



**The World Bank's Disclosure Policy Review and the Role of Democratic  
Participatory Processes in Achieving Successful Development Outcomes**

*Testimony before the House Financial Services Committee*

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Chairman Frank, Ranking Member Bachus, and Respected Members of the Committee,

Thank you for the opportunity to share my views with the committee today. As a citizen of the United States, and a member of the community of researchers working on development issues, and as a former staff member of the World Bank, I believe that the World Bank is an important institution and that we must make it work for the poor. To that end, I welcome the World Bank's disclosure policy and the willingness of the World Bank to increase the amount of information it discloses to the public. But I also believe that the issue of accountability—which this policy aims to address—is far more complicated than simply changing the rules on paper.

The real challenge lies in the implementation of this disclosure policy and more broadly, in the Bank's systems of accountability and transparency. In particular, we must ask the key question—will information be disclosed in a timely and open manner? I believe that despite the new disclosure policy, this is still unlikely, in large part because of the World Bank's focus on a singular measure of success—the volume of lending. As long as the goal is to send as much money out the door as possible, there will be strong disincentives along the entire chain of command—from staff on the ground to management in Washington—to say that things are going wrong or to stop a project before it is completed. I do not believe that a new disclosure policy—which might release hundreds or thousands of pages of information on an *ex post* basis—can do much to improve transparency and accountability in this very real sense.

Nancy Birdsall, the president of the Center for Global Development, will be giving a speech<sup>1</sup> this afternoon where she will argue that because of history, habits, culture, and bureaucratic pressures, the boards, staff and management at the MDBs continue to regard country loans as the gold star, the primary metric of success. In other words, the World Bank and the other multilateral development banks emphasize disbursements over all else, welcoming every opportunity to lend more money to their clients. In some cases, the loans are warranted and help countries achieve their goals. But in many other cases, the money is simply wasted or misused,

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<sup>1</sup> “The Crisis Next Time: U.S. Leadership at the Pittsburgh Summit and Beyond”, Nancy Birdsall, Center for Global Development, 9/10/2009

ending up in corrupt hands. In the latter situation, the Bank is often slow to acknowledge the problem, and in some cases, hides behind words such as “institutional weakness” or “lack of capacity” rather than terminating a project that is doing nothing to help the poor.

What can be done to improve accountability and the delivery of services to the poor? I propose two solutions—better evaluation of development outcomes and diversification of the product mix away from lending. Let me elaborate.

There has been a huge emphasis on monitoring the Bank’s lending portfolio—by watchdog groups, by member country governments, and by the Bank itself. But monitoring of inputs is not anywhere near as useful as measuring outcomes. Funds provided by the World Bank and others to poor countries are best used if they are linked to *successful development outcomes* (as the title of this session suggests). Evaluation by a third party of development projects, with a focus on the beneficiaries—for example the number of additional children enrolled in school, or provided with basic healthcare—is of much greater use to both the Bank and its member countries than any effort to increase the *ex post* flow of information on financial inputs into development projects. My colleague Ruth Levine, an expert in impact evaluation<sup>2</sup>, argued in previous testimony before the Senate Foreign Relations committee<sup>3</sup> that “knowing whether or not banks are succeeding in financing programs that directly improve people’s lives is at the core of accountability.”

To this end, I ask the respected members of this committee to insist that the World Bank and other multilateral development banks invest resources and provide information on outcomes rather than *ex post* information on loan disbursements and minutes of board meetings, as the proposed disclosure policy stipulates. While the latter may be of interest, it is emphatically not a development outcome, successful or otherwise. The lack of impact evaluation has not only hurt

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<sup>2</sup> “Learning from Development: the Case for an International Council to Catalyze Independent Impact Evaluations of Social Sector Interventions”, William D. Savedoff & Ruth Levine, Center for Global Development. 5/31/2006

<sup>3</sup> “Multilateral Development Banks: Promoting Effectiveness and Fighting Corruption”, Ruth Levine, Director of Programs and Senior Fellow, Center for Global Development. Testimony to the Senate Committee on Foreign Relations, 3/28/2006

poor people but has also undermined the Bank's own credibility with its member country governments, who are often frustrated in their efforts to find out what exactly is going on inside its headquarters and in its field offices.

My second solution is to diversify the World Bank's product mix and move it away from the culture of lending. This will provide staff members with a wider range of productive activities and will also scale up the number alternative financial products that could respond to the changing realities—and risks and vulnerabilities—of an integrated global economy.

Guillermo Perry, Nancy Lee and Nancy Birdsall at the Center for Global Development have identified<sup>4</sup> several risk management and insurance mechanisms, some in a nascent but promising stage, which would offer a significant improvement over the current portfolio of products. For example:

- Global catastrophic reinsurance funds, a global bond, or even a global reinsurance facility—building on programs such as the World Bank's current weather insurance in the Caribbean—could help to insure governments' and households' cash needs in the instance of a natural disaster.
- Bonds linked to the terms of trade could enable countries to automatically reduce their debt service payments—that is, the payment they make on the bonds—if they are hit by a sudden spike in the price of a commodity import or the fall of a commodity export.
- Regional and global markets for developing countries' domestic currencies would reduce poor countries' macroeconomic vulnerability by reducing their holding of foreign currency-denominated debt.

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<sup>4</sup> “The Age of Turbulence and Poor Countries: The Case for MDB Help with Risk Management”, Nancy Lee, Guillermo Perry, and Nancy Birdsall, Center for Global Development. 11/17/2008

- Contingency grant and concessional loan facilities could be automatically disbursed based on transparent guidelines on what constitutes an external shock. For example, Indonesia and Sri Lanka might have received such funds after the 2002 tsunami. Such facilities could finance all debt service for specified periods after a shock, and the default should be to make the transfer unless a country is ineligible, for example, because it lacks any means—even through non-government organizations—to responsibly channel the resources.
- In addition to these products, I believe that the World Bank's guarantee arm, MIGA, can underwrite service guarantee contracts between businesses and the government, to ensure the delivery of basic services to the private sector, such as electricity, telecommunications and water.

These innovations would not only improve the effectiveness of outcomes but would give staff a wider range of instruments to work with. On the client side, the cost of insurance would be determined by the soundness of their fiscal and monetary policies—a built-in incentive to practice good economic management.

I request that Congress provide guidance to the Treasury (as it has done so successfully in the past) so that future capital increases to all of the MDBs are based at least in part on their progress on project evaluation and product innovation. If they fail to do this, they are likely to be displaced by new entrants and even private sector businesses. Pressure on the future bottom line, exerted in a timely manner, might help the leadership of the World Bank and the other MDBs to overcome the entrenched culture of lending.

Again, I thank the respected members of this committee for the opportunity to share my views on making the World Bank work better for poor people all over the world.