

“Shaking Up the World Bank: Essential Elements for Governance Reform”

By Ngairé Woods

The World Bank has just announced a \$2 billion fast-track facility to speed up its help to the world's poorest countries hard hit by the financial crisis. The move highlights why it is time seriously to reform the World Bank's governance. The Bank does two things, both of which are vital during this global economic crisis. First, the Bank has become a global public financing mechanism which permits governments to contribute to emergencies, relief to the poorest countries, countries at risk of descending into war, public health crises, climate change, and so forth. Second, the Bank is (and has always been) a global lending cooperative, which helps to channel private finance to emerging economies even when the markets dry up (by pooling the sovereign guarantees of all of its members so as to raise cheap capital from the markets which it can lend back to its members).

Hindering the World Bank in both its tasks is its governance. The existing Board structure of the World Bank is one which minimizes risks to the institution, at the cost of its borrowers. A full-time resident Board, nominally representing all countries who are members of the Bank, oversees the application of detailed rules and procedures which constrain the staff and senior management. The Board also monitors a plethora of internal auditing and quality controls, the work of an independent evaluation group, and the work of the judicial style Inspection Panel. The result limits any risk-taking by the Bank. Or better said, distributes risks to those least able to bear them.

The costs of minimizing risks are borne mostly by borrowers (who face slower and more costly loans) and by the world's most at-risk and vulnerable populations whose hopes of assistance in a crisis or conflict are postponed while the Bank's Board ensures that rules and procedures are followed. The result is a Bank which is too slow, too risk-averse, and too unresponsive to its needy members to be as effective as it can and should be. Am I arguing that the rules should be ripped up and the Bank encouraged to plough into risk-taking? No, I am arguing for decision-making which better distributes risks.

To deliver public goods, the World Bank needs a Board which enunciates the collective purpose of members. This means a Board which engages and reflects political leadership at the highest level. The governments sitting on the Board need to make decisions which give the institution political cover. Those governments themselves should sometimes collectively shoulder risks, permitting the Bank to act rapidly in uncharted terrain, and to act with other international institutions without fearing for damage to its own procedures and rules.

An example of how such engagement can work can be found in the role of the G7 Finance Deputies in the IMF. In their heyday, the G7 Finance Ministers (and Deputies) group acted as a strategic directorate for the IMF, communicating regularly, coordinating policies among key governments, taking information from the IMF, and giving it specific directions, such as to make an extraordinarily large and rapid loan to Mexico, or to Argentina, or to Russia.

The World Bank has never had an effective directorate. Its Board of Governors and Development Committee have highly formalized annual meetings. At the other end of the spectrum, its Executive Board operates at a bureaucratic level, sitting full-time in Washington DC, overwhelmed with information and documentation, attempting to oversee all of the Bank's policies, operations, evaluations, quality controls, and audits.

The Bank now needs a board which is small enough to be a directorate, yet representative enough to be effective. It needs input from different regions and countries, in part to be better informed yet more importantly because if countries do not feel represented in the organization, they can simply refuse to “let the Bank in” which would directly erode the institution's capacity to deliver on global public goods. There is a structure which could

achieve this. Happily it is a structure which would also better serve the Bank as a credit cooperative.

The credit-cooperative Bank – its historic function - faces serious problems with its current governance. The Bank's Board is structured as though it is a shareholding institution, although it is not. Its governance lazily mirrors that of the IMF. It has long been criticized for giving anachronistic and disproportionate access and influence to US interests when in practice the Bank no longer looks only to Wall St for capital, it raises more of its money in Europe and elsewhere. The value of the US guarantee which helps to underpin the Bank's credit-worthiness has diminished dramatically in size and importance. The Bank now has a credit history of its own, a large investment portfolio of its own, and other members whose considerable resources could provide a substantial guarantee. Simply put, the rationale for basing the Bank in Washington DC with an American President has eroded sharply since 1944.

Dissatisfaction with the Bank's governance (most often expressed as bitterness about the Bank's "attitude, "intransigence", or "approach") is hindering the Bank. It has fuelled the accelerated "exit" by countries preferring to use private finance wherever and whenever they can – although now this option is drying up fast. Earlier on, concerns about the Bank's governance gave impetus to the creation of regional and sub-regional credit-cooperatives. In fact, this is a positive development worth building on. The Inter-American Development Bank is now a larger lender in Latin America than the World Bank, and so too is the Asian Development Bank in Asia. The African Development Bank is working hard to carve out its own role.

Building on regional credit-cooperatives, a new vision of the World Bank would radically devolve the credit-cooperative role to regional development banks and build a new federal relationship across them. This points the way to a new governance structure for the Bank as a whole. Why not represent each region on the World Bank's Executive Board, comprising a new G7 or G8 made up of a highest-level political representative from North America, Central and South America, Asia-Pacific, Africa, Middle East, the European Union, Russia and non-EU Central and Eastern Europe. The Directors would be Cabinet-level Ministers who would not sit permanently in Washington DC but would meet formally six times per year, with much more regular communications facilitated by the World Bank (as the IMF did with the G7 Finance Deputies). This transformation would be far less costly and more effective than the Bank's current governance structure. It would strengthen the Bank's ability to take risks where needed in its global public financing role. It would reinforce emerging regional credit-cooperatives at a time when all countries need to strengthen their ability to attract private finance.

Ngairé Woods is Director of the Global Economic Governance Programme, and Professor of International Political Economy at Oxford University.