THE BRETTON WOODS COMMITTEE
1990 M STREET, N.W., SUITE 450
WASHINGTON, D.C. 20036
TELEPHONE (202) 331-1616
FAX (202) 785-9423
EMAIL info@brettonwoods.org

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PRESIDENT JIMMY CARTER
PRESIDENT GERALD R. FORD

PAST CO-CHAIRMEN
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Recommendations to

New World Bank Management

June 1, 2005

Introduction

The Bretton Woods Committee is a bipartisan, public education group dedicated to increasing understanding of the benefits of economic growth, development, and liberalized trade to the United States. The group reminds the public and their elected officials about the key role played by the multilateral institutions in ensuring attainment of these goals. The Committee also participates in the policy development process by reviewing current issues and sharing its conclusions with management and governments. Committee members are drawn from the ranks of senior American business leaders, heads of academic institutions, civil society organizations, and former U.S. government officials and legislators. The Committee's mostly American persona enables it to share its views with Congress from time to time.

In March 2005 the Committee launched an initiative to develop a series of policy recommendations for the World Bank to be considered during the leadership transition. Committee members and other outside experts were consulted, and the resulting list has been reviewed and endorsed by an informal working group of Bretton Woods Committee members.

The recommendations come with some caveats. Recommendations for policy change are invariably cloaked in language critical of institutions, and coupled with long lists of things that need to be fixed. This document is no different. From a broader perspective, however, there is undiminished support by the Bretton Woods Committee for the important work of the World Bank and for the skill and integrity of its dedicated staff. Improvements are always possible, however, and hence these recommendations.

The second caveat is that not all members of the informal working group support every recommendation or their importance in relation to others. Finally, the recommendations are not designed to be final proposals, but should be considered more as "thought starters" that point the direction for more World Bank staff work. Members of the Bretton Woods Committee would be eager to offer any assistance in this effort.

These Bretton Woods Committee members' ideas and efforts helped shape the recommendations:

Ms. Carole Brookins, former U.S. Executive Director, the World Bank
Mr. Michael E. Curtin, Executive Consultant, Bechtel Enterprises/ International Water
Mr. Warren E. Emblidge, Jr., President, McCullagh International, Inc.
Mr. David Hale, Chairman, Hale Advisors LLC
Mr. Gary Kleiman, President, Kleiman International Consultants
Mr. R. T. McNamar
Dr. Theodore Moran, Georgetown University
Mr. James C. Orr, Executive Director, The Bretton Woods Committee
Amb. Henry Owen, former Co-Chairman, The Bretton Woods Committee
Mr. Rutherford Poats, former President, International Investment Services, Inc.
Mr. Robert F. Riordan, Vice President, Black & Veatch
Dr. T.N. Srinivasan, Yale University
Mr. Frank Vogl, President, Vogl Communications, Inc.
Mr. Derish M. Wolff, Chairman, The Berger Group, Inc

Recommendations

I. HIV/AIDS ASSISTANCE

Combating HIV/AIDS and Other Diseases

(1) On behalf of the international community, the World Bank is playing a unique and effective leadership role in providing HIV/AIDS assistance. This should continue to be a top World Bank priority; otherwise the result could be a human crisis without equal since the Black Plague devastated Europe nine centuries ago. To this end, the Bank needs to continue to increase the volume and disbursement rate of AIDS assistance. In 2004, only 40% of the funds committed to fight AIDS were disbursed due to inadequate human and other infrastructure in the recipient countries. The World Bank should provide more money to meet these infrastructure needs.

II. THE PRIVATE SECTOR

Decisive Help for the Private Sector

(2) In all but the poorest countries, the main purpose of the Bank today should be to increase private sector development. Aid to the private sector, as the Bank's Operations Evaluation Department recently suggested, is the best way of reducing poverty. To this end, the Bank should:

(a) Increase the skill set of the Bank's in-country staff relating to the private sector, through training, business internships, and other innovative programs.

(b) Encourage developing countries to actively promote foreign direct and portfolio investment. The International Finance Corporation (IFC), which is the Bank's main instrument to help the private sector, should do two things. One is to provide aid directly to private sector companies in the developing world; and the other is to work closely with private companies in other countries that wish to make investments in the developing world. The IFC will need increased capital to address these issues. The Bank should, therefore, consider the transfer of some of its capital to the IFC, as it has done in the past. The Foreign Investment Advisory Service (FIAS) and the Multilateral Investment Guarantee Agency (MIGA) should also be expanded.

(c) Devise ways of providing all of its financial participation in private sector projects without demanding host government guarantees of private investors.

(3) In new developing country markets, the absence of legal sanctity of contracts and violations of property law hinder capital formation and foreign private investment. The explosion of filings for dispute resolution at the International Centre for the Settlement of Investment Disputes (ICSID) of the World Bank is testament to this. Further, ICSID tribunals need to be supervised more so that decisions are not unnecessarily delayed. As the statement goes, "Justice delayed is justice denied."

Lending to Sub-Sovereigns

(4) As a further step to strengthen the Bank's private sector role, the Bank's articles should be changed if necessary to allow greater lending flexibility. For example, both the World Bank and IDA should be able to lend directly to sub-sovereign entities. Since the London-based EBRD, which lends directly to the private sector, enjoys an AAA rating, changing the Bank's articles to permit a broader range of lending should not undermine its own AAA credit rating.

Employing Modern Financing Techniques

(5) The World Bank is well behind the curve of financial innovation. Instead, it should be on the forefront, leveraging its financial position and that of its donors to maximize development assistance flows. It should be much more open to the adoption of modern financial market techniques that could permit expansion of its resource base and the creation of new products to spur new investment in development. The Bank can do this with minimal risk. Among the ideas it should consider are:

- Expanded use of guarantee instruments.
- Creation of special purpose financing subsidiaries, perhaps backed by callable capital.
- Securitization of some Bank or IDA loans, perhaps with Bank provided credit enhancements.
- Other mechanisms to "leverage" the Bank's balance sheet for development.

Modernizing the Bank's Investment Portfolio

(6) The Bank should consider diversifying its portfolio to raise current and longer-term yields, and should consider contracting out portions of the portfolio to established money managers on a global basis. The Bank should invite proposals as to how it should invest its capital and pick the best balance among the proposals.

III. IMPROVE EFFECTIVENESS

Improving the Bank's Development Effectiveness

(7) The World Bank should reexamine the way in which it evaluates its own work and consider using outside evaluators to make independent judgments. A peer review system might be adopted. A third-party might be retained to evaluate projects or the evaluations prepared by the Bank's Operations Evaluation Department.

(8) The World Bank should also conduct an objective review of its IDA lending practices. While some countries have graduated from IDA over the years, many appear tied to a vicious cycle of poorly implemented and sometimes uneconomic projects, supported by new rounds of concessional lending.

The Bank and its staff should establish clearly defined goals and metrics for measuring IDA loans and programs, followed by objective reviews of their performance. If many of the IDA borrowers fail to show progress, the lending procedures should be further refined, administrative costs significantly reduced, and the conditionality requirements carefully tested before they are applied.

Using New Thinking and New Modalities

(9) The Bank needs to redouble efforts to deliver basic infrastructure to borrowers, particularly to disadvantaged areas, where private sector finance will not be available. This means radically more efficient and effective ways must be found to secure infrastructure development and to increase the role for private investment where possible. Similarly creative new ways must be found to assist the humanitarian, housing, health, and education needs of the world's poorest people. In some instances, this will require bypassing public authorities and greatly expanding direct work with NGOs with proven effectiveness.

Stepping Up the Fight Against Corruption

(10) Anti-corruption must be at the vanguard of all multilateral development efforts, and much more remains to be done. The Bank should maintain pressure on governments to confront corruption within their borders. Its agencies should provide increased funding and technical assistance to support anti-corruption efforts and to help empower an active civil society that can help reinforce this.

(11) The World Bank must closely police the international bidding process to ensure that procurement for its projects is completely transparent and everyone's actions are above reproach. Where bidding irregularities are uncovered, they must be quickly brought to public light, vigorously uprooted, and severe punishment meted out. Multilateral institutions that depend on public confidence and support must be ever vigilant on this score.

Increasing Performance-Based Assistance

(12) The World Bank and other multilateral development banks should provide a greater proportion of their assistance to the good performing countries. However, IDA and other soft loan windows should continue to provide poverty reduction assistance to all poor countries, even the poor performers. Where governments lack the capacity or are themselves the obstacle, the soft loan lenders should work through non-governmental organizations (NGOs) or businesses.

Graduating Middle-Income Borrowers

(13) The Bank has not been rigorous in enforcing its graduation policy for countries that can access the private capital markets. In one sense it is tying up capital that could be better used for higher priority development needs, e.g. Africa. However, the Bank relies on the income from these loans to cover approximately one-half of its annual operating budget. More creative thinking should be given to levels or forms of graduation, phase outs, and knowledge management for fees that the Bank can perform that would be substitute income from the most credit worthy borrowers. There may be a variety of securitizations, bank credit enhanced refinancing, etc. that will move the bank toward more rigorous

enforcement of its graduation policy while preserving some of the Bank's income from this group of borrowers.

IV. ORGANIZATIONAL CHANGES

Limiting Priorities

(14) The often-heard comment about the Bank is, "the World Bank has a strategy for every problem and each strategy is one of the Bank's top priorities!" Together with Bank staff and member governments, the new management must decide what should be the true top priorities in coming years. For its part, the Bank staff must avoid attempting to be all things to all people in the developing world and try to focus on areas where the institution has a clear comparative advantage. Similarly, the G-7 and other donor countries must be careful not to diminish the Bank's development effectiveness by assigning it ever more things to do.

Improving Bank Focus and Follow-Through

(15) The Bank needs a clear vision, articulated mission, specific goals, and agreed upon strategies or programs to achieve them. Assuming the Millennium Development Goals (MDGs) represent the Bank's current objectives in reducing poverty, top management must ensure the institution has the information systems, tracking capabilities, and personnel performance evaluation systems in place to achieve the MDGs.

Enhancing Donor Coordination

(16) More effective donor coordination is critical to avoid duplicative efforts and waste. This must be accorded a higher priority. The World Bank must also continue to measure its skills against other institutions, especially the regional development banks. It should develop metrics to test its lending efficiency, project implementation, staff size, etc., against the regional institutions.

Reducing and Empowering Staff

(17) The Bank can and should reduce the number of staff and should increase the empowerment of the remaining staff. Some current controls designed to avoid risks are leading to extended project cycles. One former senior Bank manager believes up to 40% of the tasks could be outsourced and savings could be used to enhance anti-poverty programs. At the same time, ways should also be found to decrease time from loan preparation and design to the implementation phase.

Reforming Personnel Policies

(18) The Bank's mandatory retirement at age 62 rule deserves review. Many of the Bank's best employees have retired or are retiring because of this rule, which does not correspond to general practice

in the private business community. For example, the effective and highly regarded head of the IFC was recently forced into retirement against his will and against the best interests of the organization. It is sometimes said within the Bank that the talented people leave, the good people are retired, and that the mediocre people stay until retirement to remain in Washington, DC.

(19) Facilitating more early retirements could help reduce staff size and clear out dead wood. However, because of visa issues, many non-Americans who want to remain in the United States can only do so by continuing to work at the World Bank. Hence they are not motivated to take early retirement and resist being fired or seeing their positions abolished because they will have to leave the United States. One possibility would be seeking U.S. legislation granting foreign executives of the World Bank, IMF, and IADB who have lived and worked in Washington for a certain period the right to remain in the United States.