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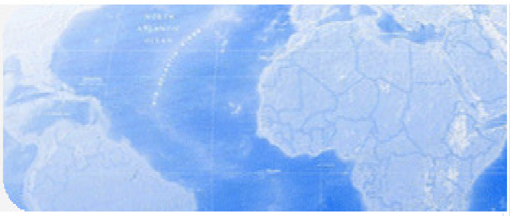

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# Enhanced Coordination between the World Bank and Regional Development Banks as a Means to Reduce Perceived Inequalities at the World Bank

Authors: Stephen Kingah and Aliya Salimzhuarova

## The authors

Stephen Kingah is Research Fellow at UNU-CRIS in Bruges and former *ad-hoc* administrator for EU-World Bank relations in the European Commission. E-mail: skingah@cris.unu.edu

Aliya Salimzhuarova[1] is a former intern at UNU-CRIS.

United Nations University Institute on Comparative Regional Integration Studies
Potterierei 72, 8000 Brugge, BE-Belgium
Tel.: +32 50 47 11 00 / Fax.: +32 50 47 13 09
www.cris.unu.edu

[1] Freiburg University Germany

## Abstract

This paper will discuss some of the issues of legitimacy and inequalities perceived to be pervasive in the governance structure of the World Bank (WB). It will explore proposals of the Meltzer, Malan and Zedillo Commissions on how to improve such perceived inadequacies. It also considers the way in which the interactions between the regional development banks (RDBs) and the World Bank can be used to improve problems of perceived inequalities at the World Bank. In the wake of the financial crisis of 2008, the World Bank held a series of meetings with key regional development banks during which all the institutions made promises to enhance cooperation. This paper argues that a clearer and more formal modality needs to be adopted to improve the interactions between the World Bank and the RDBs. This is vital because it would reduce the potential of duplication of services / operations and also increase the legitimacy of actions taken by both the WB and RDBs.

## Introduction

> The specific challenge of legitimacy in global governance is therefore to deal with the perceived too distant, non-accountable and non-directly challengeable decision-making at the international level.[2]

The World Bank (WB) was created in 1944 as a tool to finance the reconstruction of Europe following the Second World War and also to eliminate challenges that developing countries faced in accessing development finance.[3] Now more than ever the services of the WB and its regional counterparts are needed. This is not simply an academic or theoretical debate. The recent financial turmoil and crises have affected all regions and many, including some of Africa's poorest countries, have been hit hard.[4] During the G20 London Summit in 2009, leaders promised to reform international financial institutions (IFIs) to ensure that they better represent the voices of emerging nations in a manner that reflects their increasing economic influence.[5] They also called for an open, transparent and democratic modality for choosing top management to head the IFIs, especially at the WB and the International Monetary Fund (IMF). The many informal modalities in the manner in which those heading international institutions are selected[6] often pose problems regarding legitimacy. This issue pertains directly to that of democracy in international institutions. Observers, such as Dahl, have argued that democratic standards can seldom be met by international organizations.[7] The problem is that many regard the WB as an institution that is

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[2] Pascal Lamy, "Globalization and Global Governance," *The Globalist*, 7 November 2006.
[3] Allan H. Meltzer, "What's Wrong with the IMF? What Would be Better?" *Hoover Institution Public Policy Inquiry, The Independent Review* (Fall 1999), at <http://www.imfsite.org/reform/meltzer.html.>
[4] Overseas Development Institute (ODI), *The Global Financial Crisis and Developing Countries: What can the EU do?* Paper for Informal EU Development Ministers' Meeting 29-30 January 2009, Prague, Czech Republic (20 January 2009), at 3. See also Robert Zoellick, "It is Time to Herald the age of Responsibility," *Financial Times* (26 January 2009) at 11. See a more systemic discussion of the impact of the crisis in Carmen M. Reinhart and Kenneth Rogoff, "The Aftermath of Financial Crises," n° 14656 *National Bureau of Economic Research Working* (January 2009) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1329274
[5] G20 Leaders, *London Summit – Leaders' Statement* (2 April 2009), at 20.
[6] Jacob Katz Cogan, "Representation and Power in International Organization: The Operational Constitution and its Critics," 103 *American Journal of International Law* (2009), 209-263, at 211. Cf., the Lugar Report which was very strong in recommending that opening up discussion on citizenship in terms of appointing who heads the WB should not be done unless it falls within a broader systemic discussion on opening up the leadership contests for the heads of the RDBs: 101th Congress of the United States, Second Session, *The International Financial Institutions: A Call for Change, Report to the Committee on Foreign Relations of the US Senate*, S. PTR 111-43, 10 March 2010 (hereinafter the Lugar Report), at 6.
[7] Robert Dahl, "Can international organizations be democratic? A skeptic's view," in: *Democracy's Edges* (Ian Shapiro and Castano Hacker-Cordan eds., Cambridge: CUP, 1999), 19-36, at 19. The issue is also discussed by Moravcsik: Andrew Moravcsik," Is there a 'Democratic Deficit' in World Politics? A Framework for analysis,"

dominated by Western, and thus rich, countries. But the problem of inequality itself should not be an issue if greater equality leads to stalemates and stagnancy. The problem can be broken down into a number of other issues such as a) the detachment of those who dictate solutions from the lives of people affected by the decisions taken by those responsible at the WB; b) The sense of disempowerment felt by citizens in poor countries in terms of how the WB is governed (for instance the constituency system leads to a lack of proper representation and hence problems of ensuring accountability); c) The asymmetric influence of certain countries such as the U.S.A., Japan and some European Union (EU) members is so strong that they determine leading decisions that affect the lives of many farther afield.

Various individuals and commissions have expressed their position on how some of the issues of inequality in WB governance should be addressed. A main argument of this paper is that one approach to address the problem would be to enhance coordination ties between the WB and regional development banks (RDBs). This dimension of the issue has hitherto not been addressed, and is met with a certain amount of controversy. The three main problems are that a) not all poor countries are active participants in their respective regional development banks; b) the key shareholders of some of the regional development banks are Western nations and c) there are constitutional problems that will have to be addressed. The question arises as to why there is such urgent need for a reform of the IFIs and especially the WB. To understand this it is important to present some of the common strictures that have been directed at the WB over the years. This is shown in part two. The reasons for considering the four main regional/continental development banks are addressed in part three. Before discussing some of the areas of cooperation between the WB and RDBs (part five), a number of elements are examined pertaining to the rationale for cooperation (part four). Part six identifies some of the challenges that will inhibit future collaboration between the banks. These challenges are reflected by a number of assumptions.

## Criticisms of the Bank and Calls for Reform

There is a myriad of criticisms that has been directed at the manner in which the WB operates. As will be discussed below, the majority of the common strictures relate to the issue of legitimacy of

39(2) *Government and Opposition* (April 2004), 336-363, at 336. See also Joseph Nye Jr., "Globalization's Democratic Deficit" 80(4) *Foreign Affairs* (2001), 2-6.

the actions of the bank. Some of the strictures levied against it have increased in the context of the financial crisis that began in 2008. As such, important calls have been made for the reform of the WB from within a multitude of fora including the G20. The common strictures are listed and expanded on below.

### Too Much Intrusion in the Policies of Poor Countries

It has been argued that the requirements that the WB and the IMF roll out as pre-conditions for assistance often involve too much intrusion that could even undermine the development of responsible national democratic institutions.[8] In many poor countries, reliance on the WB and IMF conditions have meant the forfeiture of vital investments in important social sectors irrespective of what elected legislators decided. This problem has had implications for most of the borrowing nations, particularly those in Africa. Often, the IFIs interact with unelected ministers rather than elected parliamentarians to push for policies that ought to be in the power of the parliament of the countries concerned.

In his *Confessions of an Economic Hitman*,[9] John Perkins states that the US Government relied on the services of the WB and the IMF to coerce countries to accept loans and in this way lead them to open their resources to US and Western concerns. In addition, the WB and IMF have been accused of using the deregulation and privatization agendas that characterised the Washington Consensus to push for the privatization of utilities such as water that are in turn bought by Western multinationals. This is linked to the approach used by the WB and the IMF to push deep cuts that adversely affected citizens in terms of accessing basic services and utilities. In the past, the WB (through its Public Private Infrastructure Advisory Facility) has actively supported the privatization of public utilities such as water in developing countries.[10] The neo-liberal approaches of the WB have been criticized by Caufield, who argues that the WB has championed a mainly Western form of development, believing that modernization in poor

[8] Meltzer Commission, *Report of the International Financial Institutions Advisory Commission* (March 2000), available at http://www.house.gov/jec/imf/meltzer.pdf, at 19. For comments on the polarizing tone that the Meltzer Report took within the US political divide see, Anna Moyers, "Meltzer Commission Report," at <http://www.uiowa.edu/ifdebook/faq/Meltzer.shtml.>
[9] John Perkins, *Confessions of an Economic Hitman: The Shocking Inside Story of How America Really Took Over the World* (2004).
[10] "Private Role in Water Under Scrutiny," 55 *Bretton Woods Update* (March/April 2007), at p. 2.

countries cannot be pursued without external assistance.[11] One of the reasons that accounts for the WB's attachment to neo-liberal approaches to development can be explained by reliance on funds from capital markets, businesses and donor governments supportive of such approaches. The embrace of the neo-liberal agenda by the IFIs has been a major glitch in operations of the Bretton Woods Institutions (BWI). Moreover, one of the main strictures against the WB for many years was its use of Structural Adjustment Programs (SAPs). SAPs were heavily criticised for undermining the willingness and ability of governments in poor countries to provide much needed social services.

## Little Effort for Inclusion

The clamour for a greater voice and participation of developing and transition countries has been one of the main points raised by the WB's critics. As an institution that aims to reduce poverty in developing nations, one would expect the votes of poor countries to be taken into account. However, the balance of power in the institution has always been in favour of richer countries that are mainly responsible for providing funding for the WB. The issue of inclusion has been linked to that of quotas in the WB. A strong movement to reform the system has emerged and it is strongly argued now that quotas should vary with the economic weight of countries.[12] Until the recent clamour for greater voice, the WB embodied a gross anomaly whereby countries such as Belgium and the Netherlands had more representation than China.[13] The WB still reflected institutions created for challenges of the 20th century meanwhile the world has to grapple with novel forms of 21st century problems.[14] The main point here is that the dominant powers in the WB regard IFIs as tools to primarily foster their own national interests. The US has made clear its reluctance to realise ideas that would engender a forfeiture of its leading status within the

[11] Catherine Caufield, *Masters of Illusion: The World Bank and the Poverty of Nations* (1996).
[12] Treasury of the Australian Government, A Framework for a Review of the International Financial Institutions, Background Paper, at http://www.treasury.gov.au/documents/ (October 2005).
[13] Cf., Jorge G. Castaneda, "Not Ready for Prime Time: Why Including Emerging Powers at the Helm Would Hurt Global Governance," 89(5) *Foreign Affairs* (September/ October 2010).
[14] World Bank, *The Implications of Global Crises on Developing Countries, The Millennium Development Goals, And Monterrey Consensus, Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus Doha*, Qatar 29 November - 2 December 2008 Background Paper, World Bank Group.

governance of the bodies.[15] This point was raised in the Lugar Report of 2010. The document also underlined the need for any future provision of funds for the multilateral development banks (MDBs) to be contingent on a clear strategy to combat corruption in the development programs funded by the banks. The document made clear that the US should not forfeit its veto rights in the decision making modalities of the WB board;[16] that the US should actively hold on to the position of president of the WB and that it should not give in to reform proposals that lead to the reduction of US' voting shares.[17]

Making WB and IMF deliberations more open has been one of the major proposals made by non-governmental organization (NGO) groups to the World Bank. They desire a more open door policy for IFIs, whereby meetings of Governors will be made more accessible to the public. Related to this feature of transparency is another WB and IMF unwritten revolving door policy whereby senior national officials easily find employment in the IFIs or *vice versa*. It has been argued that this culture of a revolving door dampens the possibilities of true reform.[18]

## Mission Creep

Fingers have been pointed at the WB for its tendency towards mission creep, meaning the expansion beyond its range of attributes, therefore doing more than it should be doing. Easterly has argued that by doing this, the efforts of the WB have become hard to measure due to its tendency to "bite too widely".[19] He recommends that the WB should focus on specific tasks that can be gauged.[20] One of the areas where mission creep is obvious is in the interactions between the WB and the IMF, and between the WB and other regional development banks. The Malan Commission report of 2007 noted that the lack of collaboration between the WB and the IMF

[15] 101th Congress of the United States, Second Session, *The International Financial Institutions: A Call for Change, Report to the Committee on Foreign Relations of the US Senate*, S. PTR 111-43, 10 March 2010, at p v (hereinafter, the Lugar Report).
[16] Edwin Truman, "Governance of the Bretton Woods Sisters: Making Progress on the Agenda," Peterson Institute for International Economics, 4 March 2009.
[17] The Lugar Report, at 7.
[18] Roberto Bissio, "The Byzantine Governance of the IFIs," *Bretton Woods Update* (September/October 2009), at 3.
[19] William Easterly, "The World Bank and Low-Income Countries: The Escalating Agenda," in *Rescuing the World Bank* (CGD, Washington DC, 2006), pp. 103-108 at 103 and 105.
[20] Easterly, "The World Bank and Low-Income Countries," at 108.

lead to problems of coordination and confusing advice given to partner countries.[21] To address this problem, the members of the Commission went as far as proposing that the composition of the Executive Board of the WB be the same as those of the IMF.[22] The Meltzer Commission was even more direct in its criticisms of the WB regarding mission creep, noting that the WB should refrain from crisis lending and that IFC and the Multilateral Investment Guarantee Agency (MIGA) be abolished.[23] Mission creep can also be looked at from the perspective of the WB's relations with the RDBs. It has often been stated that there are many instances when the institutions needlessly compete for resources and duplication problems arise. For this reason, strong calls have been made for the bodies to coordinate their efforts more efficiently in this regard.[24]

## Funding of Questionable Projects

The Meltzer Commission noted that the evaluation process of WB projects is often weak and that sustainability aspects are not always accorded serious enough attention prior to the adoption of funding decisions. The Commission outlined the fact that multilateral development banks tend to put a lot of funds into monitoring the procurement of input but far less in gauging the effectiveness of the resulting output.[25] Examples where the WB has been criticised for supporting questionable projects abound. Beside the strictures that accompanied the Chad Cameroon Pipeline Project in which the WB served as guarantor, the Jale project in Albania raised concerns at the beginning of 2009. Here, an appointed panel of WB executives found a link between the incorrect and wrongful demolition of 16 homes in the coastal town of Jale and the project to which the WB had pledged 17.5 million dollars.[26] In addition, the International Finance Corporation (IFC) has recently been involved in very controversial initiatives in the developing

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[21] Pedro Malan (Chair), Michael Callaghan, Caio Koch-Weser, William McDonough, Sri Mulyani Idrawati and Ngozi Okonjo-Iweala, *Report of the External Review Committee on Bank-Fund Collaboration* (Final Report, February 2007), at 6.
[22] Malan Commission Report, at 8.
[23] C. Fred Bergsten, "Reforming the Multilateral Development Banks, Testimony before the Sub-Committee on International Trade and Finance Committee on Banking, Housing and Urban Affairs, United States Senate," Washington DC, 8 June 2000.
[24] Lugar Report, at 3.
[25] Meltzer Commission Report, at 11.
[26] The Economist, "Guilty as Charged: A Flawed Project in Albania has Heightened Some Broader Concerns," *The Economist* (28 February 2009), at 60. On the upside, President Zoellick ordered a prompt suspension once the finding came to light.

world. In 2006, the IFC approved a 125 million dollar loan for the Ahafo Goldmine project in Ghana. The project was associated with the loss of a thousand residents' homes and livelihoods.[27]

Moreover, the IFC has assisted countries like Indonesia in drafting mining codes regarded as too much in favour of the mining companies. The IFC has also been criticised for knowingly funding the Wilmar Group in a palm oil project in Indonesia for over twenty years, with the knowledge that the Group's subsidiary operating in the country was not meeting the requisite environmental standards.[28] Furthermore, the WB approved a 360 million dollar loan for Uganda's controversial Bujugali Dam project. Critics of the project (such as the National Association of Professional Environmentalists) in Uganda have raised social, economic and environmental issues that are linked to the scheme.[29] They have also noted the dam's failure to comply with the majority of the seven strategic priorities of the World Commission on Dams.[30] In other instances, the WB has been criticised more strongly for its omissions. It has attracted strictures for not acting while international logging companies abusively carve out forests in the Democratic Republic of Congo in exchange for salt and beer.[31]

Another matter that has caught the attention of some critics is the approach of the WB to always engage in parallel finance mechanisms such as special facilities and trust funds. Such vertical funds and schemes often lead to duplications and inefficiencies.[32] As Ahmed argues "it is remarkable that as shareholders we construct an elaborate mechanism for setting priorities and discipline in the Bank, and then as donors we bypass this mechanism by setting up specific separate financial incentives to try to get the Bank to do what we want."[33]

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[27] "Honest Broker? The IFC, Extractives and Affected Communities," 56 *Bretton Woods Update* (May/June 2007), at 4.
[28] BWU, "Breaking the Chains: IFC Backs out of Palm Oil," 67 *Bretton Woods Update* (September/October 2009), at 1.
[29] "Bank Replicates Past Hydropower Mistakes?" 56 *Bretton Woods Update* (May/June 2007), at 5.
[30] BWU, "Bujagali Dam Unlikely to Benefit Ugandans," 55 *Bretton Woods Update* (March/April 2007), at 2.
[31] BWU, "Avoiding Deforestation but Violating Rights?" 56 *Bretton Woods Update* (May/June 2007), at 4.
[32] Edwin Truman, "Governance and Evaluation in International Financial Institutions," Remarks to the Retreat if the World Bank's Independent Evaluation Group, Peterson Institute for International Economics, 31 May 2007.
[33] Masood Ahmed, "Votes and Voice: Reforming Governance at the World Bank," in: *Rescuing the World Bank* (CGD, Washington DC, 2006), at 90.

## Lapses of Integrity

The tenure of Paul Wolfowitz as head of the WB brought up serious problems related to integrity and transparency in the functioning of certain senior officials. His role in the appointment and payment of Shaha Ali Riza (with whom he was romantically involved) raised serious questions about his integrity and mobilized European, Asian and Latin American countries to demand his resignation.[34] In addition, he filled key posts at the WB with officials from the Bush Administration, in which he had previously served as Deputy Defence Secretary.[35] Following the backlash from the Wolfowitz episode, a panel was formed to review the quality of WB's Integrity Watchdog.[36] Amongst other things, the members of the Volcker Panel proposed the creation of an external Advisory Oversight Board to protect the independence and strengthen the accountability of the department of integrity. The Volcker Panel also proposed that members of the watchdog should have strong professional credentials and be drawn from outside the WB.[37] The panel also proposed the creation of internal consulting units, the main task of which will be to prevent possible corruption.

## Constituency Setup and Legitimacy

Criticisms of the constituency setup contained in the Zedillo Commission report relate to the fact that some constituencies are too large. This leads to a situation where the voices of all the members are not heard. In addition, the partitioning of constituencies is geographically uneven. Those of countries such as Ireland are hosted mainly in the Caribbean constituency, Belgium in Central Asia, and Spain with the Latin American countries.

The issue of legitimacy is related to the voice and participation at the WB. This has three dimensions, as argued by the Development Committee of the WB.[38] These include voice as

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[34] BWU, "From Wolfowitz to Zoellick: An Opportunity Lost," 56 *Bretton Woods Update* (May/June 2007), at 1.

[35] These included Kevin Kellems, Robin Cleveland, Karl Jackson. Other appointees who drew and continue to draw the ire of critics include Juan José Daboub (appointed managing director), Ana Palacio (appointed general counsel and head of ICSID) and Suzanne Rich (appointed head of Institutional Integrity, the Bank's internal watchdog).

[36] Paul A. Volcker (Chair), Gustavo Gaviria, John Githongo, Ben W. Heineman Jr., Prof. Walter Van Gerven and Sir John Vereker, *Independent Panel Review of World Bank Group Department of Institutional Integrity* (Washington DC, 13 September 2009).

[37] Volcker et al., *Independent Panel Review*.

[38] The Development Committee is the ministerial level organ that takes vital decisions relating to the Bank.

voting power and shareholding; voice as effective representation at the Board and voice as responsiveness to the views of developing and transition countries.[39]

To better grasp the issue of legitimacy it is vital to understand how voting shares are partitioned. As a result of share arrangements at the WB and the IMF, small nations such as Belgium and the Netherlands individually had greater leverage than large states such as China.[40] In October 2008, the Development Committee agreed on vital aspects of reforms for phase one.[41] These reforms have increased the voting power of developing and transition countries at the IBRD from 42.6 per cent to 44.1 per cent. This has been done by increasing the basic votes to 5.5 per cent of total votes. Another aspect of the increase is the allocation of the International Bank for Reconstruction and Development (IBRD) shares to 16 developing and transition countries whose voting power would be reduced by proposed hikes in basic votes.[42] The decision to change the basic votes through an amendment has been approved by the Board of Governors. Two thirds of the Governors, representing 50 per cent of voting power, have accepted the reform but such amendments need to be accepted by 85 per cent of the total voting power before they come into effect. Phase one reforms have also included the addition of an extra member representing Sub-Saharan Africa (SSA) to the Boards of the IBRD, IDA, the IFC and MIGA. On voting power in the International Development Association (IDA) ,the leverage of borrowing members has increased to 43.55 per cent from 40.10 per cent in April 2008. This mirrors increased intake of subscriptions of IDA shares by borrowing countries. They have also been assisted by the creation of the Voice Trust Fund to which France allocated one million Euros. Spain and Norway have pledged 3.4 million dollars in grant money to allow IDA recipients take up remaining IDA subscriptions.

[39] Development Committee (Joint Ministerial Committee of the Board of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries), *Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Update and Proposals for Discussion*, DC 2009-0011 (29 September 2009), at para. 1.

[40] Referring to the absurd nature of voting arrangements for the Fund, Rogoff notes that "For an institution that pretends to reflect countries' relative economic influence, it is simply untenable to have China, with 15 percent of global income, own only 2.9 percent of the Fund's voting shares." See Kenneth Rogoff, "Who Needs the IMF," *Newsweek International* (9 January 2009).

[41] Phase two reforms pertain to IBRD shareholding re-alignment; development of criteria for IBRD share allocation; development of a mechanism for IBRD share alignment; IFC voice reform and IDA voice reform.

[42] Development Committee, Enhancing Voice, at para. 2. Basic votes are votes that are not dependent on the share capital of members but assigned the same to all members when the Bank was created.

Difficulties in terms of the reform of the WB respecting voice have also hovered around representation in the Board of Executive Directors and insistence by the US and EU that the heads of the WB and the IMF should come from the US and Europe, respectively. Another difficult issue has been the linking of IMF quotas to voting power in the WB.[43] Many novel ideas on enhancing the WB's legitimacy have been included in the report by the Zedillo Commission.[44] First, the members of the Commission addressed the issue of the proportion of basic votes. Since the creation of the WB, the share of basic votes has dwindled from 11 per cent to 2.86 per cent in proportion to the total number votes. There is a strong move to increase this to 5.5 per cent.[45] The members of the Zedillo Commission recommended periodic reviews to avert what they called "voice gaps."[46] Second, current practice in IDA favours shareholders who contributed major stakes when the organization was created. It is illogical to accord recent contributions the same weight as contributions made over 40 years ago. The system of allocating voting power is thus based on cumulative contributions and is highly problematic and unfair. Third, they tackled the over representation of European Union states in the Board of Executive Directors. European states occupy about 8 or 9 chairs on a board of 25. In their words, this is "a historical legacy that

[43] Edwin Truman, "Governance and Evaluation."
[44] High Level Commission on the Modernization of World Bank Group Governance (Zedillo Commission), *Repowering the World Bank for the 21st Century* (October 2009). Note that a similar Commission was created by the former Managing Director of the IMF Dominique Strauss Khan to provide proposals for the reform of the Fund. Led by Trevor Manuel, the Commission issued its recommendations on 24 March 2009. Its mandate was as follows: "… to assess the adequacy of the Fund's existing institutional framework and advise the Managing Director as to what, if any, modifications to this framework may be necessary to enable the Fund to fulfill its mandate more effectively." Their main recommendations relate to the creation of a Council upgrading the present IMFC; strengthening the Executive Board; rebalancing quota shares (all chairs should be elected in the board); review of voting threshold of critical decisions down from 85 per cent and also widening the use of double majorities; managing director be selected in an open, transparent and merit-based manner; updating the Fund's legal mandate to ensure consistency with its evolving role; and increasing the Fund's resources. See Trevor Manuel, Report of the Committee of Eminent Persons on IMF Governance Reform, M/3/1/1 (389/09)., at <http://www.imf.org/external/np/omd/2009/govref/032409n.pdf.> Some of effectiveness related proposals of the group include the reduction of the seats of the Board of Executive Directors from 24 to 20 (reducing EU seats thereby freeing up positions for emerging countries) and the reduction of threshold for most decisions from 85 per cent to 70-75 per cent. The Board should refrain from day to day management of the Fund. Also, the new Council rather than the Board should appoint the director in an open and transparent process. Resident board should be maintained but there should be less meetings. Vital aspects of representation in the Board are deferred to the various constituencies. See Committee of Eminent Persons on IMF Governance Reform, Final Report, 24 March 2009, at pp. 14-21. Note that the prescribed consolidation of EU seats (not more than two) in the Fund has also been proposed by the de Larosière Commission. See Jacques de Larosière, Leszek Balcerowicz, Otmar Issing, Rainer Masera, Callum Mc Carthy, Lars Nyberg, José Pérez and Onno Rudding, *High Level Group on Financial Supervision in the EU* (25 February 2009), at 67.
[45] At the IFC the situation is similar mindful that the proportion of the basic votes has shrunk from 12.28 per cent to 1.82 per cent.
[46] Zedillo Commission Report, at xi.

no longer seems appropriate for a global institution and a transformed global economy."[47] They also underlined the lack of transparency in the distribution of chairs on the Board and the over-crowded nature of some constituencies.[48]

Although the Commission made several proposals for reform in the area of legitimacy, the initial response from the WB president was very defensive. He argued that shareholders have already agreed to increase the voting power of developing countries by up to 3 per cent from 1.46 per cent that had previously been agreed. The move will take the voting power of these countries to 47 per cent and the target is to allow them have 50 per cent plus. On the voice reform and greater participation in the Boards for poor countries, WB President Zoellick has asserted that "We want to remain an inclusive institution, where there is incentive for solidarity with the poorest countries and for contributions to a strong IDA." The interpretation of this: the *status quo* may not undergo major changes.

In its proposals on voice, the Zedillo Commission proposed the following: First, the Board should be consolidated by reducing the number of seats from 25 to 20. In this regard, Europeans will have to give up at least 4 seats. Second, the Board of directors should be composed of elected chairs from the different constituencies and each constituency should have at most ten members. Third, the nexus between IMF quota and WB voting power needs to be forfeited. Fourth, the proportion of basic votes should be increased to at least 10.78 per cent for the WB and 12.28 per cent for the IFC. Fifth, the voting threshold required for amendments of the Articles of Agreement should be reduced from 85 to 80 per cent. Finally, a mechanism should be formulated to make recent IDA contributions have greater leverage than the older ones.

## Summary of the strictures and efforts toward reform

As can be deduced from the aforementioned strictures, a majority of the criticisms pertain to the question of legitimacy. From the political left in developing countries many regard the WB as a tool for Western countries to remotely or directly influence developing economies. Others consider the WB as an institution that does not fully represent the voices of the poor and emerging countries. Recent events have confirmed this; the WB does not only serve the concerns

[47] Zedillo Commission Report, at xi.
[48] Representation in the Board is based on belonging to specific clusters of states known as constituencies.

of poor nations, it has also been at the service of rich and emerging countries, providing assistance during the crisis, especially through its IBRD arm. On the issue of lack of representation and voice of developing countries, this indeed has been a recurrent problem. At management level, greater efforts have been made under the presidency of Robert Zoellick to have the majority of those in management coming from the developing world. In terms of the Executive Board, constituencies have been slightly re-ordered so that countries such as China, India, Saudi Arabia and even South Africa have greater leverage than they previously did. These countries now belong to single or limited member constituencies. This allows them to make their voices heard on key and vital issues. Also, for many years the issues of voice and participation were epitomised by Africa's low representation at the board of Executive Directors. Since the last phase of reform, Africa now has three instead of two seats on the board. But one should always sound the caveat that participation does not necessarily entail capacity to participate.[49] Actually in certain instances enhancing greater participation guarantees a drag in terms of effectiveness and efficiency.

Other important suggestions have been made to reform the manner in which states are represented at the WB. The majority of these suggestions reflect the need for more seats for developing countries at the WB. An important step was taken by the UN General Assembly to push for the reform of international financial institutions, including the WB. The UN General Assembly, under the leadership of Miguel d'Escoto, created a commission led by Joseph Stiglitz to propose reforms. The mandate of the Commission included identification of broad principles that underlie needed institutional reforms required to ensure global economic progress and stability, which will be of benefit to every country. The Commission was launched on the 29th of November 2008. During its launch, the chair Professor Stiglitz underlined the fact that the Commission is an idea coming not from a small group of states but from G192, that is to say all members of the UN. He also highlighted the fact that many countries in the emerging markets and less developed countries managed their countries well and avoided bad mortgages and derivatives, but that these countries would have to be involved in the crisis which was not of their making. So for him, any short term and long term solutions to the problem generated by the excesses of Western financial institutions ought to take into account the impact on these

[49] Andrew Hurrell, "Power and Legitimacy in Global Governance" (February 2006), at 5.

countries. He stated, *inter alia*, that "the international community must commit itself to developing the institutions and instruments for increasing the stability and equity of the global financial system."[50]

Also within the UN context, but with more focus on financing for development issues of IFIs and especially WB, reforms have been highlighted. Such was the case at the Doha conference of December 2008 that was organized as a sequel to the Monterrey conference on financing for development that took place in 2003. In the Doha Outcome text, emphasis was laid on reform of the IFIs to deal with the financial crisis and members mainly noted that the capacities of these bodies have to be improved so that they can deal with the problems in a manner that reflects international cooperation. Delegates added that IFIs like the WB should use their resources to help developing countries in need. The document also noted the importance of adequate financing for regional development banks.[51]

The proposals on under representation fail to reflect the fact that the majority of countries that request greater representation may not necessarily have the financial power to foster the core business of the WB which is that of lending for poverty reduction in client countries. It makes little sense to send aid packages and concessional loans to others when the needs are more acute at home. This is why one of the arguments adopted in this paper looks at the regional development banks as an important component in the efforts to better reflect the concerns of poor countries at a global level. Given the redistribution of shares at the WB and countries vying for positions of influence, genuine and long term reforms will not be generated solely from within the WB itself.[52]

## Why Focus on RDBs?

There are many RDBs, but why should one fall back on them when it comes to mitigating inequalities in terms of the legitimacy of the WB? Firstly, an argument can be made that RDBs

[50] Office of the 63rd Session of the General Assembly of the United Nations, *Terms of Reference, Commission of Experts of the President of the United Nations General Assembly on the Reforms of the International Monetary and Financial System*, 28 November 2008.
[51] Working Group of the Main Committee, Draft Outcome Document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, 2 December 2008, A.CONF.212/CRP.3.
[52] Jessica Einhorn, "Reforming the World Bank," *Foreign Affairs*, January/ February 2006.

are more able to rely on non formal pressure amongst peers. As such it is argued that they seldom lean toward the approach of strict conditionality.[53] Secondly, there is an increasing realisation that public goods are receiving little financing.[54] Public goods are, *a fortiori*, the regional public goods that have to be financed by RDBs.[55] Thus it has been agreed that the increased visibility for the RDBs makes sense.[56] Thirdly, RDBs have a better feel of what may be needed in terms of the needs of their client states, that are also often members of the IDA or IBRD of the WB. In this respect, the RDBs can team with the WB to identify areas where each body can add better value in terms of meeting the needs of the developing countries.

The RDBs in question are the main regional/continental ones. They include the AFDB, the IDB, the ADB and the EBRD. There are also important sub regional development banks such as the Corporacion Andina de Fomento; the Caribbean Development Bank; the East African Development Bank; the Development Bank of Southern Africa; the Eurasian Development Bank; the West African Development Bank; the Central African Development Bank and the Black Sea Trade and Development Bank. Other special multilateral financial institutions that tend to fund specific projects include the European Investment Bank; Nordic Investment Bank; Islamic Development Bank and the Organization of Petroleum Exporting Countries (OPEC) Fund for International Development. As indicated above, attention is placed on the first group of RDBs because they often encompass the groups of countries in the sub regional banks and also because they are those with which the WB has extensive collaborative ties on thematic and geographic matters.

### African Development Bank

Established to help development efforts on the continent, the African Development Bank (AFDB) Group is comprised of three separate entities under the guidance of a single management team led by a president. They include the AFDB which is *the* parent institution and was created on the 4th of August 1963 in Khartoum by the then 23 newly independent African countries; the African

[53] Stephany Griffith-Jones, David Griffith-Jones and Dagmar Hertova, "Enhancing the Role of Regional Development Banks," n° 50 *UNCTAD G-24 Discussion Paper* N° 50 (July 2008), at 2.
[54] Grffith-Jones et al., Enhancing the Role.
[55] Marco Ferroni, "Regional Public Goods: The Comparative Edge of Regional Development Banks," Paper prepared for a Conference on Financing for Development: Regional Challenges and Regional Development Banks, Institute for International Economics, 19 February 2002, at 9.
[56] Griffith-Jones et al., Enhancing the Role, at 4.

Development Fund (ADF) created on the 29th of November 1972 by the African Development Bank, 13 non-African countries and the Nigeria Trust Fund (NTF), set up in 1976 by the Federal Government of Nigeria. The AFDB Group's mission is to help reduce poverty, improve living conditions for Africans and mobilize resources for the continent's economic and social development. With this objective in mind, the institution aims at assisting African countries – individually and collectively – in their efforts to achieve sustainable economic development and social progress. Fighting poverty is at the heart of the continent's efforts to attain sustainable economic growth and this is reflected in the tasks of the AFDB. In these efforts geared at reducing poverty, the AFDB seeks to stimulate and mobilize internal and external resources to enhance investments and to provide its regional member countries with technical and financial assistance.[57] One of the key strategic aims of the bank is to become the preferred partner in Africa, providing quality investment and advice. To do this, it has sought to increase selectivity, with particular operational focus on infrastructure, governance, developing a more robust private sector, and higher education. Through investments in such fields, it hopes to add value directly to regional integration efforts, to assist Middle Income Countries (MIC) and fragile states, enhance human development, and foster efforts in agriculture. Knowledge-generation, climate change and gender are being mainstreamed in all the institution's operations.[58] The Members of the AFDB Group include 53 independent African countries and 24 non-African ones. Turkey is finalizing procedures to become member of the Bank Group. To become an AFDB member, non-regional countries must first be members of the ADF.

## Asian Development Bank

The Asian Development Bank (ADB) was created in 1966. In accordance with the Agreement Establishing it: "the purpose of the Bank shall be to foster economic growth and co-operation in the region of Asia and the Far East … and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually."[59] The main vision of the leaders was to forge a financial institution that would be

57 http://www.afdb.org/en/about-us/
58 http://www.afdb.org/en/about-us/afdb-medium-term-strategy/
59 See Agreement Establishing the Asian Development Bank, available at http://www.adb.org/Documents/Reports/Charter/charter.pdf#page=4

Asian in character and that would enhance economic growth and cooperation in Asia. Initially it dwelt on projects that fostered production of food and rural development. It later set the emphasis on education, health and infrastructure support. In the 1970s, when the oil crisis was at its apogee the ADB shifted more of its assistance to support energy projects, especially those promoting the development of domestic energy sources in its member and client countries. During the 1980s, the bank ventured into its first equity investment while keeping a keen eye on infrastructure lending. In the late 1990s, its attention was taken up for the most part by its response to the Asian financial crisis. ADB responded with projects and programs to fortify financial sectors and create social safety nets for the poor. Toward the end of the 1990s, the ADB adopted poverty reduction as its main goal. Recent areas of focus have been addressing or containing health issues, including the aids and flu viruses. From 31 members at its birth in 1966, the ADB has expanded to encompass 67 members. Of this number, 48 are from within Asia and the Pacific and 19 from outside this region.

### Inter-American Development Bank

The Inter American Development Bank (IDB) was formed in 1959, when the Organization of American States crafted the Articles of Agreement establishing it. Following the Agreement, "the purpose of the Bank shall be to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively."[60] The IDB has been a keen supporter of "efforts by Latin America and the Caribbean countries to reduce poverty and inequality and aims to bring about development in a sustainable, climate-friendly way."[61] Such is the umbrella goal of the IDB. There are also two strategic goals: addressing the special needs of the smaller and less developed countries, and providing an incentive to develop through the private sector. The Bank is "the largest source of development financing for Latin America and the Caribbean, with a strong commitment to achieve measurable results, increased integrity, transparency and accountability." The website states that "the Bank has an evolving reform agenda that seeks to increase its development impact in the region".[62] Its shareholders are 48 member countries, including 26 Latin American and

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60 See The Agreement Establishing the Inter-American Development Bank, at 5, http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=781584
61 http://www.iadb.org/en/about-us/about-the-inter-american-development-bank, 5995.html
62 http://www.iadb.org/en/about-us/about-the-inter-american-development-bank, 5995.html

Caribbean borrowing members. It has an Institutional Strategy, contained in the Report on the Ninth General Increase in the Resources of the Bank. Moreover, it has developed strategies for four sector priority areas: social policy for equity and productivity; institutions for growth and social welfare; competitive regional and global international integration; and protection of the environment, response to climate change, promotion of renewable energy and ensuring food security.

### European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) was created in 1991 as the first international financial institution of the post Cold War era. It was established following the endorsement of the Agreement Establishing the EBRD that was signed in Paris on the 29th of May 1990 and entered into force on the 28th of March 1991. The EBRD was formed in response to major changes in the political and economic climate in Central and Eastern Europe that ensued following the liberal drive that swept through the area in the 1980s. As such it was created to assist in the development of market economies in the region following the collapse of communist regimes. Its activities were launched less than two years after the fall of the Berlin Wall. The EBRD began operations in April 1991.

Unlike other development banks, the EBRD operates under a mandate that has political undertones, in that it seeks to help only those countries that are "committed to and applying the principles of multi-party democracy [and] pluralism."[63] The EBRD supports the funding of projects from central Europe to central Asia. It tends to invest mainly in private sector clients whose needs cannot be fully met by the market. In this case, the bank fosters transition towards open and democratic market economies. As reiterated on its website, the aim of the bank is to promote market economies that function well – where businesses are competitive, innovation is encouraged, household incomes reflect rising employment and productivity, and where environmental and social conditions reflect peoples' needs.[64] The bank is owned by 61 countries and two intergovernmental organizations.

[63] Art. 1 of the Agreement Establishing the EBRD, available at http://www.ebrd.com/pages/about/history.shtml
[64] http://www.ebrd.com/pages/about/what/mission.shtml

Three out of the four RDBs (African Development Bank, Asian Development Bank, Inter-American Development Bank) clearly underline their main aim as that of enhancing cooperation among the member-states in order to encourage economic growth and social development of the region. The EBRD emphasizes the fact that it seeks to help only those countries that are "committed to and applying the principles of multi-party democracy [and] pluralism."[65] Moreover, unlike the other banks, the EBRD has a different genesis and push factors justifying its existence. The idea of establishing the EBRD was born in the West. It was founded with an aim to support the transition "from command economies to open market economies."[66] So, mainly, to help to reconstruct the economic structure of *"other"* regions, and to ensure the promotion of free market economies. Furthermore, EBRD is unlike other RDBs, in that it promotes the development of not only one region, but rather the two sub-regions of Central Europe and Central Asia.

## Why Coordination by the World Bank Makes Sense

It is arguable that the WB and RDBs have specific comparative advantages in what they do. It is reasonable to suggest that the WB should focus on vital aspects such as climate change, provision of knowledge and other global public goods. But the problem is that RDBs are also involved in the provision of such goods at the regional level. So it makes sense for the banks to cooperate. The reasons favourable to this cooperation are discussed below.

First, as stated in the Meltzer report of 2000, better coordination between the banks will reduce dangers and possibilities of duplication of services, unhelpful and rude competition for scarce resources.[67] G20 leaders in Pittsburgh in 2009 recognised that it is vital for the WB and RDBs to work together if common global challenges like climate change and food insecurity are to be addressed.[68] Second, increased involvement of the RDBs in the work and operation of the WB will dampen the perception from many quarters that the WB is a detached and distant organization that seldom reflects the concerns of the poor.

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[65] Art. 1 of the Agreement Establishing the EBRD, available at http://www.ebrd.com/pages/about/history.shtml

[66] http://www.ebrd.com/pages/about/history.shtml

[67] Meltzer Commission, *Report of the International Financial Institutions Advisory Commission* (March 2000), available at http://www.house.gov/jec/imf/meltzer.pdf, at p 10.

[68] G20 Leaders, Leaders' Statement, The Pittsburgh Summit, 24-25 September 2009, at http://www.pittsburghsummit.gov/mediacenter/129639.htm (accessed on 18 October 2009): para. 24.

Third, from a practical point of view, increased coordination could actually lead to an alignment of the manner in which the institutions operate. In this regard modalities could be crafted to have better exchange of staff and also mechanisms could be created to consolidate annual meetings where the Boards and management of all the institutions meet once a year with the IMF to discuss issues that have hitherto been limited to the WB/IMF cooperation through attendance of the Spring and Annual Meetings. It is true that leaders of the RDBs are often invited to these periodic meetings of the WB, but this needs to be more systematic and built within a goal oriented strategic framework. A major advantage of such increased cooperation is certainly the prospect of reduced cost in terms of what the RDBs use as funds to organize their own annual meetings. Consolidated annual meetings of all the Banks will reduce organizational cost and enhance the involvement of the RDBs in the work of the WB. More importantly, such periodic and systematic collaborative framework will strengthen a sense of shared responsibilities for global challenges, the effects of which are felt differently at the regional level. Within such platforms for cooperation, improved exchange on technical issues on problem solving and best practices could also be enhanced.

Finally, such improved coordination could mature into a modality of management selection for the WB. Put otherwise, RDBs should have a stronger say in determining who runs the WB. Expanding on this, the head of the WB could be selected from among the heads of the RDBs. This would entail that the RDBs, as separate legal entities, should be in a position to also contribute to the share capital of the WB. But this is a controversial proposition to the extent that it does not address issues of perceived inequalities, given that the majority shareholders of the RDBs are also majority shareholders of the WB. However, it would still ensure that regional voices are better represented and heard than at the moment.

The preceding points are all validated by the legal or constitutional provisions of the banks. The founding texts allow the institutions to cooperate with other international organizations that work in the fields of interest as the various development banks. For instance, Section 8 of the WB Articles of Agreement (IBRD) makes it clear that the WB shall cooperate with any general international organization and with public international organizations that have specialized responsibilities in related fields.

In order to ensure that the collaboration between the WB and RDBs is regular, the formation of a focal point within the WB could be useful. This type of institution can help to coordinate the work of the RDBs and the WB. It would help to avert problems such as those generated by double financing of projects. In this regard, it is also important to establish a legal framework that will clearly show what kind of projects can be, or should be, financed by the RDBs and under which circumstances the projects can also be co-financed by the WB. This could be one of the ways to overcome the existing avid competition for scarce resources. However, it can be suggested that such competition is not always a bad thing. The establishment of the legal body that will deal with the RDBs is important as it will help to enhance the collaboration not only between the WB and RDBs, but among RDBs themselves as well. The institution will facilitate cooperation and encourage the sharing of experiences, information and views among the banks' officials, which is crucial for further policy coordination. In addition, regular meetings of banks' officials could serve as grounds to discuss common problems and to accelerate the finding of solutions. The RDBs could also share information with the WB by providing reports that give an overview of the ongoing projects and perhaps suggest the fields or projects for co-financing. The WB and RDBs need to complement each other rather than compete in providing financial support for client states.

A question that can be asked in this regard is, should the RDBs play a greater role in the WB? Should they represent the voice of their member states in a proper/ legal way by obtaining voting power in the WB? This is a hard question to answer as to give the voting power to the RDBs means to acknowledge the RDBs as shareholders of the WB. The WB, as it is known, is accountable to its member states. Thus, it will be automatically accountable to the RDBs. However, the RDBs are not states but instead entities that are answerable to states.

## Areas of Cooperation

Cooperation between the WB and the RDBs can be analysed from two perspectives. First, there are ties between the World Bank and each RDB. Most of these cooperation ties are sanctioned by memoranda of understanding.[69] Such efforts take the form of high level consultations,

[69] AFDB, ADB, EBRD, IDB and the WB, *Update on Cooperation Among Multilateral Development Banks* (July 2006).

coordinated joint country/ regional strategies, analytical work and co-financing. For instance the WB and the IDB have been cooperating with *Corporacion Andina de Fomento* (CAF), the Caribbean Development Bank (CBD) and the Central American Bank for Economic Integration (CABEI), to enhance the protection of social gains made in the region in recent years.[70] There are also cooperative efforts that include all the development banks as a whole rather than as bilateral efforts. It is this latter dimension of cooperation that is further discussed below.

The formal collaborative efforts between the WB and RDBs have been built on critical areas, including cooperation on addressing problems posed by fragile states. There are annual updates in the form of reports that are presented about the collaborative initiatives between the institutions. Some of the thematic areas of cooperation amongst the banks include that of financial crises. For instance, in February 2009, the president of the AFDB held a meeting with his peers from the other main regional development banks and the WB. The meeting was aimed at identifying ways in which the banks could better channel their resources to assuage the problems caused in poor countries by the financial crisis that started in 2008. They noted the need for counter-cyclical responses, and also decided to pay particular attention to backing provision of emergency liquidity; budget support; trade finance facilities; and frontloading allocations of concessional resources. They equally urged their shareholders to adopt consistent approaches. Allusion was also made to the need for better information sharing and use of common procedures where feasible.[71]

Beside the financial crisis, there has been cooperation in dealing with fraudulent and corrupt practices. In 2006, the heads of the banks reached an agreement on standardised definitions of fraud; common principles and guidelines for investigations; integrity and due diligence

[70] World Bank, Development Banks Join Efforts to Provide US90$b for Latin America and the Caribbean, 2009/318/LCR, 22 April 2009, http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22151990~pagePK:64257043~piPK:437376~theSitePK:4607,00.html

[71] Statement by the Multilateral Development Banks and the International Monetary Fund (IMF), http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22082619~pagePK:64257043~piPK:437376~theSitePK:4607,00.html February 2009. Represented during the meeting were deputy head of the IMF and the EBRD. The AFDB, the IDB, the WB, the ADB and the EIB were all represented by their presidents. Bank Presidents also met in London on 14 March 2011 to discuss their responses to other problems that had been aggravated by the financial crisis including food, energy and water related problems: EU Commerz, Multilateral Development Banks discuss economic recovery, http://www.eucommerz.com/a/0729_multilateral_development_banks_discuss_economic_recovery 14 March 2011

principles.[72] Cooperation in this area was further sealed in April 2010 when the banks joined together at the headquarters of the European Investment Bank (EIB) to sign an agreement on cross debarment of firms found to be venal implementing projects funded by any of the institutions.[73]

The banks also have a history of cooperation on trade issues. For instance in 2002, the then WTO Director General Mike Moore started an informal dialogue with heads of the regional development banks on the implementation of the Doha Development Agenda.[74] During this meeting, Mr Moore expressed his desire to see a continuation of the cooperation between the institutions on trade issues.

In recent years, leaders of the banks have been keen on fostering cooperation concerning the environment, and on climate change in particular. Most of the tasks that have been discharged in this regard have been supported by the WB in its coordination efforts. It is worth noting that at the Gleneagles G8 Summit of 2005, leaders called on the banks to work together under the coordination of the WB to present an Investment Framework for Clean Energy and Development.[75] Such coordination efforts are vital to avert duplication in such areas where all the RDBs have special support schemes such as the Sustainable Energy Initiative (EBRD); Sustainable Energy and Climate Change Initiative (IDB) and the Clean Energy and Environment Program (ADB). During the run up to the Climate Change Conference in Copenhagen in December 2009, there were important efforts made by all the banks to enhance coordination on climate adaptation support.[76]

The development of infrastructure is one of the most important factors for economic growth. Thus, improving aid delivery in this field significantly helps countries to meet MDGs. One of the

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[72] Press Release N°06/202, Joint Statement by the Heads of the African Development Bank Group, the Asian Development Bank Group, European Bank for reconstruction and Development; European Investment Bank Group; Inter-American Development Bank Group; International Monetary Fund and the World Bank Group, at http://www.imf.org/external/np/sec/pr/2006/pr06202.htm , 17 September 2006.

[73] EIB, Multilateral Development Banks (MDBs) Step up Their Fight Against Corruption with Joint Sanction Accord, www.eib.org, 9 April 2010.

[74] WTO Press Release 292r1 3 May 2002, Director-General Mike Moore Convenes First Informal Dialogue with Heads of Regional Development Banks on the Implementation of the Doha Development Agenda, http://www.wto.org/english/news_e/pres02_e/pr292_e.htm, 3 may 2002.

[75] Asian Development Bank, Development Banks Urge PPP to Combat Climate Change, at http://www.infrasite.net/news/news_article.php?ID_nieuwsberichten=6777, 13 March 2007.

[76] Bank Information Centre, International Banks Join to Support Strong Climate Deal, http://wwwbicusa.org/en/Article.11671.aspx, 2 December 2009.

examples of rational collaboration that takes place between the WB, the African Development Bank and European Union Commission (EC) is the “Limelette” process. The process initially was launched by the EC and the WB in 2003 in Limelette in Belgium and it was further expanded into a tripartite agreement with the inclusion of the African Development Bank in 2008. The aim of the process is to improve collaboration in Africa in order to heighten the efficiency of the programmes being implemented. Apart from infrastructure development, the areas of cooperation include: results framework, budget support and public finance management. Within the framework of the Limelette Process discussions, negotiations and consultations among the headquarters and field offices take place. In the meetings, each institution is represented by the management and technical staff from both the headquarters and field offices in Mali, Rwanda, Mozambique and Ghana.[77] This ensures that there is common ground for all three parties to share good practices, to identify challenges and to apply lessons learnt from the specific fields. Thus the trilateral cooperation enhances coordination of joint actions, helps in avoiding duplication of work and assists in identifying the ways in which the institutions can complement each other. However, the process has been seriously affected by a diminished sense of ownership from field offices and discussions in the Limelette Framework have almost come to a standstill.

## Challenges for Future Cooperation

It is necessary to be prudent in terms of what can be asked of the WB. A clear forward path would require challenging a number of assumptions in terms of what the WB is. These assumptions belie the challenges with which the WB is faced. The assumptions also serve as cautious restraint respecting any quick and outlandish proposals that will not be effective in reforming the institution in view of enhancing its role as a pro-poverty eradication institution.

### *6.1 Application of direct democracy standards*

It has been argued that the functioning of international organizations does not meet requisite and acceptable democratic standards or thresholds and that this normative deficit inhibits social

[77] http://www.afdb.org/en/news-and-events/article/bank-group-and-partners-hold-consultative-meeting-2468/

acceptance of the actions of international institutions such as the WB.[78] The WB is not a state and so one should be weary in transcribing precepts of direct internal democracy to the operations or functioning of the institution.[79] Citizens tend to believe that concepts of democracy at the national level must also be applicable at the international level. Relative unfamiliarity and underlying nationalism can explain how some international organizations remain unpopular at the national level in many countries.[80] Democratic expression at the WB is not based on a one country, one vote policy but rather on voting a method that is directly related to economic influence. The more relevant issue here is that times have changed and so has the economic influence of countries. As such, states that need more representation ought to strengthen their claims by taking up shares. It is naive to think that the US will make this a plain sailing experience for emerging countries. In any event, for countries that demand greater transparency and legitimacy in the functioning of the WB, a good starting point will be to contain the US' veto and influence.

### The Bank as Free for All Donor

The WB is not a charitable foundation. It is a bank, and like any other bank, must keep in mind its own returns and its bottom line. Frustration and disappointment with the WB has been partly shaped by the expectations that come from the false perception of the institution as a charity. It is true that some close observers of the bank have actually suggested that the institution should mainly focus on giving closely monitored grants rather than loans.[81] Yet this is less likely to happen in the present environment, where liquidity is tightening.

### The Bank will always be relevant

This is a thought-provoking assumption. It is true that the WB and its regional counterparts play an important role in the lives of many in terms of fighting poverty. However, the increasing

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[78] Michael Zurn, Global Governance and Legitimacy Problems, Presented for the Project the G20 Architecture in 2020 – Securing a Legitimate Role for the G20, IDRC, Ottawa, 29 February 2004, at 2 and 4.
[79] See Lamy, Globalization and Global Governance.
[80] Andrew Moravcsik, *Affirming Democracy in International Organizations*, Global Challenges in 2030 (2009), at 13-14.
[81] Allan Meltzer, "What Future for the IMF and the World Bank?" *Quarterly International Economics Report* (July 2003), at http://www.house.gov/jec/imf/07-18-03.pdf. In the Meltzer Report of 2000 it is even suggested that the WB change its name from a WB to World Development Agency that will focus, like its regional counterparts (now RDBs) in grants not loans: Meltzer Report (March 2000), available at http://www.house.gov/jec/imf/meltzer.pdf, at 13. It is naive to think that shareholders of the banks would buy into such proposals. The shareholders themselves are keen on the returns on the capital furnished to the banks.

relevance of private philanthropists and the rising role of sovereign wealth funds used now to leverage aid by countries such as China are strong reminders of what lies ahead.[82] The relevance of the WB as an institution dedicated to reducing poverty cannot be doubted, especially if one goes by its policy decisions and strategies. The issue will be whether the global economic power shift from North to South and from West to East will engender a transfer of focus of the institution. If anything, an increase in power of countries like China, South Korea and Saudi Arabia in the WB could signal a complete overhaul of the WB anti-poverty strategy that has been a hybrid between concessional/ non-concessional loans to an increased focus on loan *simpliciter* as aligned to market pressures. The WB may remain relevant in coming years, but the way in which business is done will fundamentally be a challenge to the approach that has until now been embraced by the institution.

## Conclusions

Following the financial crisis of 2008, many of the world leaders called for the re-thinking and even redesigning of the global financial architecture. By this they implied the reform of the Bretton Woods institutions. Depending on the country from which the leaders originate, attention was either placed on reforming the effectiveness of the institutions (financing/ capital) or perception of the same (legitimacy). Amongst the controversies generated by the crisis, attention has been placed on issues of perception, not least because they also affect the manner and sources of the capital generation by the international financial institutions. In focusing mainly on the perception issues pertaining to the World Bank, this paper did not profess that the effectiveness concerns are less important. Rather it considered ways in which the cooperation between the RDBs and the WB can help to diminish and reduce the perception that the Bank is an institution whose representativeness dims its legitimacy claims. RDBs have not previously attracted the attention of analysts of the institutions as a possible avenue for dealing with some of the legitimacy concerns raised by the structure and operational modalities of the WB. It is hoped that this paper shows ways in which this dimension could be re-visited by those keen on WB reform.

[82] National Intelligence Council, *Global Trends 2025: A Transformed World* (Washington DC, NIC, November 2008), at 12.

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