THE WORLD BANK AND GOVERNANCE

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1 INTRODUCTION[1]

It is now over five years since the World Bank, in its study on sustainable development in sub-Saharan Africa[2], first gave prominence to the term governance in the debate on economic development. Rescued from archaism, the term has rapidly become a leitmotiv of aid programmes everywhere. In 1992, the Bank published **Governance and Development**, defining governance as 'the manner in which power is exercised in the management of a country's economic and social resources for development.' Since then, regional development banks and the major bilateral donors have come out with their own policy documents defining governance and explaining how governance has become a key criterion of country aid eligibility, and the types of programmes and projects the donor is prepared to assist. In 1993, the member governments of the Development Assistance Committee (DAC) of the OECD agreed on an orientations paper on participatory development and good governance.[3] In 1994, the Bank published the first progress report on its governance work.[4]

Key to understanding the Bank's approach to governance is the distinction it draws between governance as an analytical framework and governance as an operational concept. The Bank distinguishes three aspects of governance: (i) the form of political regime; (ii) the process by which authority is exercised in the management of a country's economic and social resources for development; and (iii) the capacity of governments to design, formulate, and implement policies and discharge functions. Operationally, the first aspect lies outside the Bank's mandate, which precludes the institution from letting political considerations influence its investment decisions.[5] This is in contrast to bilateral donors, most of which have placed heavy emphasis on human rights and democracy. Thus, the Bank has been careful in the country dialogue and in lending to confine itself strictly to the second and third aspects of governance. While recognizing that governance will always have a political dimension, the Bank operationally restricts itself to the economic dimensions of governance. In practical terms, the mandate has been interpreted broadly: improving public sector management, increasing accountability, promoting transparency and information, and assisting countries strengthen the legal framework for development. It has also led the Bank to develop approaches in such areas as participation in programme and project design, the control of corruption, and the issue of military expenditure.

2 PUBLIC SECTOR MANAGEMENT

The bulk of the Bank's governance work is in public sector management: advice on public expenditures, studies on civil service reform, financing the modernization of tax administration, assisting public enterprise reform, or providing quick disbursing structural adjustment lending for an economic programme which includes reforms of the public sector. This concern with public sector capacity is likely to continue for several reasons. The need for functioning government machinery to implement and operate its projects can be expected to keep public management reform high on the Bank's governance agenda. Second, because of the unfinished reform agenda, particularly in the areas of civil service and public enterprise reform. Third, because there is increasing awareness, both within the Bank and outside it, that a well-functioning public sector is essential if an 'enabling environment' for

[1] This paper reflects the views of its authors and should not be read as representing the views of the World Bank.

[2] **Sub-Saharan Africa: From Crisis to Sustainable Growth**, World Bank, 1989.

[3] **DAC Orientations on Participatory Development and Good Governance**, OECD, 1994.

[4] **Governance: The World Bank's Experience**, World Bank, 1994.

[5] Article IV Section 10 of the Bank's Articles reads: 'The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article I.'

the private sector is to be created. Responsibility for law and order, the conduct of macroeconomic policy, the regulation of private sector markets, or the provision of social programmes to target groups are functions that remain a public responsibility in all countries. If the past decade, with its emphasis on markets and the private sector, has in part been a correction for excessive state interventionism, a re-balancing is now in progress, signifying a recognition that both the state and market are needed for development, and that governments need to function effectively, if markets are to prosper.

The Bank's civil service reform activities have been concentrated in Latin America and sub-Saharan Africa, with a modest but growing involvement in transition countries and in Asia. In total, the Bank has supported civil service reform, in one way or another, in over 30 countries in the past decade. In Latin America, civil service reform is seen as part of the overall modernization of the state. Spurred by the political changes of the past decade, the momentum of reform has already led to substantial shedding of excess staff, rationalization of functions, and new management processes in many countries. In Africa, civil service reform efforts have been going on for many years, but success has been elusive. While there are a few promising examples, civil services throughout sub-Saharan Africa remain for the most part trapped in a vicious circle of inadequate pay, excess numbers, lack of technical skills, inadequate supporting budgets, staff demoralization, and public cynicism. How to break out of this trap and create or re-establish a professional, well-motivated and responsive civil service is a major challenge for both donor agencies and for governments, calling for fresh thinking on both sides. The donor community is central to whatever solution is found because the expansion in numbers was partly driven, and now is sustained by aid inflows. Country commitment is crucial because, sustained reform depends in the final analysis on local demand for an accountable and responsive state. In too many countries civil service reform has come to be seen as donor mandated downsizing. This has led to reform programmes in which the appearance of change is more important than the reality (Cape Verde and Uganda are two countries where reforms appear deeper rooted). Related to the problems of civil service reform are the indirect effects of high aid inflows. How these affect reform incentives is insufficiently understood. Where aid is poorly co-ordinated, government departments have little incentive to prioritize. Salary supplements undermine staff morale, disbursement procedures fragment financial management, and the blending of recurrent, rehabilitation and investment components in donor projects makes it difficult to determine what is a sustainable wage bill. Thus, it can be argued that if civil service reform is to make headway in such countries, donors may have to make explicit commitments to recurrent budgetary support outside the conventional project framework. In return, governments may have to accept tighter fiscal surveillance.

The Bank has also been active in public financial management. In some regions (for example, Latin America), a system-wide approach is being adopted. Budgeting, cash management, financial reporting, accounting and auditing all require reform, and this must be done in an integrated way. In Africa, where basic systems are fundamentally sound, the requirement is to restore capacity, by training, by replacing worn-out equipment, and by computerization. The need for better performance in areas like cash management, commitment control, bank reconciliation, cost information, and financial reporting is self-evident. No private sector company, unless in a highly protected market, could survive with the lax standards of many governments. To better understand these problems, the Bank has begun a series of financial accountability assessments, starting with Ghana and South Africa. These review the legal framework, standards of accounting, and the independence of the auditing profession in both the public and the private sectors. In Asia, the Bank is helping to modernize accounting and auditing practices in China, it is strengthening accounting and auditing processes in both the public and private sectors in Indonesia, and it is improving financial reporting and auditing in Pakistan. Clear from the Bank's experience in all regions is that while at one level financial management reform is a technical matter, success ultimately depends on the demand of governments for accurate, relevant and timely financial information.

Public enterprise reform has been a central part of the Bank's governance work for many years. By the early 1980s, it had become clear to Bank staff that making individual enterprises more efficient through traditional investment projects was showing limited results. The approach then shifted to the governance framework of public enterprises, introducing performance contracts, clarifying the

powers and responsibilities of managers, removing restrictions on pricing and pay policy, and terminating the 'soft budget' constraint on enterprises – their easy access to budget subsidies and government guaranteed loans. In the mid-1980s, the Bank began to emphasize divestiture and privatization, to improve efficiency through competition. This remains the thrust of the Bank's policy advice: divestiture through closure or sale of the bulk of public enterprises, clearer objectives and management autonomy within a performance framework for the few deemed strategically necessary to retain in public ownership. Virtually all structural adjustment loans (SALs) have included public enterprise reform. In many countries, SALs have been followed by quick disbursing sector loans and technical assistance loans focused on public enterprise reform. Examples range across all regions. Almost certainly, the most successful have been in the Latin America and Caribbean Region, where reforms have been driven by the desire of governments to modernize their public sectors, a striking recent example being Argentina. Less successful has been public enterprise reform in Africa, where progress has been much slower, due to a complex set of factors such as: lack of ownership, doubts about policy, fear of political unrest, reluctance to reduce patronage opportunities, uncertain private investor interest, and weak government capacity to implement reforms. In transition countries, the Bank's support for divestiture of state enterprises is central to the creation of a market economy.

Finally, the Bank has supported the world-wide trend towards decentralization of government. Urban sector projects have been part of the Bank's lending for over two decades, and typically such projects have contained elements aimed at strengthening the capacity of local governments. This approach is now changing, following a review of municipal sector lending.[6] This suggests that the traditional approach by itself is unlikely to be effective, and that a new approach should be developed, placing local government in a broader framework by examining whether responsibilities are commensurate with revenue raising capacity, whether systemic constraints inhibit capacity development, and how local governments are held accountable.

3 LEGAL FRAMEWORK FOR DEVELOPMENT

Economic growth through the commitment of human, technological, and capital resources depends greatly on a set of rules securing property rights, governing civil and commercial behaviours, and limiting the power of the state. For a legal system to be effective, (a) the rules must be known in advance; (b) they must actually be in force; (c) there should be mechanisms to ensure enforcement; (d) conflict resolution should be carried out through the binding decisions of an independent judicial body; and (e) procedures should exist to amend the rules when they no longer serve their purpose.

The Bank has been using a variety of instruments to help countries improve their legal systems. In addition to legal and regulatory reform components in lending operations, grants from the Bank's Institutional Development Fund (IDF) have been used to support legal reforms in several countries. Bank staff have also provided extensive advice to governments on issues relating to legal and regulatory reform.

In Europe and Central Asia, the focus has been on creating a legal framework for a market economy. The Bank has helped develop laws on privatization, banking, bankruptcy, contracts, and consumer protection. The Bank has also helped to create the institutions necessary to enact, administer and enforce laws by assisting countries with legislative, administrative, and judicial reforms. In some countries, legal reform units within government structures have been created to ensure that legal reform is carried out in an integrated, comprehensive and consistent fashion. Similar efforts are being supported in the transitional countries of East Asia. In the Middle East and North Africa, emphasis has been mostly on improving banking and finance laws and simplifying trade and customs regulations. In Latin America, a number of judicial reform projects are either underway or being prepared. In the public sector, the Bank has helped countries introduce new procurement regulations. Support in several countries has been given for the publication of government gazettes, thereby improving transparency.

The Bank's involvement in legal reform has thus grown in recent years. A recent review[7] of legal

[6] **Municipal Development Sector Review,** Transport, Water and Urban Development Dept., World Bank, 1993.

[7] 'The World Bank and legal technical assistance – initial lessons', **Policy Research Working Paper** No 1414, Legal Department, World Bank, January 1995.

technical assistance listed no less than 300 Bank loans, credits and grants financing legal technical assistance to countries. A number of lessons are drawn from this experience. One obvious one is the need to match the technical assistance provided with the legal traditions of the country. Financial sector legislation based on common law definitions and concepts may not readily transfer to a civil law jurisdiction, and countries in transition from a socialist legal system need to make a fundamental decision on the direction of legal reform. A second lesson is that legal reforms, especially in transition countries, need to be sequenced. For example, a bankruptcy law makes little sense unless corporate forms have been defined by a company law. A third lesson is that legislative action alone is unlikely to be sufficient. Laws are of little use unless they are enforced, and for this reason, the Bank has supported judicial and regulatory reform in a growing number of countries. And legal reform, because it involves institution building, is likely to be a long-term process, requiring the close involvement of local lawyers, in both the public and private sectors, and the strong commitment of government.

It should be noted that the Bank's engagement in legal framework reform has been only in the areas of commercial and economic law. It has declined to finance, in at least one country, the reform of criminal codes, the re-equipment of police forces or the training of criminal court judges. Problems of crime and human security in many countries may result in further calls to support law and order functions.

4 PARTICIPATION

Following the endorsement by the Bank's Board in September 1994 of a major report as the participation[8], participatory approaches are being 'mainstreamed' within the Bank. This means that Bank country staff increasingly are seeking ways to carry out studies and design projects in a more participatory way than before. Clearly, for the Bank, participation is both a key to sounder projects, deeper country ownership and in turn greater sustainability. By contributing to social capital, it may also improve governance. More and more projects are being prepared and implemented in ways that involve beneficiaries and other stakeholders, and there is growing evidence from supervision reports and reviews of country portfolios of better project performance.

However, as greater emphasis is given to more participatory approaches, several issues arise. One is the need for a framework for determining the projects that best lend themselves to participation. In one way, this guidance is emerging from experience. There is now strong evidence that participation is key to the success of water sector projects. Irrigation schemes, for example, benefit greatly from the involvement of water users in their design and management. The same generally holds for the urban sector, and there is scope for participation in the design of social sector projects. But the intent and nature of participation will vary with the circumstances and the type of the decisions associated with a particular projects. In the case of policies and programmes concerned with, for example, the exchange rate, monetary policy, regulation, participation will rarely be appropriate, although consultation may well play an important role in 'getting the policy right' the first time.

A second issue is the role of governments. If government officials are lukewarm, development agency staff may be tempted to go directly to beneficiaries and seek to 'empower' them by designing a role for them in the project. However, seeking the empowerment of beneficiaries directly without the consent of the government would be counter-productive. Thus the Bank's task is to work with governments to persuade them that the use of participatory techniques makes for better policies, programmes and projects. While some agencies might be tempted to pursue participation for its own sake, the Bank cannot without compromising its political neutrality.

Fourth, participation is stimulating a rethinking of the project cycle, moving away from the blueprint approach of the classic project cycle to one that is more flexible and experimental, while at the same time keeping a firm vision on strategic objectives.[9]

5 HUMAN RIGHTS

The Bank's position on human rights has attracted a lot of comment. It has also given rise to much misunderstanding and in some quarters, a feeling

[8] **The World Bank and Participation**, Operations Policy Department, September 1994.

[9] Roberto Picciotto and Rachel Weaving, 'A new project cycle for the World Bank', **Finance and Development**, December 1994.

that the Bank is insensitive to basic human rights. In some countries where governments have been accused of serious human rights abuses, the Bank has continued to lend. In others, it has cut back lending along with bilateral donors, but for reasons seemingly unconnected with human rights issues. The basis for the Bank's position on human rights is, of course, its Articles of Agreement. The Articles' explicit wording about non-interference in the political affairs of members makes it clear that the Bank cannot reduce or eliminate its lending to a country on the grounds it has violated internationally recognized political rights.[10] Decisions whether to lend for a particular project must be taken on strictly economic grounds. The following examples are easier to understand when the criterion of economic considerations is borne in mind. The Bank continued to lend to Chile during the Pinochet years. It did so because the projects were worthwhile and the regime's economic policies were sound. In contrast, the Bank (in this case, IDA) did not lend to Uganda during the Amin dictatorship. The immediate reason was not the widespread human rights abuses, but because conditions within the country were such that no Bank project could be expected to yield benefits. After the confrontation between the Netherlands and Indonesia because of human rights issues in East Timor, the Bank agreed to take on the chairmanship of the aid consortium because of the Bank's long standing relationship with that country and because it was requested to assume the role both by the other donors and by the government. In Kenya, when bilateral donors reduced their aid to pressure the government to improve human rights and hold multi-party elections, the Bank declined to proceed with adjustment lending. This happened because the government was unable to make the fiscal adjustment required by the reduction in aid commitments.

It would be wrong, however, to view the Bank's record with respect to human rights, as some critics do, in a negative way. The Bank believes if there is one thing that unifies its actions, it is that they are all aimed at helping countries to fulfil their right to development. In the same manner, the Bank argues that its constant emphasis on the social sectors and its focus on poverty alleviation are helping people to achieve basic economic and social rights. Fulfilment of basic economic and social rights contribute to the enjoyment of political and civil rights. In their absence, political rights may mean little.

Some additional points are worth making. In the first place, the Bank is different to bilateral donors in that it extends loans, not grants. Lending implies a long-term relationship, characterized by disbursements followed by a long period of amortization. Stability must be an element in that relationship. A moral hazard, familiar to bankers, arises when lending conditions are imposed unrelated to the borrower's repayment capacity.

Second, the Bank's mandate does not prevent staff from assessing the political situation in a country, and its implications for the Bank. For example, it would be wrong to assume that the Bank takes no account of political circumstances within a country when deciding its future lending programme, which it reviews on a regular basis. As a Bank, it has a fiduciary responsibility to ensure its loans will be repaid, and like other international lenders, the Bank assesses political risk in setting country exposure limits. However, it is not the 'political character of the member,' but the economic implications of political events that determine country lending limits. This is quite different to adjusting its lending programme according to a country's observance of internationally recognized political rights.

Finally, critics of the Bank need to ponder the effect a change in the Articles[11] would have on the Bank's effectiveness. Introducing political criteria into lending decisions would clearly politicize the institution and jeopardize its credibility. Without doubt, this would diminish its ability to play its unique present role assisting countries with economic reform. It would also play into the hands of opponents of economic reform who allege that the Bank has a political agenda.

6 MILITARY EXPENDITURE

Following the end of the Cold War, bilateral aid donors have become much less tolerant of countries with high levels of military expenditure. Two DAC members, Germany and Japan, have made

[10] Ibrahim Shihata, 'The World Bank, human rights and the environment', presentation at the Luiss University, Rome, November 1994.

[11] The Bank's Articles may be amended by the Board of Governors (requiring a majority of three fifths of members having at least 85 per cent of the total vote).

the reduction of military expenditure an explicit criterion of their aid programmes. Also, there have been calls for bilateral aid donors and multilateral agencies to refrain from providing resources to countries with excessive levels of military expenditure.

The Bank was one of the first development agencies to draw attention to the burden of military expenditure on developing country budgets. However, it has never felt comfortable adopting either an explicit military expenditure target or making the reduction in military spending a formal criterion of lending. There are several reasons for this reluctance. In the first place, to do so would be in clear contravention of the Bank's Articles. Borrowing countries would rightly accuse the Bank of political interference. Secondly, in contrast to other categories of government spending where the Bank has the skills and experience to provide advise, it has no expertise in the area of military expenditure, and no plans to acquire it. Thirdly, countries have genuine security needs, which need to be determined not by reference to an arbitrary figure, but through a process of examining options and making trade-offs between different spending priorities.

The Bank takes a pragmatic view towards military expenditure. If there is evidence of military expenditures diminishing the government's capacity to fund civil sector programmes (such as road maintenance, agricultural research and extension, hospital supplies or classroom materials), it will raise the issue in the country dialogue, typically at a senior minister or head of government level. If steps are not taken to reduce the share of military spending, and the crowding out of Bank supported programmes continues, the Bank might reduce new lending. Here, the Bank is careful not to say that military spending is large absolutely. Rather, it sug-gests that it is too large in relation to other programmes that the government is trying to implement, and a trade-off must be made if Bank support is to continue. Where a government has already made up its mind to reduce military expenditure, the Bank may assist the country articulate a budgetary framework within which the scaling down of military programmes can occur. Argentina and Uganda are two countries where such help has been given.

From a public management perspective, more important than the level of military expenditure is the manner in which military budgets are arrived at. In many developing countries, there is little public debate on the role of the defence forces and the resources that should be allocated to them. There are no defence white papers to stimulate public debate, and no systematic assessment of security risks and the options for containing them. The armed forces vote is often no more than a single line in the budget estimates. Financial accounts are not published, and large parts of military spending (such as weapons purchases) are off-budget, with a corresponding failure to follow competitive procurement procedures and to record debt obligations. Media debate is discouraged and journalists may be harassed or even jailed. In some countries, this lack of transparency, particularly for military debt, has undermined Bank and IMF supported stabilization programmes. It has also diminished the accountability of the armed forces themselves.

Consequently, a focus on the processes by which military budgets are arrived at rather than actual levels is likely to be more fruitful over the longer term. The level of external threat varies from region to region, and the armed forces may be needed to aid the civil power. From a governance perspective, what matters is that the armed forces should be accountable and under civil control, and that their budgets should be subject to scrutiny, reporting and auditing no less than other users of public monies.

7 CORRUPTION

Corruption is like military expenditure. Only in recent years has there been a willingness on the part of development agencies to openly confront corruption as an issue of aid effectiveness. It owes its current relevance to a pattern of change sweeping the world. With domestic budgets cut, northern politicians and taxpayers are critical of aid programmes which support what they perceive as corrupt third world governments. In recent years, there has been unprecedented media exposure of systemic corruption in both developed and developing countries. And many commentators have linked the poor performance of governments in regions like sub-Saharan Africa to large scale systemic corruption. It is by no means certain that actual levels of corruption now are any higher than at previous times. What is clear is that attitudes have changed, and in many countries, rich and poor, there is less willingness to tolerate corrupt practices by politicians and public officials. The

success of Transparency International, the NGO established less than two years ago to combat corruption in international business transactions, in establishing national chapters in both industrialized and developing countries, is striking evidence that a sea change in public attitudes is occurring.

Corruption, along with abuse of human rights, is the obverse of good governance. From the private sector's perspective, corruption adds to transaction costs and undermines confidence in markets. Ultimately, it deters investment, especially from abroad. Corruption undercuts public policy as a means of achieving social and economic goals. Corruption victimizes the poor who often face oppressive and discriminatory treatment by public officials, and lack the resources to pay for equitable treatment. The environment suffers when bribes are paid to circumvent zoning or pollution regulations. All countries, rich or poor, need mechanisms to combat primary corruption (individual use of public office for private gain). Primary corruption can be tackled by strengthening public sector management and punishing offenders. The issues are largely technical – diagnosing the weaknesses in existing mechanisms building support for anti-corruption strategy, and deciding what needs to be tackled first to bring corruption under control. Much more difficult is tackling secondary or systemic corruption. This occurs when political regimes use corruption to maintain themselves in power, and abuse of public office is the rule rather than the exception. Secondary corruption and raises fundamental questions of governance. Both types can co-exist (paradoxically illustrated when corrupt rulers launch anti-corruption drives).

The Bank's strategy against corruption addresses both types. The scope for individual and systemic corruption can be reduced by replacing administrative with market mechanisms. Trade regime reforms simplify tariff schedules and use the exchange rate rather than import permits to allocate scarce foreign exchange. Price liberalization and the simplification of tax codes limit the scope for rent extraction by officials. Privatization of state enterprises should terminate what is often an incestuous relationship between the enterprises and their parent ministries. Where corruption is systemic, however, a 'water bed' effect can often be observed as governments concede economic reforms under external pressure. Reforming the exchange rate regime may shift the locus of rent seeking to the customs. In addition to reducing the scope for corruption by economic liberalization, the Bank also helps countries buttress public management controls. Thus, the Bank assists countries strengthen their procurement systems, modernize their accounting and auditing systems, and reform their civil services. The latter should include not only pay reform, but also the restoration of ethical standards, fair disciplinary procedures and the protection of civil servants from political interference.

Two types of research are needed to help developing countries combat corruption. First, there needs to be better documentation of the experience of other countries which have successfully controlled corruption, described in the context of prevailing conditions, and the factors that were key to success. New governments coming to power on a wave of public indignation against the corruption of the previous regime have to show results fast, if disillusionment is not to follow. Second, there needs to be a better understanding of systemic corruption, how it works, the purposes it serves, the costs incurred, whether it is constrained by informal understandings, and how it may be reduced. Not all forms of corruption are equally dysfunctional. This research is particularly important, given current democratization trends. Systemic corruption is as much an instrument of political power as it is of personal enrichment, and competitive party politics requires financing.

Here it must be recognized that there are limits to what outside agencies can do – their role at best can be a supportive one. Ultimately, all countries have to come to terms with corruption in public life, as they modernize and integrate with a global market economy. This means institutionalizing formal and informal mechanisms to control abuse of public office and to make officials and political leaders accountable – the heart of better governance.

8 THE BANK'S OWN GOVERNANCE

The final issue is the governance of the Bank itself. As the Bank has raised issues of governance with its borrowers, so has its own governance become an issue. As the Bretton Woods institutions prepared last year to celebrate their 50th anniversary, few could have anticipated the orchestrated crescendo of criticisms against the two institutions, and particularly the Bank, principally from Northern NGOs. This is not the place to rehearse these

criticisms but rather to mention how the Bank's own governance is changing. Some of this, admittedly, is in response to external pressure. The larger part (and this has not been sufficiently recognized) arises from management and staff initiatives within the Bank.

Two significant recent changes are the formation of the Inspection Panel, and the new Disclosure Policy. The Inspection Panel, a direct outcome of the environmentalists' attack on the Bank over the Narmada Dam, is an independently constituted inhouse review body comprising three members, appointed by the Board on the recommendation of the President. On receipt of an appeal by an affected party, the Panel may review whether Bank guidelines and procedures were followed in the preparation and implementation of projects. The Inspection Panel reports to the Board, and its reports will be public documents.[12] At the time of writing (January 1995), the Inspection Panel was starting to consider its first case (the Arun Dam hydroelectric project in Nepal). It is thus too early to consider its impact on Bank operations.

To give effect to the Disclosure Policy, the Bank has opened a Public Information Centre, where copies of country reports and project documents approved since January 1994, may be obtained. The Disclosure Policy has been in operation since January 1994, and numerous reports and project documents produced since then have been released. By far the largest group requesting copies is not NGOs but firms seeking information on Bank-financed supplies and works contracts.

Both measures make the Bank a more open and accountable institution. Yet, there are some residual worries. By opening up an appeal channel for controversial projects, the Bank inadvertently may be externalizing accountability. From a governance perspective, the disputed projects are country, not Bank projects. Whether Bank staff follow institutional guidelines in appraising them for financing is of secondary importance to whether borrowing governments are accountable for project outcomes. A second concern is whether the prospect of publication may make some governments reluctant to share information and confidences with the Bank. This could be a problem with studies like public expenditure reviews which probe the inner workings of government. While there are safeguards (the government has an opportunity to request changes or deletions), there is obviously a tension between the sharing of information between donor agencies and the benefits of wider debate in the country on public policy on the one hand, and the Bank's role as adviser to governments on the other.

Simultaneously with these formal changes in the Bank's governance, a 'quiet revolution' in the Bank's management processes is underway. This began with the report of an internal task force on portfolio management (the Wapenhans Report[13]) in 1992, which found that while 80 per cent of the current portfolio of projects was performing well, 20 per cent was incurring major difficulties. The task force made recommendations to improve the quality of Bank financed projects. The action programme subsequently adopted[14] is now in its second year of implementation. Among the many recommendations aimed at improving the quality of Bank financed projects and results on the ground are: an increased emphasis on supervision and the introduction of formal country portfolio performance reviews (CPPRs) as part of the Bank's core business process, improved procedures for formulating country assistance strategies (CAS), and the mainstreaming of participatory techniques in project design and implementation. The Bank's standards for financial accountability have also been reviewed.[15] Staff training is being improved, and a growing number of country departments within the Bank are re-engineering their country programme and project review processes with the aim of reducing costs and improving responsiveness to clients. The Bank's internal operational guidelines are being comprehensively overhauled and reissued to staff. And in September 1994, a series of comprehensive administrative budget cuts, stretching over two years (a 13 per cent reduction in cash terms) was announced in order to force managers to streamline procedures, improve efficiency, and cut out unnecessary work.

[12] See Ibrahim Shihata, The World Bank Inspection Panel, 1994.

[13] 'Effective implementation: key to development impact' (Portfolio Management Task Force Report), November 1992.

[14] Portfolio Management: Next Steps, World Bank, 1993.

[15] Report of the Financial Reporting and Auditing Task Force, World Bank, 1994.

It is too early to reach judgement on the success of the reforms (although there is encouraging preliminary information on portfolio improvement). Nevertheless, it is clear that a much more far reaching programme of internal staff and management improvements than ever before attempted is underway in the Bank, with significant implications for the institution's governance. To the outsider, these changes read like a list of management consultant's recommendations. Behind the jargon, funda-mental change in the methods, practices and culture of the institution is occurring, as the Bank reorients itself.