

## **Proposals for World Bank Reform**

Background Note for Session 3  
of the G20 Summit Preparation Meeting in London on 9 February 2009

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### **Preamble**

At this time of global crisis the main priority is to act fast in reversing the tide of world-wide recession and its impact on those who can least protect themselves, including and especially the poorest in the developing world. The focus of the G20 Summit on April 2, 2009 therefore should principally be on how to coordinate and commit to actions that will help achieve this goal. The crisis may also unlock opportunities for long-stalled reforms of global governance and global institutions and measures need to be put in place to prevent a recurrence of the crisis in future. In these areas the G20 summit should aim to reach agreement on principles, to take a few steps that clearly signal commitment to change in direction, and to initiate a time-bound process for longer-term change.

### **Background**

In contrast to IMF reform, the reform of the World Bank has not been a focus of much attention or debate over the last few years. Since a major reorganization under President James D. Wolfensohn in 1997 the institution gradually adapted to changing conditions in developing countries and changing perceptions of global economic, social and environmental challenges, but no fundamental reassessment of its role, its instruments, its organization or its governance has been carried out inside or outside the Bank.<sup>2</sup> The current crisis requires some immediate actions to assure that the World Bank plays an effective role in supporting other global actions, but it also offers an opportunity – and risks – in moving towards more fundamental reform.

This note presents a few key recommendations for a debate about World Bank reform, including for the preparation of the G20 summit agenda. The first two recommendations relate to actions that should and could be taken immediately; the remaining four recommendations require longer lead time of preparation, but the decision to set in motion the preparatory process should also be taken as soon as possible. A final recommendation relates to the broader management of the G20 process in which the World Bank could also play a supportive role. Justification and implementation modalities are not spelled out in detail here in order to keep the note as succinct as possible. Throughout this note reference to “World Bank” includes all members of the World Bank Group as appropriate.

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<sup>1</sup> The author is Senior Fellow and Executive Director of the Wolfensohn Center for Development at Brookings. Helpful comments by Colin Bradford and Homi Kharas on an early draft of this note, a conversation with Rachel Turner and James Wolfensohn and reading of Nancy Birdsall’s background note for Session 5 are gratefully acknowledged.

<sup>2</sup> Two of the few exceptions is Nancy Birdsall, ed., *Rescuing the World Bank*, Washington, D.C.: Center for Global Development 2006, and Ngaire Woods, *The Globalizers*, New York: Cornell University Press, 2006. In the fall of 2008 President Zoellick appointed an external high-level commission led by former Mexican President Ernesto Zedillo to advise on World Bank Group governance reform.



## **Immediate Actions**

**Recommendation 1: Immediate reform of leadership selection in the World Bank (as in the IMF) is critical.**

This is a no-brainer. An open, competitive and merit-based process can and should be immediately agreed on – with a commitment by all to honor this agreement also in its implementation. This should be done in parallel with a similar decision for the IMF. This change is an obvious counterpart to the creation of the G20 Summit and a signal of greater inclusiveness and legitimacy. The U.S. and Europe should explicitly commit to honor not only the letter, but also the spirit of this agreement.

**Recommendation 2: The World Bank should play a principal role in providing countercyclical budget-support funding for developing countries, and especially to the poorer countries, during the current crisis (and beyond).**

- The IMF has the principal role in assuring countercyclical support of foreign exchange. The Bank is well placed to offer countercyclical budget support, given its close relationship with the IMF, its long-standing budget support instruments, its track record of providing quick disbursing support for social safety nets, its traditional role in infrastructure finance, its capacity to support bank recapitalization and its growing role in global public goods provision.<sup>3</sup>
- These are all areas where efficient maintenance of developing country spending will be essential for short-term macroeconomic crisis management, preventing the collapse of banking systems, mitigation of major social costs and prevention of long-term developmental losses from the current crisis.
- Donors should be ready to agree to a fast-track supplemental IDA replenishment and, if necessary, to increase IBRD's callable capital to allow the Bank to take on this role.<sup>4</sup>
- Based on a declaration of a "development emergency" temporary changes in operational rules should assure quick commitment and disbursement<sup>5</sup>, including: relaxing rules on counterpart funding; relaxing the rule restricting budget support to less than 50 percent of the total (esp. for good CPIA countries); and opening up the possibility of using IBRD lending to poor countries (subject to the application of a strict debt sustainability framework) with an option/commitment from bilaterals of buying down the high interest rates when grace periods expire (thereby transferring funding from the crisis period when bilaterals are strapped to five years down the road when it might be more palatable).

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<sup>3</sup> So far there is apparently limited demand from poorer developing countries for emergency assistance in response to the crisis. Aside from the fact that at the country-level concessional resources have so far been constrained by existing allocations and operational rules, this can be explained by the delay in the real economy impacts relative to the financial impacts of the crisis and the fact that poorer countries are more severely impacted by the former than the latter. In 2009 undoubtedly the real economy impact will hit the poor countries with full force through multiple channels. The World Bank management should be requested immediately to carry out estimates of macroeconomic and social impacts of the crisis on development countries and their potential funding needs. In past crises (such as the oil price shocks of the 1980s and 90s) such analyses were routinely and swiftly carried out by the Bank.

<sup>4</sup> Parallel actions should also be pursued for the major regional development banks.

<sup>5</sup> Currently an estimated \$60 billion are locked up in undisbursed funds in projects already approved by the boards of the multilateral development banks, according to estimates by Homi Kharas.

- In addition, under the “development emergency” the Bank’s fiduciary and safeguards procedures should be put under emergency rules, as has been done in post-conflict situations, where fast-track project preparation and disbursement procedures have been successfully implemented without loss of ex-post quality of project implementation (as e.g., in the case of the Bosnia-Herzegovina reconstruction program).
- This proposal is broadly consistent with the World Bank’s recent proposal for a “Vulnerability Fund” (see [www.worldbank.org](http://www.worldbank.org)).

### **Longer Term Actions**

Recommendation 3: The World Bank should in future play a principal role in aid delivery, in aid coordination at the country level, in financial support for the provision of key global public goods and in providing the knowledge base for development.

The Bank has played such a role in the past and remains uniquely suited to play this role in a number of ways: it has a strong track record of quality delivery of aid programs and demonstrated capacity for aid coordination at the country level; it is the only organization that can effectively link global public goods provision to sensible country strategies in developing countries; it has the capacity to develop and support global public goods strategies at a global level; and it has a strong capacity for development research and policy analysis. This is compatible with other agencies playing a lead role in specific sectors or in particular countries.

Recommendation 4: The decline in the financing role and capacity of IDA and IBRD needs to be reversed through appropriate changes in mandate, operational policies and funding of the World Bank.

The decline of the multilateral share in ODA and of the WBG (esp. IDA) in multilateral aid as part of the drastic increase in the fragmentation of international aid architecture begs the question whether and how the Bank can be expected to exercise the principal role envisaged in Recommendation 3. This involves a number of important changes in the mandate, operational policies and funding of the Bank, including:

- Mandate: Reinforcing the World Bank’s mandate to stay engaged in middle income countries (along the lines of EIB in Europe), giving it a greater and clearer role for promoting global goods on a global basis (including in advanced economies), and giving it a clear mandate to take a lead role in aid coordination under the Paris Declaration.
- Operational policies: The Bank should be allowed to adopt operational modalities similar to the EIB in middle income countries, and should be given much more leeway in developing its risk mitigation instruments. The Bank should take on a lead role in ensuring that the simplification and harmonization of procurement, fiduciary, safe guards and reporting policies of all multilateral organizations – and of the DAC bilateral programs – be subjected to a time-bound program of implementation.
- Funding: The World Bank should be principal agency through which incremental aid resources and global public goods funding are channeled. At the same time, creation of new funding windows and preferential treatment of windows other than the WBG should be discontinued. They only add to the problem of fragmentation and to the reduction in the effectiveness of all aid and public goods funding flows.

Recommendation 5: As in the case of the IMF, the expanded mandate, reformed operational policies and increased funding for the World Bank have to be accompanied by far-reaching changes in the governance of the Bank to ensure (a) greater legitimacy and (b) greater operational effectiveness.

- The Bank's governance structure has been traditionally dominated by parallelism with the IMF. This needs to be abandoned, given the significant differences in mandates, operational modalities and funding of the two institutions.
- The voice and vote of emerging market economies need to be strengthened significantly in the IBRD. Voice and vote of the recipient countries need to be strengthened in IDA, along with maintaining an incentive for smaller donor countries to continue their above average support; this can be achieved by introducing a double majority rule. A greater voice for recipient countries will likely result in operational policies that are more responsive to the needs of the recipient countries as demonstrated by the experience of the EIB and CAF.

Recommendation 6: World Bank reform requires careful preparation, not rushed and partial decisions, and needs to be considered as part of a broader reform of global aid and public goods architecture.

There is a risk that a rushed decision process will lead to Band-Aid solutions in the Bank's mandate, operational policies and funding mechanisms, not consistent with the long term goals of providing an efficient development and global public goods funding mechanism in response to the severe global economic, social and environmental challenges. Therefore a high-level, comprehensive, but time-bound reform process should be initiated under the aegis of the G20 Summit which takes a serious look at how the key global institutions can be strengthened in the overall context of global governance, aid architecture and public goods reform.<sup>6</sup>

### **Addendum**

Recommendation 7: The G20 Summit process needs a technical secretariat; the World Bank should, along with the IMF, UN and WTO provide staff and technical support for such a newly to be constituted secretariat.

The G20 Summit needs to be supported administratively and technically, if it is to become an effective global forum for dialogue and decision-making among the world's leaders. A secretariat is required for this purpose in support of the traditional troika and Sherpa processes. A joint secretariat consisting of the IMF, UN, WTO and the World Bank, and possibly the OECD) should be set up. These are also the agencies that would have a principal responsibility for implementing the international aspects G20 agreements and for monitoring national follow-up and performance. One example of the usefulness of a secretariat is the G24, although the G20 and G24 are not strictly comparable.

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<sup>6</sup> While the Zedillo Commission is a welcome initiative, its narrow focus on World Bank reform will not permit it to tackle the broader questions here noted unless its mandate is broadened and unless it reports to the G20 directly.