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Audit the World Bank's Performance

by Adam Lerrick

The World Bank has changed the name of its Operations Evaluation Department, but it doesn't mean to change its ways. The new sign on the door reads Independent Evaluation Group. The bank is digging in to fend off an increasingly vocal demand for a truly independent review of its stewardship of foreign aid.

After half a century and more than US$500 billion, there is little to show for World Bank efforts. But we have no measure of the bank's performance except the one it chooses to promulgate and no means to validate the wisdom of the industrialized world's collective investment decision.

The optimism of weighty reports cannot cover up the realities on the ground. The living standards of the poorest nations have stagnated and even declined as much as 25 percent.[1] Thirty-eight countries have amassed $71 billion in unpayable multilateral loans, encouraged by the bank's self-serving projections of country growth, on which rich-country taxpayers must now make good. Corruption has been exposed both within the bank and in its programs and is now estimated at more than $100 billion.[2] Protest is rising among leading African scholars who seek to stop all aid because it serves only to entrench and enrich a series of corrupt elites. Massive anecdotal evidence of waste, ineptitude, and outright theft can no longer be ignored.

The bank gives itself good marks and boasts that more than three-quarters of projects completed had "satisfactory outcomes."[3] But when the auditors are captive, when the timing of judgment is premature, when the criteria are faulty, and when the numbers are selectively manipulated—how credible are the conclusions?

Should we just take the bank's word for it when U.S. taxpayers are being asked to commit more than $2.5 billion per annum for the next 40 years?

Captive Auditors

"Independence" at the bank is purely cosmetic, for a temporary change of desk and a new nameplate do not alter the signature on the paycheck or the rewards of the bank's personnel system. The Independent Evaluation Group is a department of the bank like any other, save the ceremony of reporting to an executive board that is passive at best. For all members of the evaluation group save the titular director general, a revolving door leads back to standard line jobs and advancement at the bank. Because results are published, there is strong pressure to display success. Outside verification is precluded because there is no public access to the underlying data. This hardly fosters disinterested and rigorous judgments, even though the bank boasts that staff cannot review projects that they themselves designed.

Fact-finding missions are suspect when they do not stand at full arm's length from their subjects. The magnitude of the Enron failure spotlighted the folly of placing credence in inside oversight and even in outside auditors who can be intimidated by high-paying clients. In 2002 scandal arose at the German government employment office when claims of 50 percent placement rates were sliced to 17 percent by an independent audit. Corporations always seek to elevate the price of their stock; public agencies always wish to expand their funding. External auditors beyond the subject's influ-

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ence are needed to pierce the film of self-congratulation and to provide the discipline that protects the public interest.

Questionable Methodology and Selective Manipulation

The "independence" issue aside, the bank's evaluation methodology spews out conclusions without worth. What the bank proclaims as results are really only projections made at a moment when optimism is high. The World Bank's definition of "outcome" actually means only "likelihood" that a project or a program will be successful as rated by the loan officer when the disbursement of funds is complete. That often happens years before physical projects are up and running. Generalized "adjustment programs" attract the highest marks. Yet promised reforms will require years to impact the economy if they are indeed ever implemented.

Seldom does the bank return to inspect long-term project success, and many on-site investigations come up empty for lack of monitoring and records. The focus is on *quantity of inputs* with little effort expended to measure the *effective output* of programs.

Performance measures have been manipulated to bolster management claims of success and refute critics. In the late 1990s satisfactory ratings jumped when the criteria were revised upon the instruction of bank management without a corresponding adjustment to previous years to ensure consistency of measurement, also upon the instruction of bank management. After the Meltzer Commission in 1999 noted that "sustainability," the sine qua non of development, had languished at 50 percent success rates for years, ratings jumped to 72 percent in 2000. Were these true improvements or had the bar simply been lowered?

The Need for an Independent Performance Audit

The bank is better at managing its numbers than at managing its programs. What is needed is a bona fide external audit by private-sector companies on-site to determine the lasting contribution of bank projects in the poorest countries after a 3–5 year operating history and to provide a continuing benchmark for the efficacy of bank aid. Auditors would report directly to the legislative and executive branches of the Group of Seven (G7) governments. Individual program audits and aggregate evaluations of performance would be published and the exercise repeated every three years.[4]

Five to seven million dollars, or less than 2/10ths of 1 percent of the U.S. commitment to the bank's International Development Association (IDA) funding for the next three-year cycle, would pay the cost of an audit of the performance of a 1/3 sample of three years of IDA projects.

Bank objections to external examination have centered on damage to the institution's morale, on the waste of funds, and on the irrelevance of a past record that has been allegedly rectified by the latest version of the "New Bank." This last reason has been the routine response by a series of managements over the past three decades.

The technicalities of client confidentiality and sovereignty rights of nations that wish to evade scrutiny have also been advanced as impediments. For those on the receiving end of billions of dollars of subsidies that flow from taxpayers in industrialized nations through the channel of World Bank financing, there should be a corresponding obligation. Free access to the facts and the ability to publish them must become a condition of all World Bank loans.

As the UN Millennium Development goal of halving extreme poverty has gained momentum, donor nations are poised to fund an exponential increase in development aid—a $50 billion doubling of annual flows to the poorest nations by 2010 and another $50 billion annual increment previewed for 2015. The bank will get more than its share. Then there is the windfall of so-called debt relief for which the bank extorted 100 cents on the dollar from the G7 for a $46 billion portfolio of worthless developing-country loans on which it had been sitting for more than two decades. The result is an assured stream of funds on automatic pilot to fill deep holes in the bank's balance sheet and then pour out as unauthorized new aid.

Giving masses of money does not end our responsibility to the developing world. Donors have an inescapable interest in the uses to which aid is put and the results that aid achieves. Sums this significant must be weighed against alternative uses for scarce taxpayer resources.

This is the moment to insist that the World Bank be under serious and continuous external review. The bank must become the exemplar of the transparency and accountability it commends to the developing world. Provision for a triennial external performance audit must become a condition of approval of the G8 Gleneagles accord on debt relief and the funding of future aid. There will be no reform without the recognition of past failure.

Notes

This essay was adapted from testimony before the Committee on Foreign Relations of the U.S. Senate, March 28, 2006.

1. Aid was not the moving force behind the impressive gains in China, India, and Indonesia where virtually all progress in developing-country living standards has occurred.
2. See Danielle Knight and Edward T. Pound, "Cleaning Up the World Bank," *U.S. News & World Report*, April 3, 2006.
3. World Bank, *2004 Annual Review of Development Effectiveness: The World Bank's Contribution to Poverty Reduction* (Washington: World Bank Operations Evaluation Department, 2005), p. 60.
4. Sen. Mike Crapo of Idaho and Sen. Michael Enzi of Wyoming focused on the issue of an external performance audit of World Bank programs in the 106th Congress. See S. Con. Res. 136 in the 2nd session.