thinking of many other governments. A review of the capital adequacy of the IFC in 1989 prompted broader thinking on the role of the World Bank Group, including the IBRD and IDA, with respect to private sector development. The collapse of the Soviet system and of the Council for Mutual Economic Assistance erased lingering doubts in the minds of some Bank members concerning the need to emphasize further private sector development in the Bank’s operations. The shift toward creating an enabling environment for the private sector and promoting its financing through private channels became prevalent in the Bank’s work. Privatization came to the forefront in the policies of the Bank and its members both as a means to ensure enterprise
efficiency and to create fiscal space for governments with large deficits caused by public sector losses. In the late 1980s and early 1990s, the Bank was perceived at times by some critics as holding extreme views against the role of the state in the economic field. A balanced approach was described clearly in the 1991 World Development Report\(^{17}\) and finds its most recent expression in the following statement in the Bank’s report to the 1995 UN Conference on Social Development (the Social Summit):

Governments can contribute to economic and social progress by focusing on the things that they do best. At one extreme are public goods—law and order, national security, and an environment conducive to business—which only a government can provide. At the other extreme are sectors in which private producers are active and efficient, but where selective government intervention is sometimes needed to correct for market imperfections or failures. In other areas there is need for a judicious mix of government and private involvement—in health, education, physical infrastructure, agricultural research and extension, and protecting the weak and vulnerable members of society. What really matters is how effective and efficient a government is in discharging its responsibilities. And because administrative capacity is often weak in developing countries, governments need to choose the areas of intervention carefully and give priority to institution building.\(^{18}\)

Not only moderation is called for in this critical matter, differentiation by country is equally important. Private external financing is still concentrated on a few, although slowly expanding, number of countries (about 75 percent of it went to 12 countries in 1995).\(^{19}\) The local private sector is still too weak in many countries to allow for large-scale privatization programs or significant locally based private initiatives. Even in the few countries that receive large amounts of foreign private investments, the private investments are likely to be concentrated on a few sectors and rarely finance social development. Short-term flows are fragile and subject to setbacks, as evidenced by the peso crisis in Mexico in late 1994 and early 1995. External shocks, domestic policy reversals, or even the perception that these may be forthcoming could cause capital flight at a higher speed than that at which the capital flowed in. Under these circumstances, the Bank’s unequivocal support of the private sector, both local and foreign, should not lead it, in the view of this author, to take an absolute position against any Bank financing for those efficiently run public enterprises that cannot otherwise receive long-term financing on reasonable terms. This view is in line with the purposes of the Bank as spelled out in its Articles of Agreement.\(^{20}\)

Social Development

Concern for social development is not new to the Bank. Financing of social projects was pioneered by it in the early 1960s. Such financing has, however, received a much stronger emphasis in recent years. The macro-
economic reforms undertaken by many developing countries in the 1980s required drastic budget cuts that many governments found more convenient to apply to expenditures on social services. This caused a world outcry for "adjustment with a human face." The creation within the Bank of a vice presidency for human resources development in 1992 provided the institutional backing and the technical base for a people-oriented approach to development.

A dramatic increase in "investment in people" coincided with the universal call, championed by the Clinton administration in the United States, to put "people first" and received broad support from the Bank's membership. While Bank lending (that of the IBRD and IDA) for this purpose represented some 5 percent of total lending in the early 1980s, it reached about 17 percent in 1994 and 15 percent in 1995, with greater emphasis on primary education, girls' education, and primary health care. The Bank's annual lending has now exceeded $2 billion for education, $1 billion for health, and $200 million for family planning and other population activities. Its lending in support of the provision of social safety nets through adjustment and investment loans has also reached substantial figures. Lending for this purpose alone reached $2 billion in 1995. The Bank's present plans include increasing lending for human resource development to $15 billion from 1996 to 1999. Emphasis on this area also led the Bank to building stronger ties with various nongovernmental organizations in both developed and developing countries that now participate in the design, preparation, appraisal, financing, implementation, and supervision of many Bank-supported projects. More recently, mainly through the initiative of the Bank's vice presidency for environmentally sustainable development (also created in 1992), the Bank succeeded in establishing a new umbrella facility for the grant financing of microenterprises.

Equally important has been the Bank's new practice of reviewing public expenditures with borrowing governments in the course of its policy dialogue with them and during the preparation of its "country assistance strategies." Such reviews typically aim at ensuring that adequate funds are being allocated for social services and that such services are being provided efficiently and equitably.

The Bank's new emphasis on "participatory development" is also a recent but fast-growing phenomenon. The purpose of this approach is not only to incorporate grassroots experience in the design and implementation of projects, but also to keep abreast with the worldwide trend toward the increased empowerment of people and the rise of civil society. Influential voices within and outside the Bank are now calling for a rapid expansion of such a participatory approach, with some suggesting that "the Bank's clients are not the governments to which it lends, but the poor it is seeking to help."
Governance

The Bank's concern with governance issues in its borrowing countries was formally reflected in its policies in the early 1990s, following a major Bank publication on the malaise of sub-Saharan Africa in 1989 and a legal memorandum on the subject by this author in 1990. Governance issues have since become a major concern in the Bank's relationship with many borrowing countries, especially those in sub-Saharan Africa. Lending for the improvement of countries' governance (to promote the overall efficient management of their resources) has supported legal, judicial, and civil service reform, under both adjustment and investment loans, including the introduction of measures to enhance public accountability and greater transparency in government actions.

The Bank is now called on by certain nongovernmental organizations, politicians, and academics to expand further its governance work not only geographically but also in the scope of the issues it covers. In particular, the Bank is asked to involve itself in the political reform, that is, in the democratization efforts of its borrowing members. The promotion of political human rights through Bank operations is frequently mentioned in this respect. This, however, raises serious questions with respect to the Bank's specialized mandate and to explicit provisions in its Articles of Agreement that prohibit it from interfering in the political affairs of its members and from taking into account any consideration that is not economic in character. This matter, which is likely to remain an issue of concern, ought not to be contentious, however. Without violating its Articles of Agreement, the Bank is promoting liberalization and the opening of economies; helping education for all; and assisting governments in reforming their legal, judicial, and administrative systems. Progress in these three areas creates an environment for political reform from within, which is likely to be much more sustainable than any political reform imposed or induced from the outside. There is also ample evidence that progress in these areas, especially the opening of the economy and the establishment of the rule of law and of an independent judiciary, leads to the evolution of more democratic forms of government.

Environment

The Bank's concern for the conservation and protection of the environment is not new. What is new is the enormous expansion of the Bank's work on the environment and the integration of this work in the Bank's operations, as well as the establishment in 1991 and the restructuring in 1994 of the Global Environment Facility (GEF), of which the Bank is the main implementing agency and the trustee of its funds. New policies have been adopted by the Bank in recent years concerning lend-
ing for forestry, energy, agriculture, and water resources and emphasizing participation in the projects it finances. Policies regarding environmental assessment, dam and reservoir projects, involuntary resettlement, indigenous peoples, and pest management were incorporated in the Bank management's instructions to staff, previously called "Operational Manual Statements" or "Operational Directives," which have been or are being redrafted in a new format of "Operational Policy" statements. In all these policies, the Bank has been trying to achieve sound, some would say idealistic, standards for the protection of the environment. In addition to addressing environmental concerns in every project financed by the Bank where such concerns are likely to arise, the Bank's lending to primarily environmental projects has reached $9 billion over the past decade,\textsuperscript{34} not including the financing of environmental projects by the GEF and other Bank-administered trust funds. Ongoing research, meanwhile, continues in the Bank on how to factor depletion of natural resources in the costing of projects and, more generally, in national accounts. This is an area of enormous potential impact on the Bank's work and on economic development in general.

Debt

As already noted, the crisis dimensions of developing countries' indebtedness have subsided somewhat, thanks to the Paris Club's restructuring and relief efforts and the commercial banks' debt restructuring agreements supported by both the International Monetary Fund and the World Bank. However, some of the poorest developing countries remain heavily indebted. The overall external debt of developing countries, although now easier to service for most of them, has in fact increased, reaching an estimated $1.9 trillion in 1994 and over $2 trillion in 1995.\textsuperscript{35} The plight of the heavily indebted poor countries, whose debt is mainly owed to official sources, is at present a source of particular concern. The debt of 8 such countries has been considered "unsustainable" in recent Bank-Fund staff studies, while 12 other such countries are deemed to be "possibly stressed" and 3 countries' debt was "not yet determined." For the "unsustainable" and "possibly stressed" heavily indebted poor countries, 55 percent of the total debt of $122 billion (nominal value) in April 1996 is official bilateral, 29 percent is official multilateral, 11 percent is private, and 5 percent is short term. Of the multilateral debt, 42 percent is owed to IDA, 9 percent to the IBRD, 15 percent to the IMF, 8 percent to the African Development Fund, 7 percent to the African Development Bank, and 19 percent to others. The Paris Club debt represents 61 percent of bilateral debt.

The Paris Club announced in 1994 new terms for the reduction, on a case-by-case basis, of official debt of "the poorest and most indebted
countries"—the so-called Naples Terms—under which a 67 percent present value reduction in eligible debt or debt service may be given to countries with a per capita income of $500 or less or a debt-to-export ratio of 350 percent or more, and a 50 percent reduction may be accorded to the remaining eligible countries. The share of indebtedness to multilateral institutions in the total debt of the poorest countries has consistently increased in recent years and stood at $34 billion at year-end 1993. The debt-service payments on multilateral debt of the heavily indebted poor countries have in fact risen to $4.8 billion in 1995 from $1.9 billion in 1984. This is a direct result of increased lending by multilateral institutions, especially IDA, to these countries in the face of stagnating bilateral official flows and the virtual disappearance of commercial lending. Nevertheless, net transfers continue to flow from sources such as IDA to these countries.

Because the debt burden is particularly heavy on these vulnerable countries, many calls were made from both official as well as non-governmental sources for the forgiveness or reduction of multilateral debt. In early 1996, the Bank and the IMF managements prepared a proposal to tackle the debt problem of the heavily indebted poor countries in a comprehensive way, which requires close cooperation with, and further financing by, bilateral creditors and other multilateral development banks. Assistance under this proposal would be confined to a limited number of countries that establish a track record of reform and the debt of which is nonetheless deemed to be unsustainable. It calls for debt forgiveness by the Paris Club bilateral creditors (up to 90 percent of present value of the debt) and for servicing multilateral debt through a new multilateral trust fund to be financed by bilateral donors and multilateral development banks and administered by IDA. The proposal has been endorsed in principle by the Development Committee in its spring 1996 session, and its details were subject to further refinement for submission to the Development Committee and the Board of Governors during the Annual Meetings in October 1996.

New Lending Instruments and Business Practices

The reorganization of the Bank introduced in 1992 by its late President, Lewis Preston, and the "vision paper" resulting from its fiftieth anniversary review, completed in mid-1994, emphasized flexibility, selectivity, innovation, client orientation, cost-effectiveness, and results orientation. These goals have been, and are being, reflected in recent Bank operations, as witnessed by a number of novel approaches.

The Bank has initiated "rehabilitation" and "economic recovery" loans for countries, such as Russia, whose conditions did not enable them to
receive full-fledged adjustment loans. The Bank also created new development lending instruments, such as “emergency loans,” to help governments cope with the needs caused by natural disasters and similar emergencies. Furthermore, it provided 46 “contingent loans” for countries that preferred this form of stand-by credit enhancement over a Bank guarantee. It converted its special Extended Cofinancing Program into a general program for bank guarantees of private loans. In response to possible borrowers’ preferences to borrow in a single currency (rather than in the pool of currencies in which the Bank borrows), the Bank has also adopted, first as a pilot program then on a general basis, an optional system of single-currency lending, which is being expanded at present.

In the meantime, a new approach to the overall processes of Bank lending has been tried by a number of the Bank’s country departments. This business practice innovation exercise involves, in particular, the streamlining and simplifying of the lending process by measures such as reducing the number of required approvals within the Bank; changing the focus and content of the process of financing projects (for example, by cutting down the phases of the project cycle and authorizing negotiation of loan agreements in the field); altering the format of the process; and involving borrowing countries in the preparation of the country assistance strategies. To achieve such results, the new procedures allow a greater measure of delegation and rely more heavily on the Bank’s field offices in the appraisal and supervision of projects.

The Bank’s Internal Structure and Culture

Throughout its history, the Bank has introduced a number of reorganization schemes to allow its internal structure to respond more effectively to the changing needs of its clients and to provide a more suitable “skills mix” for this purpose within its staff. A major reorganization introduced in the 1970s by Robert McNamara (the Bank’s President from 1968 to mid-1981) served the Bank well, until a new major reorganization was introduced in 1987 by Barber Conable (the Bank’s President from mid-1986 to September 1, 1991). The most prominent features of the latter reorganization, which resulted in the laying off of over 500 staff members, introduced a clear country focus in Bank operations through country departments within each operational region, which combined the previous project departments and program departments. While this country focus remains a hallmark of Bank operations, a number of successive organizational changes were later introduced by Lewis Preston (the Bank’s President from September 1991 to May 1995). These changes included the replacement of the three senior vice presidents (for operations, finance, and policy and economic research, respectively) by three
Managing Directors, each having varied responsibilities that combined operational and nonoperational activities, and who, with the President, constituted the President's Office. The changes also included the restructuring of the six regional vice presidencies in terms of the countries included within each region. This was followed by the establishment of three central, thematic vice presidencies to strengthen the Bank's technical base in certain areas of special emphasis (in addition to the technical departments within the regions under the existing organization). They cover Human Resources and Operational Policy, Environmentally Sustainable Development, and Finance and Private Sector Development.

Effective January 1, 1996, James D. Wolfensohn, the Bank's President as of June 1, 1995, has restructured the top management of the Bank to provide clear lines of authority for the main areas of Bank business and to strengthen the World Bank Group's ability to address major strategic issues and follow up on their implementation. One key purpose of the new top management structure is "to provide a framework for liberating the energies and skills of the organization." To that end, top management has been regrouped and the positions of Managing Directors who report directly to the President have been restructured. Two Managing Directors are jointly responsible for the Bank's operations and operational policies, with distribution of responsibilities among them being based on geographic and functional bases. Another Managing Director is responsible for human and information resources and management services for the Bank Group, as well as for corporate planning and budgeting for the Bank. A fourth Managing Director is responsible for finance and resource mobilization. A fifth Managing Director is in charge of coordination between the strategies and policies of the different World Bank Group institutions in the area of private sector development. Each of the two Managing Directors in charge of Operations has line authority over a number of regional and central vice presidencies. The Managing Director, Human and Information Resources, Management Services, Corporate Planning and Budgeting, has authority over the two new vice presidencies, one for human resources and the other for information systems, as well as over the Director, Facilities and General Services, and the Director, Planning and Budgeting. The Managing Director, Finance and Resource Mobilization, supervises the functions of four vice presidencies: Treasurer's, Controller's, Financial Policy and Institutional Strategy, and Resource Mobilization and Cofinancing. The fifth Managing Director, responsible for the coordination of Private Sector Development activities, works with the senior managers of the Bank, the IFC, and MIGA to develop the World Bank Group's overall strategy for private sector development and to ensure concerted actions and effective cooperation among the World Bank Group's institutions in the promotion of private sector development.
The main purpose of the organizational changes is to transform the Bank into a more result-oriented institution. This new focus on outcomes, rather than processes, has led to a number of immediate steps, including in particular the refocusing on quality control and the streamlining of internal processes. The Operations Committee now reviews country assistance strategies and selected operations that warrant Bank-wide attention because of their policy implications, risks, and innovative nature. The Operational Policy Committee, which previously reviewed the output of central vice presidencies, now plays a more active role in defining the Bank’s operational policy agenda, resolving issues of policy design and implementation, and formulating revised and new policies for approval by the Board. As a result of its work, clear, consistent, and coherent policies are expected to provide more scope to delegate decisions, empower staff to deliver high-quality work, and hold staff and managers accountable for results.

Under the new structure, Mr. Wolfensohn has also established a new Executive Committee that meets weekly, consisting of the five Managing Directors; the Senior Vice President and General Counsel; the Senior Vice President, Development Economics and Chief Economist; the Vice President and Chief of Staff; the Vice President and Secretary; and the Vice President, External Relations. This Committee is enlarged to include the Executive Vice Presidents of the IFC and MIGA whenever matters related to the management of the World Bank Group as a whole are involved.

Two major changes were also introduced in 1993 for the purpose of increasing transparency in the Bank’s work and strengthening its system of accountability. The first was the adoption of a more open disclosure policy, which resulted in the creation of a Public Information Center and which authorized public access to a host of Bank documents previously considered confidential. The second change was the adoption by the Bank’s Board of Executive Directors of a resolution establishing an Inspection Panel to review complaints concerning the Bank’s noncompliance with its policies and procedures with respect to the design, appraisal, and implementation of projects. This panel was actually constituted in April 1994 and has since had four requests for investigation. One has led to a full investigation (the Arun III Project in Nepal) and another to a major action plan to accelerate project implementation (the Rondonia Project in Brazil).

Both of these innovations followed the issuance in 1992 of a report by a task force consisting of Bank staff to review the Bank’s portfolio of loans. This task force, which was chaired by an experienced Vice President, Willi Wapenhans, undertook, in fact, a broad review of the
Bank’s practices and procedures and produced the “Wapenhans Report,” a major critique of the Bank’s work that included extensive suggestions for improvements. The recommendations of the Wapenhans Report led the Bank’s Management to prepare a detailed program of “next steps,” which, having been sanctioned by the Bank’s Board, is now under active implementation.45

One of the major findings of the Wapenhans Report was that the Bank suffered from an “approval culture” where achievement was measured more by the approval of new loans rather than by the successful implementation of the projects for which the loans were made. The report called for the replacement of this culture by an “implementation culture,” which further stresses the Bank’s supervision of project implementation and the need for flexibility in changing project design and loan amounts as may be needed for the successful completion of each project.46

A more recent task force, established by the Development Committee in 1994 to carry out an overall review of the activities of multilateral development banks, completed its report in March 1996.47 Unlike the earlier task force, this one consisted of deputies of the Development Committee members selected by these members and was chaired by an experienced outsider with over 30 years of experience in dealing with the Bank.48 Mr. Wapenhans served as the head of the Secretariat of this task force. Their report, which was considered at the ministerial level in the Development Committee in April 1996, validated many of the existing and emerging practices of the World Bank Group and has also called for placing greater emphasis on client orientation and project implementation. In particular, the report called on multilateral development banks to further coordinate their activities at the country level, the multilateral development bank level, and among the multilateral development banks as a group.49 It asked the multilateral development banks to continue to mobilize international private savings and concessional assistance and to be selective in their use of B-loan syndications with commercial creditors (where the multilateral development bank remains the lender of record). It also recommended that alternative methods to loan guarantees (such as wider multilateral insurance coverage of private investors) be considered. Finally, the report restated many of the new emphases in the Bank’s operational policies. Its call for “upgrading the roles of the Executive Boards” restated points that, for the most part, had been adopted in the Bank’s Board.50

Earlier reviews by Board committees (consisting of Bank Executive Directors) resulted in major changes in the manner in which the Bank operates. An Ad Hoc Committee on Board Procedures suggested, among other things, in its 1992 report (known as the Nairn Report)51 that man-
agement submit for Board consideration periodic reports on its “country assistance strategy” for each borrowing country. Such reports discuss the development efforts and needs of the country in the medium term and the Bank’s expected role (including its lending program for the country). Such broad country discussions were found controversial in the past and were resisted by a number of Bank borrowers that, for good measure, suspected that the discussion would focus on the overall countries’ strategies, not only on the strategy of the Bank’s assistance to them. They were eventually accepted, however, as a mechanism to rationalize Bank operations and allowed the Board to approve projects consistent with a country’s Country Assistance Strategy under a streamlined procedure that normally disposed of the need to discuss the projects in the Board except for unusual and large loans. The process of country assistance strategy preparation has since evolved in a manner requiring active consultation with the country concerned and its civil society. New country assistance strategies also seek to integrate the full array of services provided by the World Bank Group and link allocations to the country to monitorable targets. The fears that preceded the adoption of this process have meanwhile been put to rest.

Another Board committee, the Ad Hoc Committee on Board Committees, suggested in 1994, in what came to be known as the Maelhum Report, a number of changes aimed at strengthening the role of the Board of Executive Directors and further ensuring appropriate project implementation and evaluation. As a result, a new standing Board Committee on Development Effectiveness was established to focus on the review of the work of the Bank’s Project Evaluation Department and to recommend to the Board further policy changes. A strengthened Budget Issues Committee also replaced the Board Committee on Business Practices and Budget Effectiveness, which had been established in 1989 after much debate.

The combination of the above-noted changes, coupled with previous criticism of the Bank by outside sources and, more important, the driving spirit of its new President, is having its impact on the Bank’s culture. The emerging culture is one that stresses client orientation, causing the Bank to act as a bank should. It places particular emphasis on project implementation and the supervision by the Bank thereof. It increasingly requires participation by affected stakeholders in all phases of the project cycle. It tries to streamline this cycle and reduce the time needed for its completion. In furthering these goals, the emerging culture allows a greater measure of openness and disclosure of information, and increased reliance on the work of the Bank’s field offices and on the cooperation of nongovernmental organizations.
Future Directions

In spite of the magnitude and pace of changes in the Bank’s work, pressure continues from various sources aiming at introducing further, and sometimes conflicting, changes. Developed member countries would like to increase the Bank’s effectiveness and reduce its cost. Some of these countries may also be tempted to use the Bank as an instrument to achieve their foreign policy goals. Borrowing member countries, while appreciating the need for greater effectiveness and lesser costs, would like the Bank to increase its lending, reduce its conditionality, and be more responsive to the special circumstances of each country. They strongly resist politicization of the Bank’s work or its use as an instrument of foreign policy of donor countries. They take a steadfast position against the Bank’s intrusion in their domestic political affairs but want the Bank to be more appreciative of the political difficulties facing governments that implement Bank-supported adjustment programs. Nongovernmental organizations concerned with the Bank’s work have different goals. Some would like to assist the Bank in carrying out its stated purposes, thus increasing its efficiency and productivity. Some would like the Bank to pay much greater attention to social development and the environment, accepting the almost inevitable result of having a slower and perhaps smaller Bank. Some wish the Bank to become an instrument of democratization and political reform in its borrowing members, even if this means its deep entanglement in the domestic political affairs of these countries. Others seek nothing less than the closure of the Bank.

While trying to respond to outside demands, the Bank is becoming a less dominant source of development finance (except for IDA-only countries). Its share in the aggregate long-term net resource flows to developing countries is estimated to have declined to only 2.6 percent in 1995. Its importance to countries that are large recipients of private finance has certainly declined, at least to the extent that the flow of private funds has been steady and stable. Its competition with other regional and bilateral sources of development finance is also being felt, at least in some countries. The Bank’s growing reluctance to finance public sector enterprises in an increasing number of borrowing countries is also reducing its opportunities for lending. The Bank’s insistence on addressing broad policy issues and introducing policy conditions in most of its loans is making the Bank truly a lender of last resort for some countries. This is increasingly evident in countries that could otherwise obtain financing without, or with less burdensome, conditions.

As previously explained, the Bank is devising ways to expand its support of external private lending to developing countries through guarantees and other credit enhancement mechanisms. It has also studied whether it
would be useful to amend the IBRD Articles of Agreement to dispose of the need to obtain a government guarantee when it lends to a borrower other than the government. An internal study undertaken in 1990 by a World Bank Group task force, chaired by this author, concluded that such nonguaranteed lending, if unchecked, would raise a host of serious policy, operational, financial, and legal issues and should therefore, if considered, be limited to a small fraction of the Bank’s loan portfolio. The Bank’s management has since considered alternative means of expanding the World Bank Group’s financing of private sector enterprises, including raising the operational gearing ratio for IFC borrowing (to enable it to harness greater resources for its operations that are free from the government guarantee requirement); “mainstreaming” guarantees in the Bank’s own operations; and expanding MIGA’s political risk insurance capacity.

The Bank’s efforts to coordinate its activities and lending strategies with other sources of official development finance may also be enhanced with a view to maximizing the benefit to recipient countries. In this context, the Bank has been joining regional development banks, other development finance institutions, and bilateral donors in the financing of many operations and has played a leading role in “aid coordination” for a growing number of countries. More recently, it has shown a readiness to accept a leadership role with regional banks in the smaller countries where the Bank’s lending program is smaller than that of the regional bank involved. At the initiative of the Bank’s new President, the heads of the multilateral development banks now hold periodic meetings to ensure closer cooperation and synergy in their activities while allowing for a measure of “constructive competition.” Periodic meetings among multilateral development banks on functional issues (operations evaluation, legal, and so on) are also being conducted at the department head level.

The Bank will continue to strive for further efficiency gains. The six “guiding principles” adopted in 1994 required the Bank to

- increase the selectivity of its activities with a view to moving out of activities that others are better placed to perform;
- strengthen its partnership in the international development community, particularly at the country level;
- emphasize client orientation by being more responsive to the needs and circumstances of each borrowing country;
- increase results orientation by placing greater emphasis on project implementation and achieving better results “on the ground”;
- ensure cost-effectiveness through further efforts to contain costs, streamline procedures, and improve coordination; and
maintain a strong commitment to financial integrity by continuing the prudent financial management that helped the Bank to maintain the highest credit rating in financial markets.\textsuperscript{54}

These are all rational and sensible principles for any organization to follow. Following them to their logical conclusions may in the long term lead the Bank to consider whether having four financial institutions in its Group represents an optimal arrangement at a time when all these organizations seem to give the same priority to private sector development. Under the stewardship of its new President, the institutions of the World Bank Group are now called on to better coordinate their activities and to work closely together to serve their common objective, while preserving their legally separate structures and decision-making processes. As already mentioned, a high-level mechanism has already been established for this purpose, the Private Sector Development Group, chaired by a Managing Director. The question may arise in the future whether the merger of the IFC and MIGA in the IBRD and the restructuring of IDA as a large trust fund of the new IBRD represent a more efficient and cost-effective solution. This is not, however, an idea that has been considered, or even envisaged, in the different exercises of reviewing the World Bank Group’s work.\textsuperscript{55} Only the merger of the World Bank and the IMF has occasionally been mentioned by some outside observers without a serious follow-up.\textsuperscript{56}

Whether in their present forms or in the form of an amalgamated megainstitution, the institutions of the World Bank Group will have to face the challenge of helping the world community, and developing countries in particular, in the new world of open markets, increased private flows, and possibly decreased external concessional flows (foreign aid). The opening up of markets and the free convertibility of currencies on the one hand and new telecommunications technologies on the other hand have made trading in different national securities and currencies increasingly immune to geographic and time zone limitations. A virtually global market now operates on a 24-hour basis. This market is a private one that depends entirely on the confidence of the participants. It is vulnerable to shocks whenever this confidence is threatened for real or perceived reasons. It is also a market that is beyond the capacity of any individual government to regulate. Yet, its stability, competition, and ability to respond quickly to failures may call for a new framework of rules. The flow of private funds has no comparable system to the Uruguay Round trade agreements,\textsuperscript{57} which include an Agreement on Trade-Related Investments Measures, now under the general supervision of the World Trade Organization. The global financial market may need an internationally coordinated framework that respects and promotes the market’s basic features but aims at reducing its failures. At a minimum,
such a system should ensure the flow of timely and accurate information on the dealings of the global market and the circumstances surrounding them, and should put in place an efficient system of surveillance by a central international forum such as the IMF. It is gratifying to observe that agreement has recently been reached to strengthen the IMF's surveillance role in this respect.\textsuperscript{58}

Global markets, both for the exchange of goods and services and for the transfer of private funds, present a new set of requirements to developing countries. The "conditionality" of these markets, with their requirements of free entry and exit and open competition, may even be much harsher than that attached to multilateral loans. However, few developing countries may be prepared to meet the test of this unwritten conditionality and to quickly adapt themselves to the changing requirements. The World Bank Group may have to devise new ways to help them meet this new challenge. The Bretton Woods Commission was right to point out in its report commemorating the fiftieth anniversary of Bretton Woods that, "[o]f the challenges facing the World Bank Group, none is greater than adapting to a world that has turned from public sector dominance towards private enterprise and free markets."\textsuperscript{59} The pace of this adaptation inevitably varies from one country to another, but the process is prevalent and growing.

Since 1983, the year in which I joined the service of the World Bank as its General Counsel, the Bank has had four Presidents. The Clausen years were characterized by adjustment lending, macroeconomic reforms, and strengthening the Bank's standing in financial markets. The Conable years, while continuing these trends, introduced the "country focus," and saw a greater emphasis on the protection of the environment as well as starting the emphasis on private sector development, cooperation with nongovernmental organizations, and governance issues. The Preston years, without neglecting any of the foregoing, witnessed major changes in the Bank's internal structure and its way of doing business, and a definite concentration on client-oriented approaches to private sector development. More than ever, it became clear that the Bank has come to face the difficult challenge of how to cater for the needs of the least-developed countries, while assisting other developing countries entering the global market in meeting the challenges and requirements of this market.

Although Mr. Wolfensohn's presidency of the Bank Group only started on June 1, 1995, his impact has already been widely felt not only in the restructuring of the Bank's top management but, perhaps more important, in the Bank's orientation and manner of doing business. Focusing on results on the ground; listening to borrowers and other stakeholders, including especially the civil society in borrowing countries; modesty in approach; and quality in the service are important messages
that characterize this new era and that should result over time in pro­found changes in the Bank's culture.

The World Bank is entering a new phase of its history in an external environment characterized by dwindling support of, if not disaffection with, multilateralism in general and development assistance in particular, coupled with criticism of the Bank, which was led by vocal groups in many countries. The Bank's demonstrated readiness to adapt itself to the needs of a changing world, its ability to continuously improve its strategies and operational practices, and its dynamic new leadership are the factors of promise that should help the Bank meet this new challenge.