The Key Challenges Facing The World Bank President
An Independent Diagnostic

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The diagnosis has been prepared by a team of members under the auspices of The 1818 Society, the official World Bank Alumni Association. The views expressed are those of the team and do not necessarily reflect the views of The 1818 Society or its membership.
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Preface

The World Bank Group has a strong global reputation, unparalleled convening power, and illustrious history of contribution to the advancement of many developing countries. It retains the ability to respond financially to crises, as it did in 2009-2010; it is the richest available data source on conditions in developing countries; it is a popular donor trust fund manager with approximately $20 billion in trust; and it has been a pioneer in areas of economic growth, income distribution, poverty alleviation and people empowerment.

At the same time, the World Bank faces enormous challenges. Some of the challenges arise from a dramatically changed development landscape created in the last two decades by a significant reduction in global poverty, a major shift in a number of developing countries to middle-income status, and the emergence of several others as major geo-political players. These changes have led some to question the continued relevance of the World Bank in today’s world. The Bank has yet to develop a new vision for itself in response to these changes.

The 1818 Society, which is an organization of the World Bank Alumni, believes that the Bank still has enormous potential that can and should be harnessed for global good. With the impending change in leadership, it commissioned a group of highly experienced recent alumni who combine years of experience in virtually every aspect of Bank’s work, to prepare this diagnostic exercise to identify the major strategic and management challenges facing the institution.

The exercise takes a “no holds barred” look at some areas where the Bank is ailing. It concludes that while the Bank is still a well-regarded player in promoting development and generally enjoys a good reputation, the cracks in internal management, human resources, and strategic leadership are sufficiently worrying that it puts the future of the Bank at risk and undermines its ability to play its potentially critical role in global issues.

The newly appointed President has a unique opportunity in the next few months to consult widely and then to define and build consensus around a vision of a new role. And to take measures to deal with the Bank's outdated structures, ineffective processes and inadequate capital base that would hinder bringing that vision to reality. It is our hope that this independent assessment will help this effort, with insights from those with substantial experience and no vested interests other than to see the new leadership and the Bank be as successful as possible in dealing with some of the world’s most pressing issues.

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I. An Overview of the Bank’s Condition

The World Bank Group is at an important juncture in its history, facing questions about its role and effectiveness. Some commentators predict its slide into irrelevance, while others contrast it with a newly revitalized IMF and strongly recapitalized regional development banks, and ask “why do we need the World Bank?” Its outgoing President made a case for the Bank’s continued relevance in Foreign Affairs a few months back; however, many seem unconvinced. Although criticisms are not as severe as they were during the mid-1990s, predictions of Bank irrelevance are mounting. Fortunately this critical moment for the Bank coincides with the naming of a new President. This presents an excellent opportunity to remedy cracks in the institution, provided that these can be well identified and the natural tendency to avoid tackling big issues overcome.

It is with this purpose in mind that the 1818 Society launched this diagnostic. This short report on the state of the World Bank is intended to help the new chief executive in assessing what he is inheriting and what the nature of the challenges are that need to be confronted. With so many different voices coming from the Bank’s shareholders, NGOs, and the international community and an equally strong set of views from incumbent managers, it is difficult to develop a clear perspective. It is our hope that this report, prepared by Bank alumni, professionals who care deeply about the Bank’s mission, its staff and its reputation, will serve this purpose.

It is worth stating that this is not the first time that the Bank has faced serious challenges. Such a moment of doubt confronted the Bank at the beginning of James Wolfensohn’s first term, during the tumultuous “Fifty Years Is Enough” period, when the Bank’s external image suffered and many dismissed it as “that ‘Washington Consensus’ institution.” The external threats facing the Bank today are different, as we shall elaborate; however, the most worrying threats are internally generated by an archaic structure and poor internal management decisions. Many of the Bank’s most serious wounds are self-inflicted.

As with any institution, the basic guiding principle that drives decisions revolves around its vision. The World Bank began as a reconstruction bank and gradually transformed itself into a Bank that cared not only about economic growth, but also about who benefited from that growth. Along with strong personal advocacy for family planning and Bank support for the green revolution, the McNamara years can be seen as strong growth in lending years around the theme of growth with equity and analytic work on poverty. In the aftermath of the oil crises and the need for the recycling of capital and economic adjustment to higher energy prices, the Bank expanded from being primarily a project bank to also being a program bank, helping to guide reforms and re-position developing country finances.
Three successor Presidents—Clausen, Conable, and Preston—focused largely on consolidation of various McNamara era initiatives and on strengthening internal management. Lew Preston initiated the first major rethinking on how the Bank should be re-positioned in a rapidly changing world to focus its activities on areas of its comparative advantage, but the initiative was cut short by his untimely death in 1995. Jim Wolfensohn inherited an externally maligned institution. His vision was to put the Bank squarely in the fight against poverty in partnership with others, particularly non-governmental organizations. But unfortunately he also presided over an expansion of Bank’s work in many new areas at the expense of a loss of focus in Bank’s work and a burgeoning bureaucracy. Successive presidents have taken up the fight against corruption and a number of other causes that have resonated with shareholders, but many of them have entailed significant internal costs to the institution. Cumulatively, the last 15 years have left the Bank a diffused institution and much weakened internal management structure.

The Bank that the new President inherits is under-performing. It has a very cumbersome inefficient internal structure. It is highly reliant on consultants, in large measure because it has mismanaged it core cadre of experts, and excessively decentralized to the point that the budget is a serious and growing constraint. Despite two years of extraordinarily high lending at the onset of the Great Recession, the lack of significant capital increase now leaves the World Bank much weakened vis-à-vis regional development banks. While lending levels are not in themselves the aim, lack of lending means higher overheads; less money destined for transfer to IDA; and a lower quality dialogue with countries facing legitimate bottlenecks in city infrastructure, climate change adaptation, risk management, and health and pension reform. Morale is not good and the average length of tenure of Bank staff is a shockingly low 3.5 years. Many of the structural problems facing the Bank have reached serious proportions, and the institution runs the risk of being seen, as was the IMF at the end of the de Rato period in 2007, as seriously damaged and in decline.

It is the view of the diagnostic team that this decline is not inevitable. It is in our view not the competition from private sources of capital, nor the competition of development ideas that flourish outside the Bank that pose the greatest threats. The major threats to the Bank stem from:

- the lack of a clearly articulated vision combined with a passion for development;
- poor HR policies that have allowed sectoral expertise to erode and have made nationality an increasingly important criteria for senior level appointments;
- failures to deal with clear cases of under-performance that have hastened decline of technical units and have eroded the *esprit de corps* of Bank staff,
- a tendency to define the role of the Bank in terms of visibility at international fora rather than its impact on the global economy; and
- advancement of a series of isolated initiatives, often donor financed, that has left the institution as a second-string player in many arenas and a prime-time player in none.

Knowledgeable observers see a Bank that is rapidly being depleted of experienced staff and using an archaic organizational structure that re-enforces the “de-skilling” process. This is
occurring at a time when countries are not only improving their own economic management and therefore demanding more specialized and globally relevant expertise, but also have a greater array of choice. The World Bank’s competitive advantage as a provider of integrated financial and advisory services is falling behind, largely because of internal management failures.

Hence, the new chief executive of the Bank faces a stark choice at the outset: whether to continue to patch a leaky boat or bring it into the shipyard for a much-needed overhaul. Using the experience of Strauss-Kahn at the Fund, swift and bold action to fix the institution seemed to work. True, it was assisted by the financial crisis that made the Fund relevant once more, but an unreformed IMF would not have been seen as an institution ready to accept new challenges. By contrast, during the last 7 years of leadership, no fundamental reform of the Bank’s basic operating model has taken place. That trend needs to be reversed if the fortunes of the Bank are to be improved, and herein lies the most fundamental decision facing the new President.

New Bank leadership still has assets to work with. The World Bank Group combines the IBRD that still retains some cache and demand for integrated services from middle-income countries, the IFC that can invest directly in the private sector and has proven to relatively agile in identifying opportunities, and the IDA remit that is of great interest to shareholders. The issue of the WBG’s finances requires a detailed diagnosis and analysis, since both IBRD and IFC earnings have been used to bolster IDA’s lending capacity, and because the Bank’s business lines should be viewed as part of a larger Bank Group business model.

The diagnostic looks at some of the critical areas that require attention in order to renew and strengthen the Bank. These include: (1) the over-arching issue of the effectiveness and efficiency of internal management and the challenges facing the institution; (2) the Bank critical role as a provider of advice, global best practice and development ideas; (3) the Bank as a lender in the rapidly changing world of development finance; (4) issue of managing the institution’s human resources, its key asset; and (5) the question of the Bank’s longer-range strategy and vision. The sections are aimed at providing a sufficiently robust diagnosis so that the Bank’s new leadership will eventually be in a position to answer the question of why the global community still needs the World Bank and, if it does, how to re-position the institution to capitalize on this demand for its services.
II. Effectiveness and Efficiency of Internal Management

Overview

Although the Bank is generally known for its ability to mobilize and channel significant financial resources for development, a less well-understood but even more important part of its work is to bring to bear global knowledge and experience on the development challenges faced by individual countries. Striking the right balance between these two objectives has been a challenge for the Bank: the former requires “country focus” and the latter an ability to attract and retain staff of highest quality who are able to collect and disseminate cross-country experiences in development to deal with specific challenges of individual members. Global experience in the practice of development is what countries most often value from the Bank along with its role as honest broker when dealing with foreign governments and multiple donors.

The Bank has throughout its history been cognizant of its twin objectives of “resource transfer” and “knowledge transfer” and has tried to strike a balance between the two through appropriate internal structure and processes that have changed over time in response to its own evolution and changing circumstances of its members. Some changes were in response to trying to make the organization more efficient, others to be more responsive to the client, and still others to deal with specific new mandates by some shareholders. Prominent among the new demands from its shareholders has been the management and use of a number of trust funds, now well over a 1,000 in number, and covering many different themes and activities that sometimes reflect the Bank’s priorities but in many cases those of individual donors. The explosive growth of these trust funds have diffused the Bank’s focus and exacerbated the management challenge facing the Bank.

In order to understand the challenges facing the current structure, it is useful to consider how it has evolved over time. The organizational changes can be broadly described in three phases (see Annex A for details):

a) The organization structure of 1972 that divided up the Bank into six regional vice presidencies for delivery of services (finance and knowledge), while maintaining a core vice presidency for global knowledge accumulation and transfer, policy, and research. The structure was expected to deliver rapidly growing financial and non-financial services.

b) The reorganization of 1987 that divided up the regional vice presidencies into some two dozen country departments expected to deliver all services to their clients more or less autonomously. The main aim was to increase country focus and client responsiveness.

c) The reorganization of 1997 that created many more country departments (60+), with many decentralized to the field to further increase country focus, while also attempting to augment global knowledge through the creation of “networks” of staff across various Bank regional units that were expected to augment the knowledge function of the Bank.
This Balkanization of expertise started with reasonably strong central units that have been continually weakened in the subsequent 15 years. At the same time, a significant improvement in efficiency was promised because of de-layering of the management structure. A “matrix” structure of management was introduced to reinforce the balance. This structure has undergone a few changes since its introduction in 1997 under three different presidents, but the essential feature of matrix management remains.

There is widespread view in the Bank that the matrix structure that has evolved over the last 15 years is a serious barrier to the Bank delivering its mission effectively. A recently completed review of the issue by IEG at the behest of the Executive Directors confirms this view. It concludes that the basic tenets of the current organization – a matrix structure and reliance on “networks” for global expertise to serve the Bank’s clients - has proven to be highly inefficient and ineffective. It warns of deteriorating quality trends of Bank projects since the introduction of the matrix because of diffusion of functions and unwieldy span of control, emergence of silos within the region and the networks that stymie the Bank’s important goal of being a knowledge bank, and an inability to capture and share the large volume of knowledge embedded in its operations. Its most alarming conclusion: “Rather than function as a global institution, the Bank is at risk of evolving into six regional banks.” We share the alarm bell raised by IEG, but if anything, it understates the problems.

Current Internal Management Challenges with the Matrix

1. There is no indication that it has improved internal efficiency. To the contrary, there has been a significant growth in staff and managers, some of them budgeted from a growing array of trust funds. The number of management layers has increased not decreased, as the number of managers at all levels – VPs, Directors, Managers – has exploded. The original plan did not anticipate the emergence of de-facto managerial layers under new and different titles (advisers, cluster managers, coordinators, etc.). The sector managers, instead of becoming “working partners” have become over-burdened line managers with unmanageable span of control and a loss of technical expertise. Instead of becoming more outward looking, the Bank has become much more inward-looking as staff and managers are increasingly called to fulfill internal demands.

2. There is a lack of accountability in the organization. Assigning accountability has always been a challenge in the Bank given the nature of the work and the long time before results are evident. But there is little use of performance goals for directors and VPs, particularly beyond lending volumes. There is very little accountability for quality and outcomes. Even the available tools like IEG and QAG findings were rarely used for accountability purposes and the incentives of pleasing the client now dominate all internal reviews, especially for large or

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2 Abolition of QAG removed a real-time feedback on quality that is outside IEG’s mandate.
strategically important clients. Moreover, there has been a significant centralization of decision-making in the Office of the President, a trend started in 1995 and accelerated since then by each successive president that has resulted, in the words of a one manager, in “the rest of the Bank becoming an upward information feeding machine.”

3. Instead of strengthening line accountability, there has been a proliferation of control functions. An example of this is the budgetary control function that has grown now to more than 500 by official numbers, and as much as 700 staff by some counts. For operational work, excessive fiduciary controls have stymied staff initiative and encouraged risk averseness. An over-zealous approach to fighting corruption has created a culture of risk aversion in decision-making. Concerned about corruption, Paul Wolfowitz substantially expanded the functions and authority of the department of institutional integrity. While useful in dealing with cases of fraud and corruption in procurement, a consequence of this initiative internally has paralyzed staff and managers. On the other hand, there is little evidence of INT investigations in and of themselves having made a significant difference in governance among Bank clients.

4. The key goal of a global knowledge bank has been elusive. The Networks have simply failed to deliver on their knowledge mandate. Instead of promoting knowledge of development, sharing of best practice and disseminating cross-regional experience, they have been increasingly occupied with corporate functions and externally-driven tasks funded from an array of trust funds. Their impact on the Bank’s basic operational work has been negligible and their role as intermediaries between research and operations has been thwarted both by the independence of the research function and decentralization of country offices What was once strong technical oversight has been replaced with country relations expediency and shareholder relations. As we discuss in the next section of the report, a strong global knowledge transfer function is raison d’etre for the Bank

5. Most worrisome, there is evidence of “de-professionalization” of Bank staff as a growing number of “generalist packagers” who can deliver on Bank’s internally-driven requirements effectively have replaced the specialists. Ad hoc recruitment processes, insufficient scrutiny and oversight of recruitment by well qualified technical managers, opportunistic recruitment for immediate rather than institutional needs, and ad hoc confirmation after the probationary period and term extensions, have all contributed to a deterioration of staff quality. The recent initiatives to move away from permanent employment can be expected to further exacerbate problems with staff quality. This at a time when the Bank’s increasingly sophisticated clients are demanding high quality advice.

6. Decentralization has been a double-edged sword. Greater decentralization to the field has been a welcome development, but is of questionable relevance for some of the more sophisticated and a growing number of middle-income clients. Greater field presence has certainly improved project implementation at the country level. However, the decentralization

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3 An in-depth study commissioned in 2006 by the VP for infrastructure of the quality of Bank staff in infrastructure confirmed this trend.
to the field initiative accelerated precisely at the time when the needs of many Bank clients were changing, with many more countries entering the ranks of middle-income countries. These countries are much more in need of high-level periodic advice rather than field-based implementation support that is much more relevant for low-income countries with weaker institutional capacity. In addition, high cost associated with decentralization (roughly twice of a Washington-based staff) has had to be offset by a disproportionate cut in specialized skills. There is now a need for a much more discriminating and selective decentralization strategy, both from the point of view of country needs and on cost-effectiveness grounds; however, decentralization is seen as an irreversible trend.

The telling observation from knowledgeable outside observers and commentators (see Steve Denning in Forbes) is that the whole of the Bank is less than the sum of its parts, in large measure because its incentives are muddled and its management poor. Management has in the recent past become less professional and more political, and considerably weaker at the SVP/MD level that used to be levels of extensive Bank experience and substantial internal responsibility. Compared to the IMF, for example, the Bank is seen as under-managed and unaccountable, with a Presidential system that is divorced from the Board and increasingly isolated from staff.

Looking to the Future

The weaknesses in the current management structure call for a major restructuring. Mere tinkering at the edges will not do. At the same time, past attempts at major organizational restructuring based on extensive studies, even when successful, entailed a significant disruption and short-term cost that should be avoided.

The management challenges listed above provide the agenda around which changes in the internal management structure and processes can be devised. While each of these issues is important and requires action, the most vexing issue is how to reconcile the Bank’s role at the country level (“the country focus”) and as a global knowledge transfer institution. This has been an issue the Bank has faced going back to the first (1972) reorganization. It also impinges on the question of how far and to what extent the Bank should decentralize. And the knowledge bank concept in a world of increasingly sophisticated and demanding clientele requires careful thought on how the Bank can attract and retain high caliber staff in a world with many other competing opportunities globally available to the most qualified professionals.

The structural changes should, however, need to be accompanied by a re-definition of the role of the president so it once again becomes an effective “face of the institution” to external world. This is likely to require a rebalancing of the internal management functions vis-à-vis the MDs and VPs, with a much greater delegation of decision-making powers. However, it will also require that this layer of senior managers be selected competitively on merit and not on the basis of “country entitlements” or pressures to respond to specific member constituencies. The open process that has been so effectively advocated this year on the selection of the president should apply equally to all senior managers.
III. The World Bank’s Knowledge Services

The Bank as a Source of New Ideas

Although development finance is offered by many different organizations and through a variety of channels, the World Bank’s well recognized contribution is the combination of money and knowledge that it can provide. Development partners and client countries look to the Bank for practical advice that, when packaged as a project or program for action, can actually be implemented. The Bank spends an estimated $600 million in explicit knowledge activities each year and far more when tacit knowledge embedded in projects is included. This has traditionally been a strong point of the Bank.

The World Bank has a distinguished legacy of pioneering new ways of conceptualizing development. Over the years, it has championed and operationalized many new concepts that became basic tools of development practice. They included basic needs strategies, poverty assessments, poverty reduction strategy papers, structural reforms, measurements of economic returns to education, implementable environmental and social standards, slum upgrading, debt sustainability analysis, and new tools for governance and institutional reforms, to mention a few. But recently it has not been the Bank, but rather academics, the private sector, NGOs, and developing country practitioners who have been the innovators of knowledge for development. The Poverty Action Lab at MIT, for instance, has championed the use of randomized trials to advance knowledge on cost-effective public policies in development, and has undertaken more than 315 evaluations. The International Growth Centre’s network supports more than 200 research projects across a range of key development challenges. Non-governmental organizations such as Bangladesh Rural Advancement Committee and Kiva.org have developed and rolled out new techniques for bringing finance to millions of the world’s poor. The private sector and social entrepreneurs have also pioneered new delivery models and technologies that generate value at the bottom of the pyramid, demonstrated in examples such as M-PESA, the telephone banking scheme in Kenya. South-South cooperation has become a leading source of development of “how to” ideas.

Much of this is very good news; what is not good news is that the Bank has lost its competitive knowledge edge in many existing areas of development, while not developing new leading edge ideas and knowledge products. Countries wanting to learn best practices are often confronted with under-qualified World Bank staff, cumbersome procedures for securing advisory services, and disconnects between country-based lending services and sector-based knowledge services. As previously described in Part Two of the Diagnostic, a good deal of decline in the delivery of knowledge services is due to poor internal management practices. This is aided and abetted by

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other trends inside the organization.

The Bank’s Competitive Advantage in Advisory Services

The Bank’s competitive advantage in the provision of economic policy advice has traditionally been based on three factors: a) the quality of its staff and the expertise that it has been able to harness, b) the fact that it brings global experience to the table, so that policymakers are able to draw from best practice anywhere in the world, and c) its ability to finance -- through its projects and programs -- policy reforms and implementable solutions. These factors have in the past distinguished the World Bank from regional development banks and from consulting firms and universities, which could not provide this combination of features in advisory work. But the level of technical expertise that Bank staff bring to the game has declined markedly in recent years, the consequence of which is that client governments are less likely to find Bank advisors to be on top of the technical areas in which they need advice for making policy decisions.

The Bank’s role as a global knowledge broker has been further weakened by the decentralization of offices and the failure of networks described previously. Management’s recent efforts to reinvigorate the “knowledge Bank” with ad hoc measures failed to reverse the steady decline in the organization’s capacity to deliver world-class, globally-informed advisory services. Staff observe that risk-taking in operational design is discouraged in favor of a low level equilibrium that eschews breaking new ground and testing new approaches. They attribute this caution, in part, to the multiple internal reviews and an excessive number of “boxes to be checked” as a project is being formulated. In a nutshell, whereas government officials used to be receptive, even eager, to receive the Bank’s policy advice (i.e., if you ask government officials from graduating countries what they valued most in the Bank relationship, it is often the advice rather than the funding that they mention), the Bank is losing its unique position as the main source of ideas, relevant advice and financing for economic development.

The Organization of Knowledge Activities

What is common about the best new ideas in development is that they originate with organizations that are focused and specialized. Their impact has come about through multi-year research and experimentation, and through a learning-by-doing process of discovery. The World Bank, by contrast, has increasingly divorced its knowledge work from its lending operations. Research success is measured by the number of publications in academic journals, not by its impact on Bank operations or efficacy of policy advice. The networks produce “best practice” notes, and while some are effective in helping country operations, there is a large tail of barely-read pieces with minimal impact. Budgets for knowledge are fragmented into individual, one-off reports rather than well sequenced programs of work that feed results from one stage into the design of the next. Small wonder, then, that Bank reports are often process intensive efforts with relatively-little attention paid to the real markers of knowledge impact, namely, effective advocacy, coalition building and achievement of policy change. And while
Bank reports are usually of good technical quality, only a small percentage of them are excellent and they are often completed too late to be helpful. The ponderous and ineffective review processes makes it hard for the Bank to participate in real-time, open country policy dialogue. And the influence of trust funds often makes the selection of topics less relevant to the ultimate county clients.

Paradoxically, despite the onerous review process for knowledge products, the oversight of technical work has become ever weaker. Five main organizational trends have contributed to this weakening:

- power shifts towards in-the-field Country Directors;
- unmanageably large spans of control of technical units;
- fragmentation of budgets for analytic work;
- loss of senior technical experts to exercise effective quality control; and
- lack of reward for superior technical work.

Whereas other institutions, such as regional development banks, the International Monetary Fund, and consulting firms have been scaling up and improving their technical capacity, the World Bank has gone in the opposite direction. Once a leader in the development field, it is perhaps now simply one of many players.

On the positive side of the ledger, in a major step forward, the Bank has become far more transparent, releasing data, documents and research tools to the public. It has also set up new knowledge platforms to reach out to other partners in addressing complex development challenges. These are welcome measures and have added to the Bank’s ability to play a leading role in global knowledge management. The Bank continues to be quoted as the data source of choice on development, which is a healthy sign, although the Bank itself has been less innovative in using the data it collects than it could be with a research program often driven by vested interests rather than development importance.

**Issues and Challenges**

Lack of reliable and consistent data in developing countries has always been a challenge to the expansion of evidence-based policy-making. Data quality in developing countries has certainly improved, but the Bank puts relatively little resources into statistical capacity building and has only one trained senior-level statistician in house. Important data are thus subject to major revision. The Bank could do far more to improve data. When it joined with Latin American countries and the IADB to improve household survey data in the MECOVI program in 1996, it was able to dramatically improve the quality, relevance and timeliness of household surveys.

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2 Ghana rebased its national income accounts in 2010 and its GDP was recomputed to be 60 percent higher. New purchasing power parity data were collected, resulting in a recalculation of prices that drove up Asian prices by 40 percent. Simon Johnson has shown that many empirical findings based on PPP measures are highly sensitive to which version is used.

3 MECOVI is short for “Programa para el Mejoramiento de las Encuestas y la Medición de Condiciones de Vida”, a Spanish acronym for the Program for Improvement of the Surveys of Living Conditions (ISLC).
and poverty analysis in that region. Unfortunately, similar programs have not been adopted elsewhere.

A second major challenge is to improve the impact of knowledge services. The Bank lacks a formalized “theory of change” to guide its knowledge work. Hence there is a strong bias to continue doing the same thing. In addition, time-lines are driven as much by internal bureaucratic factors (viz., report production within a fiscal year) as by the timetable of a client’s domestic policy debate; moreover, reports are too long and too late to inform those debates. With trust funds financing about half of all knowledge work, both the agenda and the organization are influenced by individual donors’ preferences, rather than by the Bank’s own strategic priorities. Staff are not assessed based on the impact of their work.\(^4\) Technical expertise is less valued than general team leadership skills. Many engineers and professionals in other disciplines have left the institution as sector priorities shifted, leaving it depleted in critical areas.

The Bank believes its added value stems from cross-country and cross-sectoral analysis, but the reality is that regional staffs spend only about 3 percent of their time working on development issues in another region, an inevitable consequence of the deteriorating matrix structure and loss of clout of sector-based units. Even within the same region it is notoriously difficult to field teams from multiple sectors. And it is costly and awkward for decentralized staff to work in different countries. Managers are held accountable for products for which they have been assigned responsibility and budget, not for bringing together teams from various units to achieve a better outcome.

But perhaps the biggest challenge for knowledge work in the Bank is the absence of senior management leadership. Knowledge activities are not part of the performance indicators for any regional Vice-President. The infamous “lending culture” of the institution still dominates. Successive presidents have paid lip service to the importance of knowledge, but without changing the culture and incentives for staff and management, business-as-usual is quick to return. Without clear signals that knowledge is critical to the Bank’s mission and measures that institutionalize this message, the Bank will be unable to contribute to its full potential and will continue to lose ground to others.

\(^4\) An exception is the IFC which has introduced knowledge impact into staff assessments.
IV. IBRD’s Role in Global Development Finance

The Overall Situation

The new president will be taking over the reins of the World Bank when IBRD’s lending is about to decline to levels reached two decades ago, and just when the regional development banks (i.e., the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, and Inter-American Development Bank) are set to increase their lending, the International Monetary Fund has quadrupled its lending capacity, and the BRICS are openly discussing the formation of their own development bank. While one may ask how this happened and what it means for the future of the institution, perhaps one should first ask whether this matters.

Should we be concerned about this lending phenomenon? Isn’t it a sign of success, perhaps, that the World Bank will be lending less? The answer is a resounding no for a number of reasons. First, there are a host of long-term investments in energy efficiency, in carbon management, in city-based infrastructure, and in environmental risk management, to name a few, that require both long-term concessional funding and strong project and policy advice at the same time. Second, for many middle-income countries, the Bank has been a lender of choice to secure 15-25 year funds at predictable interest rates. And third, countries value Bank involvement in designing policy interventions with better governance, stricter adherence to procurement rules, greater social inclusion, and superior project implementation. There is demand for World Bank lending. Moreover, Bank lending is a package deal comprised of project design, collaboration with government, advisory services, implementation oversight, coordination and evaluation. It is not only the money, but without the money there is very little concrete dialogue with countries on investment needs.

A second question revolves around how this lending constraint arose. The answer is that it stems in part from the accelerated lending that the IBRD undertook at the onset of the recent financial crisis when even creditworthy borrowers feared being frozen out of markets, and the IMF was seen as the wrong window due to its past history in East Asia (e.g., its actions during the 1997-98 East Asia crisis), its then prevailing ideology and perceived negative stigma in financial markets. Some might question whether the Bank shouldn’t eschew large financial loans and concentrate instead on what are called nitty-gritty projects in infrastructure and human development, for instance. The answer again is no because that is not what borrowers want and also not what gives the Bank a seat at the table on broader policy issues. Not only in finance, but also in its sector-based lending, the Bank exercises policy leverage by being a part of investment programs and a partial financier of national reform agendas. There is no other explanation for robust Bank lending in India and Brazil and Mexico and Indonesia.
IBRD’s capital increase was the smallest

The global financial crisis triggered unparalleled efforts by the international community to boost the lending capacity of the international financial institutions. All multilateral development banks, including the World Bank, received increases in their capital base – but the IBRD’s increase was proportionally smaller (45%) than that of the regional development banks (100% for the Asian Development Bank, 200% for the African Development Bank, 70% for the European Bank for Reconstruction and Development). With creditworthiness constraints and single borrower prudential limits, a smaller capital increase means that the Bank’s role in many large developing countries will decline at a time when global financing needs for major global public goods are rising and new potential IBRD borrowers are emerging.

The IMF, on the other hand, was catapulted into a league of its own in the aftermath of the Great Recession. Before the crisis, its lending resources stood at $250 billion; since then, they have climbed by over $1 trillion. Thanks to unprecedented lending to the Eurozone, the Fund’s Managing Director is considering raising more funds. At a meeting in Mexico earlier this year, the G-20 finance ministers stated that the Fund’s lending resources should be increased by another $500 billion. The Fund has also altered some of the access rules for funds to become a more attractive precautionary lender; however, many countries still sense that market sentiment will turn against them if they approach the IMF in a non-crisis situation. For this reason, and because the bank can offer attractive long maturities, the World Bank continues to have demand for its financing of development.

IBRD’s sustainable lending level is half that of the regional development banks

IBRD’s capital increase was calculated on the basis of a sustainable lending level of about $15 billion a year. That was the amount it was lending annually for almost two decades before the crisis. The Bank used up its lending “headroom” provided by past capital increases in unprecedented levels of lending in FY2010-2012 and its post capital increase sustainable lending level of $15 billion was deemed a “modest figure” by the Bank’s own report to the Development Committee. By opting for a small capital increase, the IBRD may have mortgaged its future since lending will be limited by the scale of repayments from its outstanding loans and any savings from net income it can put back into its reserves. It is worth noting that these lending levels are gross disbursements, meaning that they do not measure the net resources flows between borrowers and the Bank since repayments are not covered in the gross disbursement number. A separate issue arises when one speaks of the pattern of net resource transfers.

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1 IBRD’s capital now accounts for 37 percent of the combined capital of regional development banks ($276 billion compared to $753 billion) compared with 46 percent before the crisis ($190 billion compared with $409 billion).
While IBRD lending will be limited to a maximum of $15 billion a year, the regional development banks are expected to raise their lending to upward of $35 billion. The regional development banks are comfortably within their lending “headroom” and can consequently increase their lending, relative to pre-crisis years, for many years to come. The Inter-American Development Bank, for example, lent $8 billion on average before the crisis; it can now lend at least 50 percent more a year for the next decade.³ The Asian Development Bank, whose capital was increased by $110 billion and the African Development Bank are expected to increase their annual sustainable lending limits by more than a third. As World Bank lending recedes in all regions, it is sending a signal to borrowing countries that the World Bank may no longer be able to support many of their development projects, particularly in infrastructure, energy, and the area of economic reforms. The Bank’s reputation as development partner and financier is bound to suffer.

Another phenomenon worth mentioning is the expansion of non-traditional lenders, such as China, and the growth of private philanthropic organizations. Indeed, the lending activities of the China Development Bank and China Export Import Bank now dwarf IBRD lending even in the peak years of 2009-2010. In both Africa and Latin America, China’s financial role has eclipsed that of the Bank. While recycling of Chinese surpluses is a generally welcome development, the real question is whether the Bank retains the capacity to play a major role in solving national and global challenges with its current financial condition, and if not, what can be done about it.

There is a need to find ways to increase significantly IBRD’s lending capacity to maintain the Bank’s financial relevance and impact. However, avenues to do so are limited. There is little appetite among the advanced countries for a further general capital increase, largely because the Bank has not made a compelling case for itself. The IBRD had its chance in the thick of the crisis to proportionally match the GCI of the regional development banks, but chose not to. At the time, it admitted that the modest increase in capital matched neither expected demand from IBRD borrowers (where the bulk of the global poor surviving on less than $2 a day reside), nor the strategic vision for the future approved by the Development Committee in 2010.⁴

Without seeking another capital increase, which would politically difficult, the only alternative would be to adopt policy measures to increase reserves. This can be achieved by: raising revenues through increases in the price of loans; lowering transfers of net income to IDA; or cutting administrative costs. Each would be an uphill battle and none is likely to help boost lending capacity. Shortening the maturity of loans or asking those who undertook precautionary lending to repay early would enhance Bank finances but at the cost of alienating the Bank’s biggest and best borrowers. Curtailing transfers to IDA maybe portrayed as going against the interest of the poorer countries, but can be justified given the fact that demands on IDA will in the future decline as India has now entered the ranks of middle-income countries with good prospects for the future.

Reducing the administrative budget is not a viable option given that the Bank has already been operating for the last several years under a flat budget while the growth in field offices has required major cuts in Washington of the types of skilled staff that the Bank needs for its global knowledge function. The use of trust funds has in theory the possibility of filling the budget gap but, as noted in a previous section, it often creates additional demands that may not be in line with the Bank’s priorities. The only avenue for budget control is to rethink the Bank’s business model in dramatic ways, such as moving away from numerous small projects into considerably fewer and larger “transformational projects.” Another innovative approach could be for the IBRD to be a leader in the financing of major infrastructure financing programs that provide long-term finance, where the combination of IBRD’s project experience and its “preferred creditor” status would bring in more investors and at lower cost than if the country finances the deal on its own.

A reexamination of the current highly conservative prudential standards may also be necessary. Currently, IBRD’s prudential equity-to-loan (E/L) ratio, which underpins IBRD’s lending, is kept within strict limits, although it dropped from 38% in FY08 to 29% in FY11. This is still conservative and reducing it further would create some additional headroom for new lending. Greater use of guarantees maybe another alternative with a higher leveraging of Bank’s capital. But this too would require a reconsideration of some of the old prudential norms.

There are no easy choices, so difficult decisions must be taken too augment IBRD resources. The question here is whether it is better to be safe and increasingly irrelevant or to take some calculated risks and be a more significant global player.

Conclusion

The incoming president will be inheriting a World Bank with diminished lending capacity, thanks in part to past strategic choices. In order to arrest the trend towards irrelevance that many commentators are predicting, the issue of restoring the lending capacity of the IBRD is a serious challenge. Research has shown that most IBRD borrowers have improved their macro-economic positions in the last decade, and indeed, most of them are weathering the crisis better than anyone thought possible. That said, the needs of IBRD borrowers to invest in infrastructure and health, in carbon-reducing energy and in their cities means that there is plenty for the Bank to do in this development arena. Many IBRD borrowers would see a borrowing relationship with the Bank as a critical companion for its knowledge function, even when some of them could borrow more competitively elsewhere. To do so, however, requires the Bank to get its finances in order and to be able to raise its sustainable lending levels to, in our assessment, at least $25 billion annually for the rest of the decade. The incoming president should initiate early discussions with the Board on this subject.

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5 Korea, Malaysia, Thailand and, more recently China, are illustrative of middle-income countries following this strategy.
V. Managing the Bank’s Human Resources

Overview of the Situation

The management of the Bank’s most important resources has always been an Achilles heel. For over three decades, and after expending tens of millions of dollars, the Bank has struggled unsuccessfully to build an effective HR management system. A combination of factors - weak HR function, institutional rigidities, and a largely public sector orientation combined with a more competitive global labor market, immigration issues, fragmented guidance from its Board – have all contributed to the current state of affairs. Recently, certain HR policies have been adopted that are likely to further limit the Bank’s ability to attract and retain high-caliber professionals that the Bank’s clients increasingly demand.

Several internal studies in the last few years have confirmed a deteriorating quality and skill mix of Bank staff. Moreover, as noted above, pressures for lending have in many cases placed a premium on Bank-specific “processing skills” over professional skills. Bank clients would like both, but when probed cite the high professional caliber of Bank staff as the most important requirement. There is also evidence to suggest that policy considerations imposed by the Board or by the management itself have also increasingly contributed to deterioration in staff quality in recent years. And internal Bank surveys point to a largely frustrated and disaffected staff, which has little confidence in management and even less in the HR function itself.

Broadly speaking, Bank managers devote insufficient attention to their HR management role. This is motivated in part by their short-term horizon and lack of accountability. Yet, managers enjoy a great deal of autonomy in hiring, promotions and reassignment. Contrary to its sister institution, the IMF, the Bank’s HR system does not function well insofar as careers are not well planned, staff are not effectively assessed, and promotions are often executed in ad hoc ways that suit senior level managers but do not benefit the long-term interests of the institution.

Key HR Issues

1. **There is no clearly articulated and up-to-date WBG HR strategy.** Various ad hoc and unrelated initiatives have been taken in recent years on recruitment, performance management, tenure, salary, pension and working conditions, without there being a clear picture of the overall goals and practices of HR. This absence of strategy is exacerbated by the inadequate performance of the HR units.

2. **Recruitment practices ignore global competition.** The highly decentralized and uncoordinated system of recruitment has created a wide divergence in the caliber of new entrants. Recruitment is often shaped by the short-term needs of the hiring units rather than the long-term needs of the institution, and managers can use off-budget trust funds to pay...
their direct recruits. A recent decision to recruit staff only for fixed terms (rather than on open-ended appointments) has made it more difficult to attract highly qualified mid-career experts residing outside the USA. Even the Young Professionals Program, which once boasted of attracting the brightest and best worldwide, has seen deterioration in quality as evidenced by placement difficulties by many YP graduates.

3. **The performance management process is far from satisfactory.** It does not do enough to encourage those who perform well and weed out poor performers. True, a few high performers are recognized, but the bulk of the staff are bunched together to be rated “satisfactory” without further differentiation that would guide career development. Virtually all new entrants to the Bank are confirmed after the mandatory probationary period and managers face great pressure to extend most fixed-term appointments. Performance-related terminations are rare; managers instead look for ways to pass on poor performers to other units.

4. **Many of the best recruits increasingly do not view the Bank as a long-term employer.** In part it is a consequence of many more opportunities outside the Bank for trained professionals, something that is to be welcomed. But it is also because of a weak reward system, and the risks involved in renewal of fixed-terms appointments. Thus, loyalty and affinity to the institution is getting progressively weaker. The significant reduction in pension benefits in 1997 has aggravated this situation. In a globalized world, competent people have many other employment opportunities comparable or better to those offered by the Bank. Yet, Bank HR continues to function as if the Bank still enjoys a monopoly in attracting talented people.

5. **The inability of deal with low performers has led to blanket exit policies that are detrimental to the Bank’s ability to retain high caliber staff.** The recently adopted rule to have all staff on fixed-term is a blunt policy that, while allowing a supposedly easier exit of low performers (a claim yet to be proven), also creates unnecessary uncertainty for the better performers whom the Bank should want to retain. The mandatory retirement at age 62 while most of the industrialized world has higher limits is self-defeating.

6. **The pay system in the Bank has been developed through a series of Board-management “give and take” agreements rather than facts and analysis about global labor markets.** This practice has delinked the Bank’s pay system from market conditions and from the supply side factors that need to be addressed to attract the requisite caliber of staff from a range of geographical areas. It is unfortunate that, increasingly, the relevant comparator for benchmarking both pay and benefits is seen as the US Government rather than the global private sector. The establishment of an efficient pay system, based on sound categorization of global, country and regional staff with transparent guidelines for transfers between these categories is long overdue.

7. **The matrix system and local hiring have eroded technical bench strength.** One of the major drawbacks of the matrix system that has existed for the past 15 years is that centers of excellence based on technical expertise have all but disappeared. And the move for increasing
decentralization of staff to the field has not given adequate attention to the trade-off involved in having global knowledge and a critical mass of skills in different fields. The large increase in country staff is welcome from a narrow project implementation perspective, but not to meet the demands of global knowledge that more and more Bank clients want from the Bank.

Looking to the Future

There is a need to revamp the HR Vice-Presidency. It should be implementing a dynamic institutional strategy while supporting individual managers. This should be a strategy that continuously links recruitment, retention, training, promotion and performance management to keep the Bank’s staff expertise fully responsive to its mandate. The HR Vice Presidency needs to be led by a strong leader who can take on the challenge of HR reforms and develop a shared vision of a much stronger HR function. S/he will need strong backing by the president to succeed in this difficult function.

Working to restore Bank’s reputation for excellence is key. Acquiring the best relevant know-how about development and placing it under strong and responsive leadership is the name of the game. One of the major drawbacks of the matrix system that has existed for the past 15 years is that centers of excellence based on technical expertise have all but disappeared. This has been further aggravated by excessive decentralization and the field offices have hired too many globally uncompetitive staff locally. The major drawback to the Bank’s achieving its potential lies in the HR realm, since the Bank’s ability to mobilize expertise is the main reason why countries seek Bank involvement and supporting and developing leadership, from top downwards, is a key HR function. Excellence inside the institution is what will drive the perceptions of excellence outside.
VI. A New Strategic Agenda

Setting Clear Strategic Directions

A new strategic direction for the World Bank must rely on its strengths—both its existing strengths and the assets that it can develop or restore—in the light of current global realities that determine where the Bank is needed and how it can add value to the development process. Of course, any Bank strategy will require endorsement by shareholders, who will likely give a new president early license for a strategic reset, but who also have the potential to derail reforms by insisting on their own set of priorities, often driven by domestic political pressures. The availability of trust funds has accentuated donors’ ability either to reinforce the strategic priorities of the Bank’s management, for example, in the areas of anti-corruption and gender equality, or to divert strategic directions, such as the cases of primary education for all or disease eradication efforts unaccompanied by institutional reform.

The developing world has changed dramatically for the better in the last two decades, from a predominantly low-income world to a predominantly middle-income world thanks to sustained growth performance in most developing countries. Even many countries in Sub-Saharan Africa have shown promising progress in the last ten years. More than 70 percent of the poor under $1/day and most under $2/day now are living in middle-income countries. At the same time, the Bank is under stress in a number of areas, many of which related to its internal functioning. It is time to have a broad discussion with the shareholders on what the agenda of the Bank should be to respond to the needs of the “new developing world” and the internal reforms it needs to undertake to be able to meet the challenges. Time has come once again to renew the (aborted) effort by Lew Preston on how the Bank should position itself as a highly focused institution. This should be the first priority for the new president.

At the same time, IDA faces the prospect of reduced need/demand as many previously IDA-eligible countries have moved to the ranks of MICs, and India, the single largest borrower from IDA, is soon to follow suit. The main need for IDA funds in the future will be in the poor countries in Sub-Saharan Africa. This is thus an appropriate time to consider the future role of IDA from largely focusing on poverty alleviation in the poorer countries to financing global public goods more widely. Such a move, however, would only be possible if there is also a serious discussion about modernizing the governance of the World Bank that recognizes developing countries as serious partners and not just as passive recipients of aid.

There are many possible pitfalls in the setting of a new agenda. Our partial list below suggests a few areas in which new management will need to be vigilant in part because individual stakeholders will press for agendas based on their own narrow, strategic interests.
1. Some have argued that – since the Bank is dedicated to fighting poverty – it should operate mostly in the poorest countries and in fragile states. The reality is that there are now many more poor people living in lower middle-income countries than in low-income countries. And the Bank is at least as well suited to helping to design poverty-fighting interventions in MICs as in LICS. Moreover, its work in MICs provides it with the experiential knowledge that LICS want in designing their own development interventions and provides an avenue for future collaboration with emerging market economies on global issues. And, as stated above, the MICs need to become Bank’s partners in efforts to promote global public goods.

2. Donor initiatives can be helpful and have produced strong joint efforts aimed at – for example – debt relief for low-income countries and improving governance; however, many initiatives are driven by donors’ domestic aid constituencies that are needed to support ODA budgets. For the Bank, accepting donor-initiated programs can be incompatible with the setting and articulation of strategic agendas to which donors can rally. Donor trust funds have become enticing as supplements to the Bank’s ‘flat’ budget and they may conflict with internal objectives and further diffuse Bank’s work while the need is for greater focus.

3. The relationship between the World Bank and the IMF is a long and complicated one. Beginning in 1988, a “concordat” existed that divided responsibilities between the two institutions, but this approach failed to recognize both overlapping areas and the realities that countries preferred Bank involvement to that of the Fund in non-crisis circumstances for a number of policy decisions.1 Financial Sector Assessment Programs (FSAPs) are a good example of a joint responsibility, where the Fund has a comparative advantage in gauging vulnerability and the Bank a better handle on financial sector development, yet the two are hard to separate in an assessment. Since the financial crisis, the G-20 has turned increasingly to the Fund for global macroeconomic and financial analysis, a trend reinforced by the major financial infusions into the Fund, and the Fund has used this to re-assert itself in many areas where the Bank formerly operated. Joint work operates well when both institutions are well staffed and well coordinated.

4. Regionalism is a strengthened phenomenon and regional development banks are excellent instruments for greater regional cooperation. Despite best efforts, cooperation among the RDBs and the World Bank has not progressed very far and regional institutions – by virtue of large capital increases – are better positioned than ever to provide financing to their members. They are building their portfolios, even in areas that were traditionally strong points of the World Bank, like urban infrastructure and financial sector development, and newer areas, such as climate change mitigation and risk management. This trend has been aided and abetted by excessive decentralization and the deterioration in capacity to deliver the highest quality knowledge services that have conspired to weaken the global comparative advantage of the Bank.

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1 A High Level Committee of Experts examined the concordat in 2005-2006 and concluded that a rigid division of responsibilities served neither institution well. See Malan Report.
5. Periodically, suggestions arise to break apart the World Bank Group and separate IDA, the IFC and the IBRD, as seen in recent press commentaries. This would be a colossal mistake because it would destroy group synergies and financial economies of scale between IDA and the IBRD. With respect to the IFC, successive presidents have tried to bring it closer in line with the IBRD; however, differing cultures and mandates make that difficult. That doesn't mean that there isn’t room for getting more out of the IFC; for that reason, care should be taken to ensure that the IFC’s capital is sufficient to make a global difference, especially since investors from surplus countries are lending huge amounts to Africa and Latin America, in particular, on terms and with objectives that may not enhance long-term development outcomes.

6. The last 10 years have seen a growing influence of many private global organizations, such as the Gates Foundation, The Clinton Global Initiative, and others. Many have assumed a position of leadership in fields like health and education. The Bank has been cooperating with such organizations; however, much more can be done in building partnerships with other non-governmental organizations, building on the Bank’s inherent strengths in combining analytics, financing and convening power.

The Allure of Partial Solutions and Quick Fixes

It is tempting to think that the addition of new areas of emphasis will constitute a new strategic vision for the Bank. This would be erroneous in our view. What is missing according to many inside the Bank is selectivity and focus. This is admittedly difficult given the nature of development and the need to successfully undertake a number of complementary development efforts simultaneously. Nevertheless, the new President will have to identify a broad vision that will help focus and guide Bank efforts and avoid the inevitable accretion of new activities. Central to that vision is sustainable, shared economic growth, the core message of the Spence Commission on Growth and Development.

The Bank’s impact depends on its ability to help countries to develop, to gain economically, to address internal issues of poverty and social justice, and to operate well in the global market. This is a broad mandate requiring expertise in many facets of development, but more importantly the ability to integrate the development agenda with good macroeconomics and strong sector-based policies. As the Spence Report noted, countries have to get an awful lot of policies right to grow rapidly and consistently over decades, and it is that sustained growth that has produced the Koreas, Malaysias, and Chinas, able to reduce poverty and advance the welfare of their societies. Put bluntly, any Bank strategy that ignores economic growth cannot help foster economic development.

At the same time, there are new global exigencies that cry out for institutions such as the World Bank to act and to make a difference. Climate change is one of those issues, and it has ramifications for green growth, for cities, for agriculture, for infrastructure and for the poor. There are issues of corruption and migration that remain to be tackled, and the over-riding
concern of countries to manage risks is now a global challenge. The World Bank, able to cut across many areas of risk management and with the ability to help finance risk mitigation, is centrally placed to operate in this arena. A traditional SWOT analysis would lead to strategic choices based on the Bank’s capabilities, its unique position and reputation, competitors and the globe’s needs.

Priorities

- The new Bank President will need to consult, deliberate, decide, and implement new strategic choices. And he or she will need to articulate the vision, coalesce shareholder support and win back the “hearts and minds” of Bank staff.
- Whatever strategic direction is selected, it needs to be accompanied by strong staffing to create or recreate centers of excellence. A vision not backed by the hiring and retention of the best in the development business will likely fail. A re-examination of the current HR policies is therefore a critical necessity.
- To be effective, new leadership needs to address management weaknesses. A major liability of the Bank in recent years has been its management. Legions of McKinsey studies and internal reviews have diagnosed management problems, but solutions have not followed. And yet, the success of the Bank going forward depends heavily on establishing management accountability.

Seizing Opportunities

There are enormous challenges facing the international community in which the actions of individual countries need to be coordinated and made increasingly complementary and the bank is in a unique position to play a leading role in many of these global efforts. Challenges exist in the areas of climate change financing, for example, where a major effort is required to rest energy production patterns. There are also major challenges in the recycling of balance of payments surpluses that China and others are generating at a time when other parts of the world, especially Africa, have tremendous infrastructure deficits. There are demands for better forms of collaboration on migration and the sponsorship of temporary employment. There is continued need for cooperation in global anti-corruption efforts and in global health on the side of health financing and health systems. The opportunities for the World Bank to exercise leadership are plentiful. Unfortunately, in too many recent cases, the global community has turned to others for leadership rather than to the Bank.

The essential message of this diagnostic exercise is that there is a disconnect between what the Bank has traditionally been able to achieve and what its current mandate implies. This situation might be described as a problem of “limited aspirations” and it is, in our view, due less to the changing international landscape and more to internal lapses and a singular lack of visionary leadership. Both these aspects are fixable. The Bank still has the potential to be one of the leading global institutions, and in many arenas, the best institution. It simply needs to be helped to reach to its full potential.
The complexity of the Bank derives from its multiple roles as a financial institution, a research and learning institution, and an advisory institution, giving it features found in banks, in universities and in consulting firms. Each of these institutions is normally associated with its own unique culture, while in the Bank they must be combined. Operating such an organization and making it globally relevant is a major challenge. The goal is for the institution to be larger than the sum of its parts and to harness and enhance the capabilities of its individual staff. This requires leadership.

Some commentators have predicted the decline of the World Bank into irrelevance². That is certainly the most likely outcome in the absence of inspired leadership and vision matched with a willingness to tackle long-standing institutional weaknesses that have now become chronic and unfortunately increasingly obvious.³ It’s time to stop the hemorrhaging and restore the World Bank to excellence.

² See Ian Goldin in the FT (March 6, 2012)
Annex A

Bank Organization: An Historical Perspective

The Bank has gone through various reorganizations, major and minor, over the last 30 years under various presidents. We can divide these into three main phases.

Phase I: The 1972 Reorganization (McNamara)

This reorganization was instituted at the time the Bank was in a very rapid phase of expansion. Bank staff at the time was under 1,000 but expanding at 10-15% per annum. There was also a rapid expansion of Bank lending. The main features of the structure put in place were:

- Creating six geographical regions (Africa was divided into East and West because of the large number of countries), each headed by a VP. The VPs reported to an SVP, who was essentially responsible for all internal management.
- Each region with a program department that dealt with country relations and country economic work, and a projects department dealing with the 5-8 major sectors. Each department headed by a director with division heads under them heading individual country or group of countries (“Programs Divisions”) or sectors (“Projects Division”).
- A central policy department that housed a small number of high level core expertise in each sector both to provide support to the regional projects divisions and to exercise mandatory quality control on the operations.
- A central economics department headed by the Chief Economist who oversaw the Bank’s economic policy and managed economic policy research.

The premise of this model was “creative tension” between the programs and projects divisions, with the former deciding what is to be done and the latter how it is done. This was a deliberate decision to strike a balance between client responsiveness and professional rigor at the sector level. The central policy departments were generally led by well-known people in their fields and staffed by senior professionals. They provided operational support, provided quality control, and formulated sector policies and strategies.

This organization structure largely prevailed for the following 15 years. It was also well-suited to a rapidly expanding Bank. However, over time a view developed that it is not as “client responsive” as it should be given that the country units that are close to the client do not have the ability to deliver services not having any functional or budgetary control over their sector colleagues. There was also a concern that with the sector divisions often engaged in “supply-driven” rather than “client-demanded” tasks. Externally, there was pressure from some

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1 We deal in this paper with the core operational function only and do not discuss the support departments such as finance, personnel, research, etc.
shareholders (mainly the US) about controlling the Bank’s rapidly growing administrative budget. This led to the second major restructuring in 1987.

**Phase II: The 1987 Reorganization (Conable/Preston)**

This reorganization was designed around the concept of “country focus”. The main features were:

- The regional structure was maintained, except that East and South Asia regions were combined into a single Asia region, East and West Africa into a single Africa region, and Middle East and North Africa was separated out from the previous combined Europe and MENA region. The Bank was now divided into five geographical regions.
- All operational staff were clustered into some 22-24 “country departments” headed by a country director. Each of the 5 regions had between 2-5 country departments.
- Each country department had its full complement of sector units for each major sector, thus in essence the Bank divided up the previous 5-8 regional sector units into 22-24 smaller sector units. A “country division” in each CD was responsible for coordinating the country work and for all economic work.
- The global vice presidencies were maintained for policy advice in each sector, economic policy, and research.
- Two Senior Vice Presidents continued with their respective responsibilities for managing operations and policy, and finance respectively, but the incumbents switched places.
- All managerial and staff selections were made afresh on merit. The concept was to only retain the best staff and managers with those not finding jobs in the new structure offered generous redundancy packages; in practice the selection process was marred with numerous problems.

President Preston on taking over the Bank’s leadership decided to not make any major changes in the Bank’s basic structure that had been implemented in 1987. However, he made a few critical changes that had more an impact more on the “style” rather than the substance of internal Bank management. His main goal was to streamline Bank decision-making away from silos into collegial decision-making, and to strengthen the central vice presidency responsible for the Bank’s global knowledge. The key features were:

- Replacing the two SVPs for finance and operations with three Managing Directors (MDs) who were collectively responsible for managing the Bank. Each MD was deliberately given a mix of regions and functions. They were expected to work as a team.
- The Asia Region was once again split into two regions – East and South.
- The central vice presidency for operational policy was replaced by three functional vice presidents: Human Development, Infrastructure and Finance, and Agriculture and Environment.
- The HR function was elevated in its stature by the appointment of one of the most seasoned VPs as the VP for HR.
Experience with the structure was that it indeed improved the country focus. The country directors were carefully selected from among the most seasoned managers and were empowered to take most major decisions related to the country. Indeed, the CDs, RVPs and the MDs were the three key decision-makers on virtually all operational matters with a clearly tapering pyramid structure of decision-making. The structure served well the Bank’s client responsiveness objective.

At the same time, the structure created a new problem of diffusing sector expertise into multiple smaller units that often lacked the critical mass of expertise that the previous projects divisions were able to offer. There was a growing concern that the sector units were increasingly being staffed by “generalists” rather than with a critical mass of top notch specialists that the Bank aspired to have as a global knowledge Bank. At the same time, the Wappenhans Report issued in 1992 had raised alarm about the deteriorating quality of Bank portfolio. The fragmented sector units (and pressures to lend under the guise of client focus but without proper independent checks that existed pre-1987) were considered to be some of the underlying reasons.

Phase III: The Current Structure (Wolfensohn/Wolfowitz/Zoellick)

Jim Wolfensohn brought to the Bank even a stronger conviction of country focus and client responsiveness. He also believed right from the beginning that the Bank was too slow and ponderous an institution that needed to be shaken up out of its lethargy. Using the Wappenhans Report findings as a springboard, Wolfensohn commissioned external consultants (KPMG) to conduct an organizational study. There were at the same time growing pressure by some shareholders that the Bank was too centralized an institution and needed to have a greater field presence. At the same time, the knowledge sharing and transfer function of the Bank was (re-)emphasized. The global consulting firms like McKinsey and Bain were suggested as the models that could be emulated by the Bank.

The key organizational changes made after the KPMG review in 1997 (under a Strategic Compact with the Board that requested an additional allocation of $100 million in the budget for each of the next three years with the commitment to return this one-time investment through future efficiency savings):

- Many more country departments were created, many dealing with single countries. The number of country departments more than doubled (over 60?).
- Many country departments were moved to be based in the country, with continuing further movement over the years.
- Each region created sector departments for 3-4 clusters of sectors. The number of staff in these departments numbered into hundreds.

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2 KPMG cited ABB as an example from the non-consulting world that had adopted the matrix to support their recommendation. ABB was to soon abandon the model because of problems not too different from what the Bank was to face later.
• Each sector department was to have a number of sector managers, but they were to not be a management layer but rather like “working partners” in consulting firms who lead assignments. De-layering of management was a major themes to achieve the Bank’s de-bureaucratization of the Bank.

• The central vice presidencies responsible for sectors globally were replaced by “Networks” that included all relevant staff throughout the Bank with the goal of becoming the knowledge hubs that are constantly renewing through information and knowledge sharing, both internally and externally.

• Several new vice presidencies were created by splitting up some of the functions carried out previously by a single VP. A few more SVP positions were created, some on an ad hoc basis (e.g. SVP for Human Development, SVP External Affairs).

• A Quality Assurance Group reporting to the MDs was established to carry out independent ex-post audits of project approval and non-lending services on a real time basis.

Perhaps the most significant change was a significant centralization of decision-making in the office of the president. While the previous Bank presidents had seen their role in setting broad directions for the Bank and managing its external relations, leaving internal management to the SVPs/MDs and VPs/CDs, President Wolfensohn decided to be much more involved in the internal functioning of the Bank. The size of the president’s staff (and later also of the MDs) increased significantly. This seems to have increased significantly the internal bureaucracy since managers now had to devote much more time to internal briefings. Indeed, it diverted focus from the client that Wolfensohn also championed.

Presidents Wolfowitz and Zoellick continued with the basic structure established in 1997, but with following modifications:

• Concerned about corruption, Wolfowitz substantially expanded the functions and authority of the department of institutional integrity. A negative effect of this initiative has been to divert Bank attention and resources to peripheral issues and to make staff and managers risk-averse in taking decisions.

• A “sustainable development network” was established that merged sectors that were only tangentially related and created by the far largest network in terms of numbers of staff.

• The role of the president’s office was further augmented to the point that there is now a tradition of the president meeting the VPs each morning to review developments and issue instructions for follow-up actions.

• The Quality Assurance Group was abolished in 2010 for reasons that remain unclear to this day.

• More recently, the MDs have once again been given distinct functional responsibilities rather than the cross-functional and regional roles previously.