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Beyond Pro liberal Conventional Wisdom that dominates The World Bank:

Insights from Historical and Discursive Institutionalism

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Abstract

On 16 April 2012 the World Bank's (the Bank) Board of Executive Directors approved the nomination of Dr Jim Yong Kim as the new president of the World Bank Group. It is not surprising that, as an American, Dr Kim was selected. After all, the US remains the dominant shareholder and the only country with *de facto* veto power. What actually made news was the background of Dr Jim as well as the process that led to his nomination's approval. The new president of the Bank is a Korean born US citizen and Harvard trained physician who led efforts to combat aids while he was leader of the aids unit of the World Health Organization. So, importantly he comes with a new face and history to the Bank, at a time when demands have been made to see the increased relevance of emerging economies reflected in the Bank's governance. Although Dr Kim is a US citizen, few doubt President Obama's skill to use this appointment to signal to the world that the face of power, especially economic power, is now moving towards Asia. It is unclear at present whether or not the face of the Bank alters in complexity concerning its ability to pull and pool funds, as well as in the process of accepting the institution as a leader in development.

Introduction

On 16 April 2012 the World Bank's (the Bank) Board of Executive Directors approved the nomination of Dr Jim Yong Kim as the new president of the World Bank Group. It is not surprising that, as an American, Dr Kim was selected. After all, the US remains the dominant shareholder and the only country with *de facto* veto power. What actually made news was the background of Dr Jim as well as the process that led to his nomination's approval. The new president of the Bank is a Korean born US citizen and Harvard trained physician who led efforts to combat aids while he was leader of the aids unit of the World Health Organization. So, importantly he comes with a new face and history to the Bank, at a time when demands have been made to see the increased relevance of emerging economies reflected in the Bank's governance (Interviews: Feidieker, 8.12.2011; Frieden, 6.01.2012; Studard, 21.12.2011). Although Dr Kim is a US citizen, few doubt President Obama's skill to use this appointment to signal to the world that the face of power, especially economic power, is now moving towards Asia. It is unclear at present whether or not the face of the Bank alters in complexity concerning its ability to pull and pool funds, as well as in the process of accepting the institution as a leader in development (Interview, Sipos, 27.01.2012).

The Bank is indeed an important institution for development (Birdsall and Fukuyama, 2011). But the argument here is that the manner in which it operates cannot continue as it has done in past decades following the articulation of the Washington Consensus. Its development model needs to be fundamentally changed. It recognizes this (World Bank, 2011a). That is why it has started to rethink the way development is done; focusing on results rather than process (World Bank, 2011a: 4-5, 14). This paper is a contribution to facilitating the move of the Bank towards a novel model that will ultimately maximize the use of the Bank's funds in terms of allowing it to have an optimal impact on people in poor communities around the world.

In the current context of the financial crisis there has been little, if any, attention placed on the model of development that will avert the excessive imbalances in current global finance and development. The debate in the richer countries has been on how to check the profligacy of individuals and corporations that have been adept at abusing the system. In developing countries the crisis has had the effect of dampened exports, mindful of the liquidity shortfalls in the main importing destinations in the European Union (EU) and the United States (US). In poor countries the crisis has been marked by the untold story of the perversity and tyranny of orthodox ideas in development finance. For most poor countries, reliance on funding from development banks provides the main, and at times the only, life line for survival and if possible, prowess. Both in the North, the South and in the Bank there has not been a rigorous analysis or debate concerning the creation of a new model of development around which common denominators can be created to ensure that global development is not mortgaged by excesses in capital markets and the pre-dominance of liberal orthodoxies.

What we argue here is, that beyond issues of governance – which are important (but can be institutionally accommodated), the Bank has problems of substance. This entails that its model of development of channeling money needs rethinking. The pervading model has been that of conditionality induced structural reforms which in many cases entailed massive cuts in essential public services (Amin, 2002: 35). The point is not that all the reforms the Bank suggested were inherently dubious and deleterious for client countries. Rather the model regarded as Washington led was based on four main assailable premises and assumptions that were hatched in the 1980s: governments will be the main and in most cases the only partners and they would agree to a series of conditions; the markets are vital in social redistribution with little need for government intervention; supply side economics, structural adjustment and fiscal discipline will lead to development through growth; and finally the indispensability of the Bank as a norm giver.

This essentially pro-free market vision was also based on a number of path dependent trends: the predominance of the US and of Western nations as lenders, on the one hand, and the cardinally significant threshold of middle and emerging nations as the main destinations for loans. Another trend has been the increased competitiveness between the Bank and other regional development banks. In spite of the benefits of such competition it has aggravated problems of coordination in the various areas where optimal results would warrant improved cooperation. It is not surprising that such an acute sense of competition should characterize the operation of the banks, regardless of their embrace of the pro liberal model mean of conducting business.

In addition, the rethinking of the current model is needed in light of four vital trends. These include the imposing power of the internet, new ICT, social media and virtual networking tools; related to the preceding point, an increase in the global influence of individuals and small groups (and also major philanthropists) to engineer change; the undeniable growth in the influence of (re)emerging countries like China, India, Brazil, especially in the context of the current economic crisis (Okonjo-Iweala, 2010); and above all a growing shared sense of global social responsibility in the face of global multi-level challenges (environment, financial crisis, epidemics, conflicts and terrorism).

A word on perception. Western countries perceive the Bank as a tool for delivering loans to client states. In this manner it is considered an agency for controlling the economic fate of the poorer members. For the poorer nations, the Bank is regarded as financially loaded and also as a Big Brother-like funding reserve with never ending money to be accessed at any given time. But from the political Left there has been a strong opposition to the stiff conditions that are used by the institution. On the Right, especially in the US, Conservatives have often been keen to ensure that any capital increases for the Bank are clearly aligned with US' interests. This has been a code name for elaborate measures/conditions that are backed to enhance the performance of the Bank in client countries. Then there are the emerging countries, like the BRICS, that regard the Bank as yet another instance or platform to flex their rising economic muscles, either through an expansion of share subscription or through the density of lending. These perceptions are important in explaining the current status quo at the Bank whereby there seems to be a mismatch in the desires and concerns of the borrowers and the lenders as well as of those in the middle.

Of greater importance in terms of perception is the manner in which the Bank perceives its role and mission. It is arguable that the current financial and economic crisis may be ample corroboration of the failure of the model that is bankrolled by multilateral institutions including the Bank. On the other hand, the Bank considers itself as a beacon of development and partly attributes the reduced levels of poverty in the world to its actions and policies.

This paper considers four strands of issues. First, it traces the historical evolution of the World Bank's approach to development and its emphasis on conditionality. The second concern is to show how this has historically related to a preference for liberal, free market-led growth as a pathway to development. The paper presents the Bank's institutional underpinnings (principal-agent control, the role of big funders like the USA, Japan and Germany) and the rules governing its decision making. Third, our contribution examines the record of the bank in the aftermath of the crisis and shows how this fell within the confines of the previous model of finance that produced the crisis. Finally, it establishes whether there have been any significant differences in approach, as an outcome of new discourses and prospects, for future deeper reforms.

To amply cover these issues the work is portioned as follows. The next part presents the conceptual kernels of the argument in this paper. The path dependency that has marked the operation of the Bank is presented from the perspective of historical and discursive institutionalism. Allusions are made to the mandate of the Bank and to a succinct discourse concerning the challenges relating to the expectation/outcome gap characteristic of the institution (part three). Then we present a synopsis of the Bank's response to the crisis (part four). Part five addresses this response in the framework of path dependence and lack of a new discursive articulation. In the next part it is argued that the Bank cannot remain immune from the ineluctable trends in the world. These trends will not leave current finance and development paradigms unaffected. Being aware of the need to stay balanced in the analysis part seven reflects on some of the steps that are being taken within the Bank itself to push for reform. These are presented concomitantly with some reflections on the potential avenues for change.

Path dependency: Insights from Historical and Discursive Institutionalism

Historical institutionalism is an approach in political science which places a special emphasis on the role of institutions in structuring behavior. Institutions in this schema are rules, either formal (within organizations) or informal (involving norms), which influence both who participates in a given decision and their strategic behavior. When studying political phenomena at the macro level, historical institutionalists look at national political institutions in order to see who participates in political interaction and the rules of the game. These rules (especially differential access and availability of veto points) enable certain political strategies and ultimately shape different policy outcomes. (Steinmo, 2008).

Hence, political decisions, preferences and individual actions are conditioned by their institutional settings. Institutions serve "to channel and prioritize choices, shape actors' behavior, objectives and values and thus affect administrative and policy outcomes" (Bulmer, 1998: 603; Hall, 1992: 109; Thelen and Steinmo, 1992: 27). In this way, institutions and the values and behaviors they shape, put limits on the politically possible, limiting available future options, choices and decisions. Historical institutionalism is intrinsically associated with the idea of path dependency, which suggests that once a particular institutional and thus behavioral path has been chosen, it is difficult to switch paths. Decision making within path dependent institutions has a tendency to ignore new opinions and information. In fact, dissenting opinions are very often deliberately suppressed by the dominating actors. (Steinmo, 2008: 168).

Within organizations, decision making is mainly tied up with self preservation and using certain established options as justification. Inertia is achieved by suppressing certain ideas and values, selective recruitment and socialization, criteria of appropriateness, resource distribution. In this way staff are socialized into promoting continuity (Weaver and Leiteritz, 2005). Historical institutionalism is an agent based perspective. Via political historical analysis (process tracing) it highlights the role of actors or agents within institutions in bringing about political outcomes.

However, there are two problems associated with historical institutionalism. Firstly, despite its emphasis on agents, it is characterized by a latent determinism as institutions structure behaviors and ultimately preferences (Hay and Wincott, 1998: 952). Secondly, given its insistence on path dependency, socialization etc., it has great trouble explaining change. Change can only come as an outside shock. Political scientists in the last two decades have attempted to address these difficulties by pointing to the role of ideas (Blyth, 1997). Effectively, they argue that institutions have an ideational basis and are thus more malleable. Change in this schema is endogenous. One such perspective is discursive institutionalism (Scmhidt and Radaelli, 2004).

Discursive institutionalism attempts to explain change in institutions via the use of discourse. It argues that institutions have an ideational basis and are thus susceptible to change via discursive processes of interpretation. As such it is both critical but also complementary to historical institutionalism. Effectively it refers to 'who said what to whom where and why' or to the interactive process by which ideas are constructed and communicated (Schmidt, 2010: 15). Discursive institutionalism considers the ideational content, agents, discursive dynamics and the institutional context of change (Schmidt, 2008). By reinterpreting the acts of institutions in interactive processes, agents simultaneously attempt to reinterpret interests. Change is explained by reference to agents' ideas and their discursive interactions with other agents (Scmhidt, 2010: 4). In this schema the tempo of change can vary, from being more incremental – involving processes of layering – to sudden and drastic.

Political discourses, or frames of reference, contain both cognitive and normative elements as they attempt to offer solutions to problems (Muller, 2005). The cognitive dimension offers epistemic knowledge to policy issues and points out cause and effect relations which demand social engineering. Normative elements include references to values and ideals rooted in (national or organizational) cultures and political ideologies. Political discourses offer guides to action, help reconfigure institutional arrangements and once they become dominant inside an organization (or socially) put limits to what is conceivable or feasible (Berman, 1998). Hence, it is in times of crisis and decay that counter hegemonic discursive challenges have a greater chance of being successful.

Ideas do not 'float freely' (Risse, 1994) but have to be promoted by political actors. In addition, depending on the institutional matrix, discourse can either be coordinative or communicative. When it involves a process of interaction between different decision and policy makers (at different levels) it is coordinative. In this case building the political discourse involves these members bargaining, arguing and reaching agreement in different policy areas (Zittoun, 2011). On the other hand, when it is addressed to the wider public it is of the communicative kind. It depends on the initiative shown by political agents in expounding and promoting their discourses in the wider public sphere, subjecting them to processes of deliberation and argumentation or social contestation.

The Bank's Mandate – Between Expectations and Outcomes

The World Bank Group (WBG) is made of five entities, to wit, the International Bank for Reconstruction and Development (IBRD, commonly referred to as the Bank), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID). All the other entities are supplementary to the IBRD (Article I, IDA Articles of Agreement).

The main architects behind the creation of the Bank and the International Monetary Fund (IMF or the Fund) were United Kingdom (UK) economist John Maynard Keynes and United States (US) economist Harry Dexter White along with 42 other colleagues during the Bretton Woods Conference of 1944 (Birdsall, 2006: 70). The Bank was initially created in the form of a club (cooperative) rather than a development agency. As a cooperative it provides loans to its members at low or no cost. This ability to make loans at low cost to borrowers "arises because the sum of the membership's credibility reduces borrowing cost for all members below what they would pay on their own" (Birdsall, 2006: 71). While the Fund's main tasks were to adjust current-account imbalances and manage the exchange rate system, the Bank's focal tasks were the reconstruction of Europe and Japan as well as the elimination of bias against lending to developing countries (Meltzer, 1999).

During the initial years of its history, loans were scrutinized diligently and the first loan (accorded to France) was approved after a protracted process. From its creation in 1944, until about 1968, it directed its attention more towards reconstruction in Europe and Japan. However it had to compete with the Marshall Fund in later years and this made it shift attention to other countries, outside Europe, that also needed its loans.

The year 1968 marked a turning point for the Bank. President Lyndon Johnson appointed Robert McNamara as president of the World Bank. Fresh from being Defense Secretary and President of Ford Motor Company, he introduced a technocratic management style; widened the Bank's sourcing of funds from global bond markets and above all emphasized the focus on social projects (building of schools, hospitals and roads) in poor countries. But the downside of this latter approach was that many poor countries accumulated huge debts from the loans used to fund infrastructure schemes that proved, in some cases, to be white elephants. What McNamara succeeded to do was to transform the institution from a reticent lender into a completely different kind of animal (Goldman, 2007: 786).

In 1980 McNamara was replaced by AW Clausen appointed by Jimmy Carter. Clausen in turn appointed Anne Krueger as chief economist. In her capacity as chief economist Krueger directed her criticisms against governments in developing countries for rent seeking and she also distanced herself from development finance that had marked the McNamara and Hollis Chenery epoch. The Clausen/Krueger years that ended in 1989 were characterized by the infamous Structural Adjustment Programs (SAPs) that led to cuts in social spending and a hike in lending for debt servicing.

With the fall of the Berlin Wall in 1989 liberalization and increased deregulation associated with privatization demands (supported by the Bank) increased. At the time the buzzwords in the circles of Bretton Woods Institutions (BWIs) were the Washington Consensus, championed by the Bank, the Fund and the US' Treasury Department. However these developments were also accompanied by the birth of an army of grass roots/ bottom-up movements in the form of social and environmental Non Governmental organizations (NGOs) and Civil Society Organizations (CSOs) poised to challenge some of the neo-liberal leaning practices of the Bank.

The failure of the SAPs (especially in Latin America) and increasing criticism from NGOs and CSOs pushed the Bank towards a process of reform under President James D. Wolfensohn (1995-2005). His answer in surmounting the crisis of the Bank was the Strategic Compact: a $250 million, 30-month major reorganization officially launched in 1997. The Compact identified three major targets for reform. The first goal was to redefine the Bank's core mission, including enhancing the prominence of new development agendas and safeguard policies to renew the legitimacy of the Bank, particularly in the eyes of donor states, NGOs, and civil society critics. The second goal was to rationalize the organizational structure to become more responsive to "client" (borrower state) demands. The third goal was to improve project management by streamlining project cycles and increasing loan portfolio performance ratings to demonstrate the Bank's essential effectiveness and relevance after over a decade of dismal loan results. These commitments fostered the introduction of Poverty Reduction Strategy Papers in 1999 which sought to replace the stringent and by then discredited SAPs as the main vehicles of loan conditionality (Weaver, 2007b). The SAPs and other policies pushed by the WB were regarded anti-democratic and they seldom went through national parliaments (Dieng, 2002: 261).

Following the tenure of Wolfensohn the Bank was plunged into a state of instability. This was more to do with the appointment as Bank president of US' former Deputy Chief of the Pentagon (Paul Wolfowitz). The appointment of Wolfowitz by President George W. Bush was very controversial because he was one of the leading neo-conservatives who had championed the invasion of Iraq in 2003 and many critics questioned his credentials for the position albeit his previous stint as US ambassador to Indonesia. Wolfowitz's approach was to focus on combating corruption and limiting graft in projects involving the Bank. But he soon fell foul with the Executive Directors amidst strictures of favouritism on his part (Weisman, 2007: 12; Guha, 2007: 11; WSJ, 2007: 7; Knowlton, 2007: 4; Stiglitz, 2007: 9). In dealing with the barrage of criticisms directed at him, a deal was reached in 2007 whereby he would resign his position as president in exchange for the exoneration of any improper conduct pegged on him due to his links with Ali Reza with whom he was romantically involved.

Former US Trade Representative Robert Zoellick was named to replace Wolfowitz. Zoellick's tenure at the helm of the Bank will be remembered for a commitment to combat corruption and regain the lost trust in the Bank's institutions following the challenges faced under Paul Wolfowitz. What Zoellick did right from the start of his mandate was to outline a plan that dwelt on six priority areas. These included a focus on the poorest countries; fragile and conflict affected states; the Arab World; middle income countries; global public goods; and the delivery of knowledge. In spite of the intermittent frostiness in his relations with the board of executive directors, his tenure will be remembered as that of providing stability in times of crisis; expanding the Bank's access to information policy and also expanding the role of emerging markets within the Bank.

The mandate of the Bank and its various arms is laudable. But one should not forget that these goals were developed and elaborated at a given time in history and they were crafted under specific circumstances that characterized the aftermath of the Second World War. We live in a different world with changed circumstances. The mandate of the Bank is not cast in stone. Rules of the Bank need to allow flexibility, adapting them to the fast changing circumstances of the global economy. Rather what we have are rules that were developed and engineered to make it difficult for any amendments to the Articles of Agreement with a dissentient US veto. Second is the challenge of setting very ambitious goals against which the institution can hardly be held up to (Easterly, 2006: 4).

There are major expectations from many constituencies within the Bank. But such expectations are often hamstrung by the reality of US' dominance of the Bank. This of course entails that desired outcomes as to what the Bank can do should always be placed in the context of the predilections of US' Congressional leaders and the White House.

In sum, the manner in which the Bank operates is reminiscent of inter-mingling interests that often run at cross purposes with the expectations nurtured by client states. While these client states often regard the institution as a reserve for development funding at no or low cost, their aspirations are often diluted by the expectations of richer countries that regard the Bank as a tool for enhancing their specific foreign policy goals. Small wonder that the bloated expectations that smaller nations have of the Bank are often obviated by timid outcomes that respond to or are reflective of a specific kind of development thinking nested within the institution. In no small way has this thinking been reflected in the manner in which the institution reacted to the financial crisis that reached an acme in 2008 with the collapse of Lehman Brothers.

The Bank's Responses to the 2008 Financial Crisis

The 2008 financial crisis is regarded as the greatest economic crisis since the Great Depression (Krugman, 2012). The financial crisis itself ended between the end of 2008 and mid 2009, however the aftershocks continue to reverberate. In 2008-2009 the crisis was compounded by associated problems related to food and fuel shortages at the global level. But the financial crisis *stricto sensu* has been linked to the access to cheap credit. This is epitomized in the most conspicuous of forms by the construction boom in many parts of the world. The construction boom since the 1980s was accompanied by a scenario whereby the US Federal Reserve or the Fed maintained low interest rates while the US government pushed the deregulation of the financial sector. This effectively led to debt financed consumption; symbolized by easy credit for cars, mortgages, credit cards amongst others. As the housing boom surged, so too did mortgage backed securities (MBS) and collaterized debt obligations (CDOs) whose value is a function of the housing prices. With the bursting of the bubble[2] housing prices declined and those who had invested in MBS and CDOs reported serious loses. Falling housing prices meant prices of many houses became less in value than the mortgage loan hence foreclosures skyrocketed. Defaults in the housing market expanded to other sectors of the economy. Meanwhile the strong push for deregulation[3] resulted in a loss of control over the shadow banking system, derivatives and off balance sheet financing. Moreover, there was too much debt and leverage[4] both by companies and consumers. For instance, in 1981 US private debt was 123 percent of Gross Domestic Product (GDP). That figure was 290 percent by the third quarter of 2008. What is more, lack of transparency in the modus operandi of banks (especially in terms of debt levels) compounded the problems. As noted earlier the financial crisis was also accompanied by serious commodity shortfalls. The very high increase in commodity prices that followed the housing bubble was a problem. The price of oil moved from about 50 US $ in 2007

[2] Trading at prices and volumes that are not proportional or in sync with intrinsic or immanent values. They tend to be identified only in retrospect often following sudden fall in prices (burst).

[3] Deregulation examples included 1982 Garn St Germain Depository Institutions Act introducing Adjustable Rate Mortgage (ARMs); 1999 Gramm-Leach-Bliley Act that amended Glass Steagall of 1933 removing separation betwen commercial and investment banks; 2004 Securities and Exchange Commission (SEC) introduced Net Capital Rule that increased levels of debt that investment banks could take on board.

[4] Using limited or given resources to multiply financial outcomes.

to about 147 US $ per barrel in 2008. This helped constrict economic growth in oil importing countries.

In terms of global impact, average gross domestic product (GDP) growth among the World Bank's client countries declined from 6 percent in 2005–07 to 1 percent in 2009. GDP growth in the hardest hit regions of Europe, Central Asia, Latin America and the Caribbean went from a positive 7 percent in 2005–07 to a negative 2 percent in 2009. Private credit growth in Bank client countries went from 9 percent in 2007 to 3 percent in 2009 (World Bank, 2011b: 2).

Hence, coming back to the focus of this study, the question that automatically arises is what was the role of the Bank during the crisis? Following a global call for strong countercyclical support the Bank decided to heavily increase its disbursements.[5] Indeed its response was somewhat greater than that of other MDBs and included the increased availability of fast disbursing funds. Average new commitments of the Bank and IFC combined were $63.7 billion[6] in fiscal year 2009–10, compared with less than half that amount each year over the pre-crisis period, 2005–07. Of this amount, the bulk ($45.4 billion, compared with $18.7 billion pre-crisis) represented IBRD and IFC financing in middle-income countries (World Bank, 2011b: 22).

Nonetheless, in order to make better sense of the Bank's increased overall support we would have to ask whether this was actually related to the extent to which countries were affected by the crisis or not. Thus, from the Bank's own evaluation, it transpires that (Phase II evaluation, conducted by the Bank's Independent Evaluation Group) much of the new lending reflected pre-crisis lending patterns and partly as a result, the allocation of the financial response had a low correlation with the severity of the crisis impact (World Bank, 2011b: 3).

In more detail, commitments of new lending with some *financial sector* content amounted to $53 billion per year during the crisis, compared with around $25 billion per year prior to the crisis. Nonetheless, as the Bank's evaluation points out, few of the Bank's recipients suffered acute stress in their financial systems. Of these countries, only a handful, mostly in Europe and the

[5] Its strategy was articulated as early as November 2008 in a paper to the G20 summit and formalized in a Board document on the Bank management's response to the crisis.
[6] Dollar figures are in US dollars.

Central Asia Region suffered from systemic bank distress. Most of the Bank's financial sector lending during the crisis went to countries suffering a moderate degree of financial stress (World Bank, 2011b: 5-6). Although the majority of countries that experienced severe financial sector stress received some lending, the majority of lending went to countries that had moderate to low levels of stress. In addition, there was a negligible difference in the nature of financial sector thematic content between crisis-related and other financial sector lending in the crisis period. Fourteen percent of the sector content of crisis operations focused on micro or small and medium size enterprise finance; banking accounted for another 13 percent of subsector content in both groups. Measures for non crisis operations were similar, with 11 percent for small and medium size enterprise finance and 15 percent for banking (World Bank, 2011b:6).

In the area of *fiscal management*, in FY09–10 the Bank provided crisis-related lending to 48 countries through 67 DPOs, amounting to $23.3 billion in commitments. Once again however, the pattern of increased commitments reflected roughly the pre-crisis pattern of lending. Increased support was concentrated in the 25 countries with moderate fiscal stress. Of the 48 countries that received crisis-related fiscal management DPOs, 13 entered the crisis with high fiscal stress. Also, the policy content of fiscal management-related crisis response DPOs did not always bear directly on the crisis. Fiscal objectives that featured prominently included strengthening macroeconomic management and fiscal sustainability, raising the effectiveness of public expenditure, and improving public financial management. On the other hand, although many of the fiscal management-related DPOs embodied measures to improve the cost-effectiveness of public expenditures, politically sensitive measures were in many instances avoided (World Bank, 2011b: 9).

Social protection-related Bank financing went to a few middle-income countries in Latin America and the Caribbean and Europe and Central Asia, and the bulk was for poverty-targeted safety nets. Bank lending for social protection increased significantly during the crisis period. In all, the Bank approved 136 operations with social protection content (a total of $9.8 billion of social protection commitments) to 83 countries between the start of FY09 and the end of the first half of FY11. The bulk went to poverty-targeted social safety net mechanisms, and more than three-quarters went to countries in Latin America and the Caribbean and Europe and Central

Asia. Most of the lending (some $8 billion) was aimed at mitigating the adverse effects of the crisis on household well-being, with the remainder geared towards other goals. Fifty-three percent of the support went to countries whose real economies were not severely affected by the crisis (World Bank, 2011b: 11).

Finally, one has to bear in mind that the Bank's crisis operations and lending remained faithful to the *conditionality logic*, characteristic of the Bretton Woods institutions. For example, as reported by Honkaniemi (2010), in 2009 in Ghana the Bank imposed no less than 57 conditions (binding and benchmarks) for three loans which aimed to help the country respond to the Crisis. The main set of loan conditions (11 out of 57) applied to the energy and extractive sectors such as gas, mining, gold, forests and oil – the latter already pre-empting a future which will largely be defined by the recent discovery of the Jubilee Oil Field on the coast of Ghana. Conditions in these sectors stipulated how the resources should be managed and how the government should tax profits, including the implementation of an oil and gas fiscal regime and the requirement to adjust the taxation of timber, fisheries, mining products, and oil and gas. A large number of the conditions (10) focused on fiscal policy, including measures to contain the fiscal deficit such as phasing out subsidies, and starting due diligence on arrears. Also public sector reform had a large share of conditions (9) requiring hiring freezes, wage and payroll restructures and voluntary redundancy schemes, as well as divestiture of all ministries, departments and agencies (Honkaniemi, 2010: 2).

In sum the manner in which the Bank responded to the crisis in client countries is captured by the US' executive director at the Bank when he testified before Congress that: "the Bank should have recognized the impact of the crisis earlier, and that in some cases, it underestimated the challenges associated with implementing new initiatives. Additionally, the Bank's analytical work in certain sectors and countries was uneven" (Solomon, 2010: 3).

Much ado About Reforms? Explaining the Response of the Bank

Hence, it seems to us that what is most troubling in the Bank's response to the financial crisis is the total absence of any serious reflection over the model of finance that engendered the crisis in the first place and concomitantly over the merits of its conditionality based *modus operandi*. We argue this conundrum can be explained: a) because of path dependency and b) because of the lack of a convincing political discourse that would explain the policy failures and offer a new model/paradigm.

Path dependence

The current state of affairs at the Bank (the dominance of a pro-liberal approach to development) can be explained by the leverage wielded within the institution by the powerful states that arrogated power to themselves when the Bank was created in 1944 (Amin, 2002: 35; Zedillo Commission, 2009). The institution tends to be an object of its history and its prospects are also weld to that historical path in a very strong pro-American way. First, take its location. The Bank operates from its headquarters in Washington DC. It is not by chance that the institution's centre is located in the heart of this US political power house. Its presence in Washington DC has meant that there is a very close watch by the White House and US' Congress concerning what goes on in the World Bank (Dobson, interview, December 2011). Little wonder the practice and ideas that flow from the Bank have consistently reflected the approach and predilections of the US. Congressional leaders have made their desire to retain US power of control in the Bank clear (Lugar, 2010).

This is related to the second dimension of this path dependence: leadership. Since its creation, the head of the World Bank has consistently been American following a tacit and informal agreement whereby the US will appoint the head of the Bank, while Europeans appoint the head of the Fund. The willingness and capacity of the US to exercise this power in shaping Bank leadership has contributed in accounting for a pro-liberal path, pushed by the US Treasury over the years, and sold to the world by US handpicked Bank leaders. In this manner the US has assured itself that the institution will not only stay physically located in DC but that US pro-liberal ideas will be exported to other parts of the world thanks to the World Bank (Perkins, 2004).

Third, bank staff. It is not a coincidence that the majority of top career staff members of the Bank typically have a Western (preferably US) education. The majority of managerial staff members have been educated in US universities and thus its free market and pro-liberal orthodoxies which have marked the operation of the institution. This has meant that the US has not only been able to shape the leadership direction of the Bank but it has also ensured a pro-US ideological dominance in the Bank's functioning.

Fourth, the "disbursement imperative" (Weaver 2007a: 506). Traditionally the Bank's organizational *modus operandi* has offered initiatives to staff members to disburse loans. The way to move up the WB's hierarchy was via "closing deals" and not so much achieving results. This was mostly achieved at the expense of a more nuanced understanding of the problems at hand, thus undermining the success of many of the Bank's interventions. Reform efforts in the last decade have therefore tended to minimize/ disregard the need for measuring results as an indicator of success. Despite the successes of these reform efforts it is widely acknowledged that more needs to be done in order to rid the Bank of this particular structural imperative.

Lack of convincing political discourse and predominance of structural reform

In the context of the current financial crisis there has been a major dichotomy in the debate on the responses to the economic problems faced especially by countries of the Euro zone. On the one hand, are the more centre-left proposals that favour less austerity or structural reform in favour of a demand driven growth economy. On the other hand, are the majority of the centre right governments more inclined to embrace structural reforms, even if this entails serious pain in the short term. So far in Europe the austerity camp has been ahead and the effect of this reality has been a serious cut in social services, infrastructure spending and increased levels of unemployment; which paradoxically had to be dealt with by the austere measures in the first place. In various EU countries, including France, Greece, Ireland, Italy, Portugal and Spain, there have been numerous demonstrations against the aforementioned calls for structural reform that are notably characterized by serious cuts in social spending. What is vital here to note is that in the context of the Euro zone crisis there has been a serious clash of economic discourses and narratives that tend to be systematic and structured along the lines of clear alternatives. But in its policy engagement with developing countries, the IMF and the World Bank have often presented the issue of reform in singular formulations which have left countries with little option but to swallow the bitter pills of austerity that ultimately led to cut backs in education, health and above all, research. Many developing countries are still suffering from the contractions that were engendered by the Fund and Bank led supply side dictations.

No one is suggesting that the robust policies of structural reform were entirely bad for poor countries. Actually two arguments in their favour are worthwhile. First, the tough austere measures had the positive effect of checking the profligacy of many waste prone governments which in certain cases used state funds and loans to procure luxurious goods or even arms to suppress opponents. Secondly, and of greater importance, is the fact that poor countries seem to have seen limited effects from the financial crisis because of the austere measures that they had been encouraged by the IMF and the Bank to put in place throughout the last quarter of the last century. But there is no question that structural reforms stifled growth in these developing countries and held back potential prowess in promising fields including research in science and technology. The Bank and Fund were keen to forge ahead in their pro conditionality and pro-process mode even if this had deleterious effects for client countries. The hallmark for these policies were of course epitomised by the Structural Adjustment Programs (SAPs) that resulted in reduced public service spending (Abbasi, 1999; Bretton Woods Project, 2008) and in the commoditization of amenities including those related to education (Godolphin, 2011) and utilities (Gathii, 2011). Their demise in the face of profound problem-solving failure and strong protest from CSOs led the Bretton Woods Institutions in 1999 to introduce the Poverty Reduction Strategy Papers as a precondition for the Bank and IMF funding.

Nonetheless, even though the PRSPs were proposed as an effective alternative to the SAPs and their stringent conditions, in effect they substituted one model of conditionality for another.[7] The

[7] It needs to be noted that the number of conditions attached to World Bank loans has indeed dropped from its historical high of over 40 conditions per loan in 1990s to on average around 15 per loan in 2009. However, depending on their content, a few conditions can sometimes exert strong influence over how developing countries shape their economic policies. In addition, the World Bank continues to influence developing country economic

PRSP is first and foremost a document outlining a country's national economic policy, with a focus on a program of poverty reduction and participatory policymaking[8]. Aside from identifying the nature, sources and incidences of poverty in the country, a PRSP must also detail how the country will generate resources for poverty reduction, including plans to restructure the economy accordingly, as well as how the resources generated, including those from concessional financing and debt relief, will be utilised to ameliorate poverty and achieve other developmental objectives established in the PRSP (World Bank, 2004: 2-4).[9] However, there are two major pitfalls associated with this move towards PRSP country-owned conditionality.

Firstly, as Tan (2011) argues via the introduction of ownership, PRSPs effectively put the focus on individual state responsibility in combating poverty rather than on addressing international injustice and imbalances which hinder the development potential of least developed countries (LDCs). In this way the conditionality-ownership programs introduce poorer states into a regulatory framework whose institutions, norms and rules have been defined by richer nations (Interview: Dobson, 5.12.2011). In this regard, PRSPs are signals of orthodoxy and "maturity" given by LDCs to the international financial community. As such they attempt to create comity with the orthodox liberal economic discourse espoused by the Bretton Woods institutions.

Secondly, the World Bank (and the IMF) are still guided by a strong liberal, pro-market economic vision that emphasizes low inflation, reductions in the role and expenses of public administration, fiscal prudence, privatizations, cutting subsidies and embracing of free trade

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policies through other channels, such as through their technical assistance programs or through the ways it allocates finance to developing countries (Honkaniemi, 2010).

[8] The participatory process is reinforced by a series of strategic interventions into client countries' domestic governance apparatuses through the framing of universal development goals and targets (linked primarily to the Millennium Development Goals – MDGs); the coupling of such targets and indicators to actionable programs and policies, including appropriate macroeconomic and structural reforms; the linking of these prioritised public actions to government budgets and public financial management (PFM) or public expenditure management (PEM) systems; and the establishment of monitoring systems to oversee implementation and 'facilitate adjustments in policies and programs' (IMF and World Bank, 2005: para 25).

[9] Each PRSP is required to be: (1) nationally owned, meaning the strategies outlined in the PRSP are generated by the constituencies it claims to serve and by the government of the country involved in the process; and (2) formulated in a participatory manner, involving a wide range of government and civil society actors, including representatives of 'the poor' to whom these policies are directed (World Bank, 2007). This is institutionalised in a participatory Poverty Reduction Strategy (PRS) process, a mechanism through which intra-governmental, inter-governmental and non-governmental dialogue is established with a range of stakeholders and policy formulated via a process of representation, consultation and engagement between all the parties.

(Gathii, 2011). As Weaver notes, despite the fact that the Bank is not as monolithic as it is often presented, there is still one distinct Bank ideology when it comes to crafting its approach to development (Weaver 2007a: 504). This approach has been presented as apolitical and technocratic, conforming to the Bank's mandate, which prohibits it from becoming involved political affairs. Nonetheless, it is evident that this approach is far from being apolitical. On the contrary, it largely conforms to the principles of a largely supply side liberalism (Weaver 2007a: 505).

Since its formative years in the 1960s under President McNamara, the Bank insisted on prioritizing economic analysis, quantification and pro-market solutions. Economic theory's claim to be objective, reductionist and quantitative reasoning appealed to President McNamara's own personal obsession with numbers and also allowed the Bank to construct universal models and standard project blueprints that enabled the Bank to rapidly expand its lending portfolio (Weaver 2007a: 505).

In the 1980s the neoliberal shift led to a greater focus on macro-economic reform through structural adjustment programs. Under President AW Clausen (a former commercial banker) the Bank's hiring and promotional practices in this era strongly favored individuals with advanced degrees in economics or finance from a small set of US and British graduate programs. Noneconomic social scientists seeking to get their ideas across within the organization ought to strategically craft their ideas within the comfortable theoretical and methodological language of (liberal) economics in order to be heard (Vetterlein, 2007). As Wade (1996; 2002) argues the ideological hegemony of neoliberal economics perspective is reinforced by the "art of paradigm maintenance" – the careful vetting and censorship of prominent Bank publications and public statements by key officials.

Evidently the Bank of today is not the Bank of the 1980s. Gender, corruption, governance, and the environment are all issues that have been added to the Bank's concerns. In addition, the Bank managed to soften its image after the reforms enacted during James Wolfenhson's presidency.[10] However, the dominance of liberal orthodoxy was and is still evident.

In summary, there are strong organizational, ideological and normative reasons that explain a) the way that the Bank responded to the Crisis and particularly b) its reluctance to engage in critical reflection over its own economic dogma and practice. Effectively, there is a strong path dependency in terms of economic culture and intra-institutional behavior that goes together with a strong liberal economic bias. The perseverance of this ideological bias was, and still is, encouraged by the lack of an alternative discursive paradigm in the field of development. But what would such a paradigm look like? This cannot be disconnected from the new trends that mark our era.

New Trends

New ICTs, including new forms of social media like Facebook, Youtube, the blogosphere and Twitter, are revolutionizing the manner in which ideas are shaped and shared. Previous paradigms of development involved the behemoths being states and international organizations for instance, including the World Bank. No more. Behemoths or, in Easterly's words "cartels of good intentions" have goals that tend to be rather lofty and obscure (Easterly, July 2002; January/February 2009). Smaller groups of individuals can now use ICT tools, including telephones, to foster social, economic and above all political change. Through these new ICT communication methods, ideas on development finance and new modes of social emancipation can be instantly shared between groups of peers who may be living in close proximity of each other or further afield. Information and knowledge are thus no longer the preserve of governments. Agenda setting and norm making in global development is no longer a

[10] The Compact initiative identified ideological change in the economist-dominated environment as a necessary change for the Bank's new agendas, such as good governance and development. In order to bring in fresh ideas and shake up old ways of thinking, the Compact specified human resources targets, including a quantitative shift in the Bank's staff skills mix towards priority areas. As a result, between 1997 and 2000 the Bank underwent remarkable physical changes: one-third of the total staff were fired, retired, or quit. Over 3,300 new staff members were recruited into the Bank (one-third of these in overseas offices as part of the decentralization initiative). Statistics provided in subsequent human resource reports do indicate increased staff numbers in targeted units (Weaver 2007b:61)

governmental monopoly. Even if the final decisions still remain in government hands, new ICT has enhanced the manner in which groups of citizens, especially those most affected by specific policies, if possible, shape governmental/institutional actions.

Key to the preceding point is the increased empowerment of the individual. With ICT, the world has experienced how individuals can use their ideas to instigate wide scale actions. In the area of development individuals are also empowered through their good will and altruism to bring about vital changes. Think of the actions of Bill and Melinda Gates or that of Mo Ibrahim, who has been using his foundation to collapse perceptions and practices in African governance. Within schemes such as the Global Fund at the international level these individuals are not only contributing money but also shaping the global agenda, *ipso facto*, determining global standards in development finance. A case has actually been made for a diminution of what Easterly calls developmentalism or government of donors, by donors and for donors (Easterly, July/August 2007).

Also of great importance is the rising influence of (re)emerging countries like Brazil, India and especially China that have been keen to increase their role in developing countries notably through the use of development assistance (Schulz, 2010: 1). Two vital elements have marked the advent of these countries. First is the so-called articulation of a Chinese model of development (Lancaster, 2007) which has been coined the "Beijing Consensus" following a strong aid posture from China (Woods, 2008: 8; Naim, 2007: 96). Second is the more crucial decision by Brazil, Russia, India, China and South Africa to create a BRICS Development Bank. This Bank, if and when it is created, will be a direct challenge to the development finance model that has been advocated by the World Bank for so long. It is believed that a BRICS Development Bank, to be funded by the massive reserves of these emerging markets, will be averse to structural dictates and favourable to more pro-growth spending, especially in infrastructure (Romani, Stern and Stiglitz, 2012; Lamont, 2012; Bhagwati, 2012). These are trends that the World Bank cannot ignore or it will increasingly become irrelevant. Moreover, with the BRICS Bank and the role of a Beijing Consensus, one cannot discount the approach used by specific development banks such as the Saudi backed Islamic Development Bank and sovereign wealth funds. The proliferation of these new generation/ type of funders sends a strong message to the

World Bank that it is no longer the only development player in town. In a vital way this is a positive development, as it fosters competition in development finance: the kind of liberal competition which the Bank, in good faith, should support. Importantly it signals the need for serious changes in the manner in which the Bank does business.

Finally, as a result of new ICTs and the empowerment of individuals and smaller groups of peers, there appears to be a strong and shared sense of social responsibility in addressing common challenges including climate change, world hunger and financial excesses. These are problems the effects of which have been felt in every region. Movements such as the World Economic Forum now have a mirror in the World Social Forum. Efforts by bankers to resist financial regulation are now met by Occupy Movements. NGOs and CSOs have used the power of new forms of ICT to maintain pressure on governments and organizations, such as the Bank, to uphold values of social responsibility in their projects (League of Boeung Kak, April 2011; Bretton Woods Project, June 2010). These are trends which the Bank cannot ignore. It cannot ignore the subsisting crisis of supply side dogmas and austerity speak. Many economists agree they do not work (Krugman, 2009; Stiglitz, 2010). New models are needed as the Bank's approaches come under scrutiny. Human rights and environmental groups have been keen to challenge the Bank in decisions to fund projects that have been accompanied by displacements and environmental decadence. In all these areas the Bank has adopted seminal steps for reform but the story of its path dependence continues to constrain some of the bold steps that are needed to cardinally shape the institution.

Current institutional changes at the Bank on rethinking a model: From path dependence to the path forward

The Bank remains a relevant institution and this may not change. Indeed in the context of the financial crisis and as poorer countries have found it hard to access capital markets, the services of the Bank have proven to be even more important (Interview: Feidieker, 8.12.2011). The Washington Consensus, the dictates of which the Bank alongside the Fund, epitomised was based on a number of assumptions. But as we have discussed above the recent crisis as well as the new trends have ripped these assumptions of some cogency. The Bank itself has been keen to reflect the need for a rethink of its modalities (Birdsall and Fukuyama, 2011: 46-48) including the heightened emphasis on results rather than process. Of crucial import has been the changes introduced in the form of governance and voting weight to reflect the shifts in economic clout of emerging countries within the executive board of the institution.

On governance there has been an important increase in the number of mid to high level career managers from developing and transition economies. Two thirds of all such positions now come from such countries (interview: Feidieker, 8.12.2011). In terms of governance in the Executive Board, since 2008 the institution has undertaken vital reforms to reflect the demands for more seats from the South. As such there has been an additional seat for Sub Saharan Africa. Also constituency constellations have been slightly shaped to provide a greater voice to poorer states.

In terms of voting weight or power, developing and transition countries wanted a 50:50 parity in the voting shares of the Bank. The only problem was that they could not justify an increase of a proportion of 43 percent to 50:50 (IBRD) parity with the donor countries. Wealthy nations insisted on the need for an objective and traceable basis for such parity demands. Following the second phase of the reform discussions a formula was suggested by Finland for members to use, *inter alia*, IDA contributions of countries to determine prospective share subscription intake. In this manner the voting share of China was significantly boosted and the cumulative effect of the share adjustments have resulted in developing countries now accounting for 47 percent of the IBRD voting power. Given the path dependent nature of the Bank and the institutional constraints in which its existence is embedded, it is fair to state that these steps, which appear minor, are relatively significant.

Such changes could not have come to pass without a constant push from developing countries. Importantly a realization that the economic clout of China and Brazil, amongst others, will continue to grow has greatly shattered the path dependent prospects of the institution. Power is clearly moving South and East. Moving forward, the institution can use the four trends to assure its continuous relevance or it can decide to continue in its timid path of reform and be confined to history when forced to compete with the likes of BRICS Development Bank and individual altruists.

First, the strategies adopted by the Bank to enhance transparency are worthwhile (Stiglitz, 2003: 120). They should continue and be broadened to make governments and companies (involved in Bank projects) more accountable to local communities. In the past the Bank has sponsored useful development applications used in fostering development. It can broaden its support for applications that are used by individuals and local communities to monitor how governments use Bank loans and proceeds from projects funded by the Bank. It could also take its transparency commitments a step further by opening executive board meetings to the public (Bretton Woods Project, October 2010). Second, the World Bank still has the added value of being a truly global development organization in contrast to some of the regional development banks or the thematic financing bodies. This means that it has the power and leverage to engage emerging countries to take up more global social responsibility in challenges such as climate change and world hunger. The danger for the Bank is that its questionable approach to development has led to, and may continue to lead to a proliferation of development banks and other financial institutions that lack the willingness, capacity and above all legitimacy to forge real policies that improve the lives of citizens in a universal way. So even if there is allowance for the continuous proliferation of breakaway development bodies, the Bank has a unique interest and role to encourage countries to assume greater positions of responsibility within the institution in pursuit of commonly defined development goals. Third, it needs a more socially conscious development. The Bank can no longer rely on fact that wealth created through private sector will trickle down (Jarrouj, 2011). Fourth, any rational assessment of the performance of the Bank results in the observation that it tends to do a lot often poorly so (Winters, 2004: 2). In a way this is inevitable. However some of the tasks defined in its strategy as a knowledge reservoir could be better dispensed by other entities such as UN university institutes and programs (Venkitaramanan, 2007). Further its regionally focused tasks may be better left to its regional counterparts. As such the entity could be accorded a mandate that focuses mainly on globally relevant investments, including in the area of climate change. But in fairness once again, this is a stricture that has to be directed more to the shareholders of the Bank. On many occasions the Bank is burdened by parallel tasks such as administration of special trust funds (Interview: Alzetta, 9.12.2011) that are created by Bank members with specific agendas. As such the Bank has increasingly become an agent sanctioning goals of specific shareholders that may often be rather parochial. The way forward here may entail members refraining from inflating the already overwhelming mandate of the Bank. Finally, the Bank has adopted an overtly apolitical approach to lending. This means it does not interfere in the internal affairs of member states. With the increased leverage of the BRICS especially in the case of China, this policy will be tested (Interview: Dobson, 5.12.2011). On the one hand it would be safe to pursue the approach of passive indifference even in cases of human violations. But is this really the approach the Bank would want to be remembered for?

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