

**‘Our Poverty is a World Full of Dreams’:
Organizational Culture and Change at the World Bank**

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Author’s note: The official motto of the World Bank actually reads: “Our Dream is a World Free of Poverty.”

ABSTRACT

Traditional theories in international relations are often far better positioned to explain the *catalysts* for change in formal international organizations than the *process* of change and its particular *outcomes*. Engaging the inductive case study of the Strategic Compact reform initiative in the World Bank, we explore the question of change in international organizations by synthesizing existing principle-agent models and constructivist works drawing from sociological organizational theory. Specifically, we argue that change in the World Bank is catalyzed by a complex set of factors stemming from changed interests and norms in the external and internal (organizational) environment. The process of change, however, is shaped by the intervening variable of organizational culture, defined as the deeply embedded ideologies, norms, and routines which govern the expectations and behavior of bureaucratic staff as well as the organization's relationship with its external environment. This organizational culture represents the internal friction that propels change in a slow, path dependent direction that produces outcomes that are not always congruent with the interests of external actors or the intentions of internal reform initiators.

Perhaps the most succinct description of the World Bank in this past decade is of an international organization that is “overstretched and underloved” (Wilks, 2001). Deprived of the Cold War rationale driving previous aid expenditures and faced with growing budget constraints, principal members states have reduced or strongly conditioned their financial support while at the same time looking hopefully towards the world’s largest multilateral development agency to quickly and efficiently address a complex array of emerging international issues. Simultaneously, competition from private capital flows and other multilateral and bilateral aid agencies has diminished the demand for World Bank services while increasing calls for greater donor coordination and selectivity of development assistance. All of this has been severely compounded by mounting criticism of the Bank’s development paradigms and practices from a growing number of vigilant international non-government and local civil society actors, compelling the organization to adopt a series of costly and time-consuming policies that hold it to an unprecedented level of transparency and accountability. Internally, a series of scathing evaluations on the Bank’s past portfolio performance indicted many of the bureaucratic policies, norms and practices that contributed to the World Bank’s declining effectiveness.

When James D. Wolfensohn entered office as president in late 1995, one of his first acts was to proclaim his intention to fundamentally change the institution. The response was an ambitious \$250 million, 30-month reform initiative entitled the Strategic Compact: a self-described “renewal” plan aimed at reestablishing the Bank’s preeminent position as the world’s leading development agency by instigating a massive transformation in the way the organization thinks and goes about its core mission of promoting economic growth and alleviating world poverty.

The tremendous difficulty in realizing the goals of the Strategic Compact since its launch in 1997, however, indicates that in assessing change at the Bank, one must compare the rhetoric versus reality of reform efforts. Specifically, recent external and internal assessments consistently conclude

that the troubled implementation and outcome of the Strategic Compact, like previous reorganization attempts, can be in large part attributed to what may be called the “tenacious survival capacity” of the Bank’s dominant organizational culture. Defined here as *the ideologies, norms and routines governing the expectations and behavior of the bureaucratic staff as well as the organization’s relationship with its external environment*,¹ this strongly embedded organizational culture exerts a path-dependent effect on organizational change, limiting the extent to which reform initiators are able to go beyond formal structural and rule change to disrupt the underlying informal values and incentives and incite meaningful and sustainable changes in organizational behavior. Perhaps unsurprisingly, where reform goals are consistent with elements of existing organizational culture, success has been more evident. Likewise, where reform has demanded deep-level changes in the taken-for-granted ideologies, norms and routines of the Bank, it has met with considerable resistance and in some cases has even backfired. In either instance, what the experience of the Strategic Compact indicates is that a fuller understanding of the complex dynamics of change of and in international organizations (IOs) must address not only the systemic factors triggering demand for change, but also the critical internal factors that shape the execution of strategic reform and its final results.

The reform of the World Bank thus presents a fascinating theoretical puzzle for scholars of international organizations. Wedded to a state-centric framework and equipped with a relative thin menu of analytical tools that presume IOs to be simple forums for state interaction or passive embodiments of rules and norms, international relations theorists have traditionally been far better positioned to explain the *catalysts* for change in formal international organizations than the *process*

¹ We include the external environment in this definition of organizational culture in recognition first that organizational culture itself does not evolve in isolation, but rather tends reflect relationships between the organization and its authorizing and task environment at key points in its institutional history. Second, organizational culture includes an implicit understanding of how these things should be represented to those outside the organization that at times creates a disjuncture between the formal or espoused ideologies, norms, and routines versus the informal culture that informs staff 'how things are really done' (Argyris and Schön, 1974; Brunsson, 1989; and Schein, 1992).

of change and its particular *outcomes*. The missing link in this theoretical chain is an understanding of the sources of autonomy and influence that constitute international organizations as agents in world politics. This assertion of IO agency is the first step in examining the friction that exists between IOs and their environment and explaining when and where IOs will respond to external pressures for change. Simultaneously, exploring the social content of IO agency – specifically its internal bureaucratic dynamics and organizational culture – allows for the study of endogenous forces that enable or constrain the realization of intended organizational change.

Combining rational-choice based principal-agent models and constructivist applications of the sociological concept of organizational culture, we begin with the hypothesis that the catalyst for reform within highly autonomous and powerful international organizations such as the World Bank hinges upon a convergence of external and internal factors. Specifically in the case of the Bank, change in the interests of the IO's principal member states in conjunction with paradigm shifts in the broader international development regime and the 'whistle-blowing' activities of visible and vocal NGOs cumulated in a resounding external demand for Bank reform, albeit with very different ideas on the desired results. Yet because the World Bank is a relatively autonomous international organization, a comprehensive reform initiative did not emerge until a change in organizational leadership and a core coalition of internal reform advocates pushed for reform from the inside, articulating explicit targets and the strategies for getting there.

Past these precipitating causes or 'triggers' for change, we hypothesize that the particular dilemmas encountered in implementing and realizing the Compact goals can in part be traced back to conflict among and between these various external and internal factors outlined above. The attempt of the Bank to respond to the many actors in its authorizing and task environment led to an expansion of Bank agendas resulting in perceptions of "mission creep" from outside observers and a high degree of uncertainty, anxiety, and demoralization among organizational staff (Einhorn, 2001; Fidler, 2001;

Wade, 2001b; Rich, 2000). More importantly, however, we argue that the process of change within autonomous IOs in general and in the Bank specifically is strongly affected by the intervening variable of organizational culture that propels change in a slow, path dependent direction that is not always congruent with interests of external actors or the intentions of internal reform initiators.

THEORIZING CHANGE IN INTERNATIONAL ORGANIZATIONS

In an ideal theoretical world, international organizations would perfectly reflect the interests and goals of its member states, pursuing efficient and just courses of action, and responding quickly and fully to shifts in its normative and material environment. Yet in reality, the interaction between IOs and their environments is not this seamless. Structural variables only partially predict how IOs will behave and when and how they will undergo processes of change. They can offer little explanation as to the content, pace and direction of these organizational actions. Missing in this equation is an understanding of the *friction* that exists within international organizations and their environments: the various constraining factors that compel or enable IO to buffer themselves from environmental influences, resist disruptive changes and consequentially produce puzzling and sometimes deviant behavior (Barnett and Finnemore, 1999).

Deciphering these friction points requires first looking past IOs as simple forums for state interaction or passive embodiments of rules and norms, and instead directly analyzing IO agency, autonomy and influence. This perspective is built upon a number of interdisciplinary endeavors. Earlier works on IO decision-making (Cox and Jacobson, 1973) and recent applications of rational choice institutional economics within principal-agent models accomplish much in this direction, explaining the conditions under which IO gain autonomy and influence from their environments and in turn affect principal's interests and behavior through derived authority over areas of agenda-setting. In particular, the principal-agent model offers a rigorous model for discerning the dynamic

relationship between IO and the environment that specifies the conditions under which member states can rein-in the errant behavior of IO and, alternatively, how IO can attain autonomy from and influence over their principals through delegated functions, financial independence, and control over information and expertise (Pollack, 1997; Martin, 2000; Gould, 2001; Nielson and Tierney, 2001).

These arguments are essential first-steps in understanding opportunities and conditions for behavior and change in IO. However, without a social theory of IO agency, little is offered in way of explaining (rather than assuming) the *content* of that behavior or the *direction* and *pace* of change. Contemporary constructivist scholarship employing sociological organizational theory have broadened these models by exploring the *nature* of that agency: the ‘social life’ of organizational actors that explains behavioral outcomes and processes of change unpredicted by contending methods (Ness and Brechin, 1988; Barnett and Finnemore, 1999). By piecing together empirical and theoretical evidence that opens the proverbial black box of the IO, these combined approaches explore the interplay of external and internal factors that generate sources of independent power and influence the policies and practices of international organizations. The common denominator is the sociological assertion that organizations past the point of creation evolve into social actors in their own right, developing and displaying interests and behavior that ensures their legitimacy and survival in their external institutional environments (Selznick, 1957; Perrow, 1970).

This conception of IO agency is built on the observation that organizations seek to achieve their goals in competitive and demanding environments not only by adopting appropriate formal structures and technology, but also by constructing and engendering over time distinct organizational cultures. As defined earlier, organizational culture consists of the ideologies, norms, language and routines that govern the daily activities of bureaucratic staff. According to Schein (1992: 11), culture emerges from “our human need for stability, consistency, and meaning”. Within organizations, culture naturally evolves over time or is strategically created by bureaucratic leaders as a means of

coping with the external requirements for survival and growth as well as achieving the internal integration that permits efficient operations and means of adaptation. The defining elements of culture affect organizational behavior through formal rules and informal incentive structures that shape staff members' expectations about their own roles and identities as well as what constitutes both instrumentally and normatively appropriate thoughts and actions (March and Olson, 1989). Over time, through processes of socialization in which staff members internalize 'taken-for-granted' responses to problems and tasks, organizational cultures become deeply embedded and resistant to change. The same ideologies, norms, language and routines that help alleviate uncertainty and provide stability also inhibit organizational learning that entails the rethinking of fundamental ideologies, values and goal. In other words, this culture becomes a *filter* through which organizations interpret environmental signals and translate them into organizational decisions regarding selected agendas and policy practices. Moreover, culture acts as a *friction point* or constraint on change, pushing the organization in a highly path-dependent fashion towards multiple outcomes ranging from preservation of the status quo to degrees of adaptation or learning.²

Constructing a conceptual framework that incorporates the dynamic interplay between the external environment and the complex change process within the IO thus requires a three-step process. The first is to examine the changing environment in which IO currently exists, identifying the various actors that shape IO autonomy and analyzing when and where external actors may act as catalysts (or 'triggers') for change.

Within this environment, member states (the IO's "principals") still assume perhaps the most important and direct influence over the structure, governance, and activities of the IO. The first and most critical catalyst is therefore the exogenous force of broad structural changes in member state foreign policy interests that in turn reflect external shocks, disasters and other forms international

² This notion of cultural inertia in bureaucratic change is consistent with Denzau and North's (1994) notion of "mental models" and institutional ideologies and Pierson's (1996) argument regarding path dependence and the capacity for

crises. These ‘critical junctures’ compel IO to alter their core missions, ideologies or operational strategies to better meet the changing conditions of its authorizing and task environments (Kapur, 2000b). Beyond this traditional focus of principal-agent analysis, however, there is also abundant evidence of other critical external non-state actors that shape the IO in various ways by affecting the normative (ideational) or material (competitive) environment in which the IO exists. These include private capital interests, epistemic communities, and other international governmental organizations (bilateral and multilateral) working within similar issue areas. Finally and perhaps most importantly besides states are an increasing number of active and vocal non-governmental organizational and domestic civil society groups that carefully monitor IO activities, indirectly exerting influence via extensive lobby campaigns in national congresses and parliaments or directly through participation in IO activities (Keck and Sikkink, 1998; Boli and Thomas, 1999).

The second step after mapping this environment is the identification of internal constraints that limit the influence of these external factors and impede reform efforts. As mentioned above, what can be called the ‘cultural foundations’ of IO act as a filter through which environmental demands and challenges are interpreted and translated into policy agendas and strategies. This, in turn, is the endogenous factor of organizational learning best explained by theories of organizational culture. Learning is defined as the process wherein the basic assumptions or “mental models” of organization – its ideologies, norms, language and routines – are questioned, debated, and targeted for change (Argyris and Schön, 1978; Senge, 1990; March 1991; Schein, 1992, Denzau and North, 1994). Such learning rarely happens, as it undermines the fundamental stabilizing purpose of that very culture and threatens to release uncertainty and ‘anxiety’ that provokes strong resistance among organizational members (Schein, 1992: 22). More tangibly, staff may ‘learn’ through experience that rationale for strategies is flawed, research is misdirected, or management of projects is misguided. Yet this is

unlikely to lead to any change in actual behavior if those strategies, research and management methods continue to get rewarded or fail to be sanctioned because of preexisting ideologies and norms (Lorsch, 1985; Berg, 2000; Ellerman, Denning and Hanna, 2001).

Existing theories have much to say about the condition under which IO agency will be the decisive factor in explaining organizational activities, but they offer little insofar as theorizing the substance of these outcomes. Consequently, the final step is the examination not only of the substance but also of the variance of these path-dependent results of organizational change. These outcomes do not necessarily reflect either the external demands nor the subsequent reform agenda of the organizational leader, but are contingent upon the fit between those factors and the characteristics of the peculiar organizational culture. The results of reform programs, as mandated by the senior management of the organization, can broadly be classified as either 'learning', 'adaptation', or 'status quo'. *Learning* refers to processes where 'behavior changes as actors question original implicit theoretical underlying programs and examine their original values', and *adaptation* are processes where 'behavior changes as actors add new activities (or drop old ones) without examining the implicit theories underlying their programs' (Haas, 1990: 3). According to Haas (1990) this crucial difference between learning and adaptation is reflected in the dealing with new problems for the organization. While adaptation mechanisms cope with these new problems in the form of an additive work program 'without worrying about their coherence with existing ends', genuine learning mechanisms construct 'new nested problem sets ... on the basis of consensual knowledge that has become available, as provided by epistemic communities' (Haas, 1990: 3).

The most commonly observed effect of organizational culture is adaptation. New issues and agendas introduced in the IO through external pressure or internal advocacy are filtered through ideologies, norms, and routines to produce particular interpretations of new tasks that are largely consistent with existing ideas and operating procedures. In contrast to either learning or adaptation,

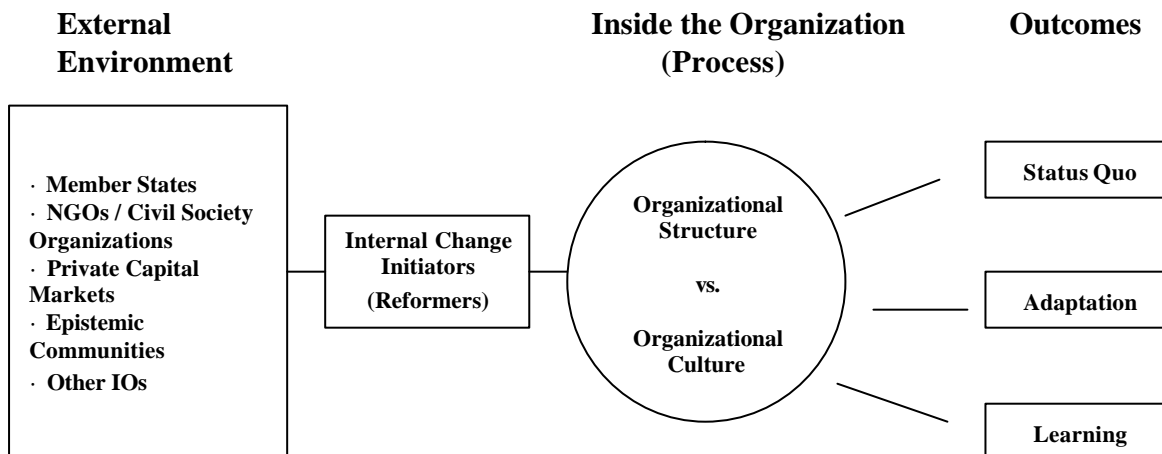
the third possible outcome of ‘status quo’ refers to instances where new development ideas and issues are so fundamentally at odds with existing agendas and organizational culture that even adaptation becomes an arduous process. While the organization may signal its responsiveness to various (and often conflicting) external and internal pressures for change by adopting an array of formal structures and rules, translating these objectives into meaningful reform in operational behavior is contingent upon the ability of staff to disrupt on a conscious and unconscious level the underlying culture. However, more often than not this culture proves resistant if other older and possibly conflicting policy agendas, internal and external interests continue to protect preexisting ideologies, norms, and routines. While certain reform agenda items become rhetorically ‘mainstreamed’, meaningful changes in the values, incentive structures and internal management of operations that would signal a qualitative shift in organizational behavior are largely absent. In essence, the *status quo* for those items targeted for change is preserved even after the implementation of the reform program.³

In sum, we draw the important insight from organizational theory that ‘culture’ is an intervening variable between the external environment and organizational outcomes. Organizational culture informs organizational members how to respond to shifts in the normative and material environment and produces strategies for coping with these demands. It affects choices regarding what kind of data will be gathered, how information will be interpreted, how new problems will be defined and integrated into existing organizational agendas, how they will be portrayed in official language, and how new tasks will be adapted into or require modification in existing standard operating procedures. These choices are governed overall by the informal dominant ideologies and norms that constitute the basic incentive structures: staff consciously or unconsciously recognize what ideas and behavior will be deemed appropriate and likely to be rewarded within the given organizational context and act accordingly. This need not dismiss the influence of the environment, which

³ It is important to note that these process outcomes first and foremost operate on the level of individual staff members, which then produce aggregate consequences for the comprehensive reform agenda of the entire organization.

undeniably plays a large role in structuring the institution, delegating limited functions, and granting priorities (often through directed resources) to certain tasks. Yet ultimately the distinct language of IO policies, their underlying rationale and design, and the means of implementation and measuring outcome are distinctly shaped by cultural elements that can explain what often appears to be bizarre and sometimes ‘pathological’ behavior (Barnett and Finnemore, 1999).

Figure 1: The Process of Change in International Organizations



CATALYZING CHANGE IN THE WORLD BANK

The External Factors

The dramatic shifts in the World Bank’s external material and normative environment in the past decade have stimulated widespread pressure for reform of the organization’s development paradigms and practices. The most prominent catalyst stems from the changing interests of the major

donor member states, who collectively possess the most visible means of influencing the Bank's activities via their capital subscriptions to the IBRD, tri-annual replenishments of funds of the International Development Association (IDA), the soft-loan window of the Bank, and their weighted votes within Bank's Board of Executive Directors. With the collapse of the Soviet Union and accompanying loss of the imperative of containing communism, the so-called Part I (donor) member states of the Bank found much of their political rationale for supporting bilateral and multilateral development aid disappear. Concern over domestic budget constraints and waning public support for foreign aid caused these countries to cut back their official development assistance while also more closely scrutinizing the past effectiveness of that aid and the perceived "bureaucratic flab" of the overpaid and under-taxed international bureaucracy. Ironically, at the same time, the demands on the Bank's services grew. As bilateral aid dried up, donor member states increasingly looked to leverage their diminishing aid budgets by pushing the Bank to address a growing number of new, and often ambiguously defined, foreign policy objectives reflecting the changing post Cold War environment. Thus, while donor contributions simultaneously declined and became more highly conditioned on changes in organizational structures and mandates,⁴ the Bank was pushed to address a burgeoning number of new issues ranging from the transition of post-communist economies, the rebuilding of societies torn apart by ethnic conflict, the alarming spread of HIV/AIDS and other infectious diseases, debt relief and capacity building especially in sub-Saharan Africa and most recently poverty as the roots of terrorism.

These pressures are complicated by a breakdown in consensus among the Part I member states about the direction of Bank reform. No longer bolstered by the need to maintain a common front against communism, the ideological split between the U.S. and its European and Japanese counterparts on the nature and purpose of Bank lending has become especially acute. In particular,

⁴ This is evident in the successive replenishment negotiations of the International Development Association. See, for example, Ascher, 1990; Brown, 1992; Gwin, 1994; World Bank Staff Association, 2001a.

the welfare-oriented and state-led industrial policies of these latter states clashed early in the post-Cold War era with the U.S. promotion of Bank activity geared at the neoliberal, laissez-faire policies, perceived as critical to opening up emerging markets to U.S. trade exports and foreign investment (Wade, 1996; Kapur, 2000: 10; Pincus and Winters, forthcoming). More recently, the thirteenth replenishment negotiations of IDA has revealed a strong division between the major donor states on the extent to which IDA funds should be disbursed in the form of grants rather than interest-free loans. The point here is that while disagreements among the major member states of the Bank may be perceived in principal-agent theory as increasing the autonomy of the Bank and thus shielding the Bank from pressures from reform, in reality the Bank has tried to appease its primary benefactors by responding with a series of confusing and conflicting agendas and rules that have only further diffused the organization's core mission and strategies.

Various official reports of the Bank also consistently identify pressures for reform coming from the organization's Part II (borrower) member states. Although the number of borrowing country governments has increased with the collapse of the Soviet Union, and despite awareness of a rising number of critical development issues, borrowers' demand for Bank services appears to have stagnated. The Bank attributes much of this to growing discontent with the strict conditions placed on Bank loans (including costly safeguard and fiduciary requirements) as well as criticism of the performance of past projects and structural adjustment lending. Moreover, borrowing governments have been quick to complain about the slowness and inflexibility of bureaucratic procedures, leading to long delays and excessive red tape during loan appraisals and negotiations (Stiglitz, 1999; Storey 2000). Given that client demand is of primordial importance to the Bank's continued viability as a business, the perceived need to appear more responsive to client needs and demands has taken center stage in the Bank's reform process.

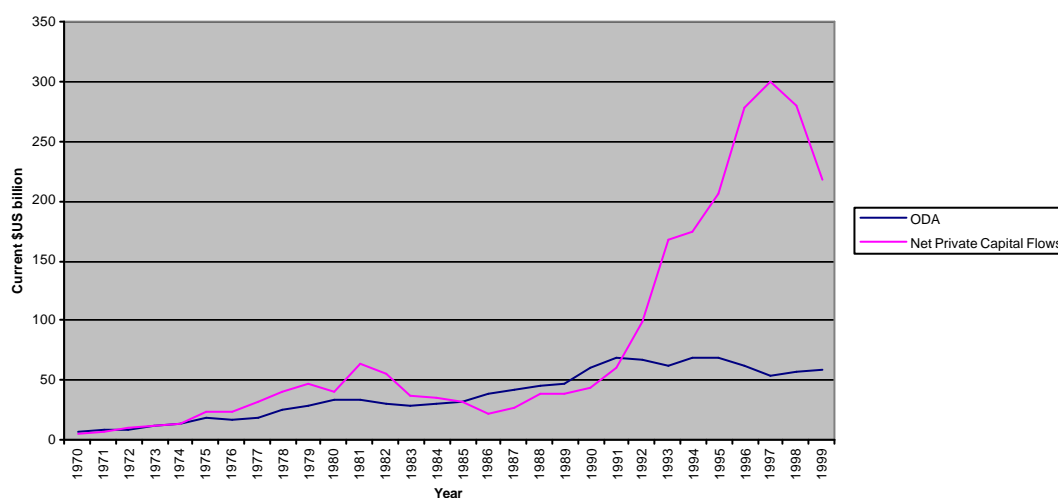
Beyond pressures stemming from the Bank's conflicting principals, there are important non-state actors and influences catalyzing change in the organization. The first is the increasing number of other international development organizations and recent trends in private capital flows. On the first count, the presence of several other regional and bilateral development banks and aid agencies proffering similar assistance has somewhat dampened country dependence on Bank funds, although the Bank by far remains the largest single source of development funds. Nonetheless, internal discussions of Bank reform identify the emerging knowledge base and pools of expertise in these other development organizations to be a possible source of competition.⁵ More critically, the presence of so many other voices in the field has created a dire need for increased communication and coordination between agencies to reduce redundant and sometimes conflicting aid programs, challenging the Bank to be more selective and open to cooperation with other agencies in its lending activities. It has also incited the Bank to try to define its "comparative advantage" as the premiere international center for development information and expertise, thereby honing its relative power, influence, and claim to resources in the international development regime.⁶

Additionally, tremendous increase in private capital flows in the past decade, these flows (including commercial bank loans, foreign direct investment and portfolio investment) to developing regions of the world have come to equal nearly five times the amount of total official development assistance (see chart 1). Much of this has translated into abundant, unconditioned private sources of money for revenue-earning infrastructure, transportation and energy projects that traditionally have represented the bread and butter of the Bank's lending business. Despite argument by Bank officials that a large majority of this aid goes to a very small number of developing countries (Gurria and Volcker, 2001), critics of the Bank took this data as evidence that the Bank was no longer needed to

⁵ "The Matrix Environment at the World Bank: Orientation for New Staff," Fall 2001 (power point presentation, on file with authors).

fulfill its original mandate of facilitating foreign investment and economic growth.⁷ When the private capital flows suddenly reversed after the financial crises in East Asia, Russia, and Brazil in 1997-1998, demand for Bank loans rebounded but also introduced the new and daunting task of using development aid to cope with the global risks associated with unfettered financial globalization (World Bank, 1998: 7-9). The volatility of private capital flows has thus created dual imperatives for the Bank. On the one hand, the Bank must adapt to the changing material environment by redefining its development agendas and pursuing new types of lending and non-lending services that are not offered by competing private capital. On the other hand, the Bank must also develop new strategies for dealing with the aftermath of economic crises that are inevitably triggered when private capital interests falter and abandon their developing country patrons.

Chart 1: Official Development Assistance (ODA) versus Private Capital Flows to the Developing World, 1970 to 1999



Source: Global Development Finance, 2001.

⁶ This argument is embodied in the World Bank's Comprehensive Development Framework. See Wolfensohn, 1999. For a discussion of coordination between development agencies writ large, see the key report by the Development Assistance Committee 1996.

⁷ See, for example, the Meltzer Commission Report 1999 and Lerrick 2002.

Meanwhile, inside the Bank, a major impetus for the 1996 reform initiative was the recognition that “the development paradigm was shifting, and the Bank risked losing its leadership role” (World Bank, 2001a: 1). Scholars within the epistemic communities inhabiting the international development regime (many of whom worked within or as consultants for the Bank) increasingly criticized the neoclassical economic heterodoxy underpinning the so-called “Washington Consensus” driving Bank lending strategies (Stiglitz, 1999, Naim, 2000; Gore, 2000). The perceived failure of past structural adjustment policies to engender equitable and sustainable growth, particularly in Africa, converged with the need to find viable theories for addressing the former Soviet Union’s economic transitions. The slowly emerging “post-Washington consensus” granted central focus on North’s (1990) theory of institutions, replacing the old tenet of ‘getting the prices right’ with ‘getting the institutions right’ (Picciotto and Wiesner, 1998; Burki and Perry, 1998). Combined with growing concern over aid fungibility and the prevalence of corruption undermining aid effectiveness, development theories began to emphasize the notions of good governance and the building of sound financial, regulatory and legal infrastructure as the necessary “capacity-building” prerequisites to increased investment, trade and economic growth.⁸ Likewise, progressive theories emphasizing the social and environmental dimensions of development pushed the World Bank to seriously evaluate its rhetorical commitment to socially and environmentally sustainable development, resulting in a demand for more attention to the participation of civil society in defining and implementing development strategies and the need to refocus on the Bank’s goal of poverty alleviation as first set out by Robert McNamara in the mid-1970s. The cumulative effect of the rapidly changing normative environment was a number of new and substantially different development issues that seriously challenged the economic, apolitical and technical rationality underlying the Bank’s traditional approaches.

⁸ Kapur 2000a, 13 attributes this also to a change to decreased inhibitions about sovereignty after the Cold War, thus permitting Bank involvement in previously ‘taboo’ areas of lending that may be perceived as encroaching upon the

Perhaps the most critical feature generating outside pressure for Bank reform are the ‘fire alarm’ or ‘whistle-blowing’ activities of the several thousand watchdog and advocacy groups closely monitoring nearly every move of the institution. Lacking the financial teeth of the Bank’s principal states, these international, national, and local non-governmental and civil society organizations have nonetheless inflicted severe injury to the external legitimacy of the Bank by documenting and publicizing the devastating effects of Bank projects. Growing from a small protest movement surrounding the ecological and social impact of the Bank’s large infrastructure projects in the 1980s, such as the now infamous Polonoeste road project in the Brazilian Amazon, there seems to be a virtual cottage industry of NGOs that sprout up around any Bank-funded project that has the potential for any negative effect (or lack of benefit) to the human rights and security of the local population and environment.⁹ By intensively lobbying national parliaments (especially the US Congress) during IDA replenishment negotiations, the strong coalitions of NGOs have been able to indirectly enact the power of the purse to compel the Bank to adopt a series of operational guidelines and policies. Most important among these are the new informational disclosure rules, requirements of environmental and social assessments during the appraisal of projects, and the creation in 1993 of an independent Inspections Panel endowed with the authority of hearing complaints about the Bank’s non-compliance with organizational policies from groups potentially or directly harmed by this negligence (Fox, 2000).

This transnational movement has had a significant effect on the Bank’s autonomy by making the IO more open, transparent and accountable for its practices. Moreover, the sheer visibility of NGO actions, as demonstrated in the 1994 “Fifty Years is Enough” movement and in the yearly mass

political terrain of client states.

⁹ One highly significant effect of NGO pressure was the soliciting in 1992 of an independent commission (known as the Morse Commission) to look into the Bank-financed Sardar Sarovar dam project on the Narmada River in India. The report found evidence of “gross delinquency” on the part of the Bank and the Indian government during the implementation of the project, in particular in the forced resettlement of 200,000 poor farmers. See Morse Commission Report 1992; Rich, 1994 and forthcoming; Nelson, 1995; Wade, 1997; Fox and Brown, 1998.

protests surrounding the IMF and World Bank annual meetings, has attracted greater media and thus public attention to the Bank's activities. Prompted by their constituencies, this has fed into greater pressure on the donor member states to monitor and sanction the deviant behavior of the IO. It has also enabled advocates of social and environmentally sustainable development *within* the Bank to push for these development issues. In response, the Bank has in past several years publicly pledged itself to a large number of new agendas and practices devoted to "participatory" and sustainable development that commits the Bank to extensive consultations with and feedback from NGOs, civil society groups, and local indigenous populations. The result is a widening of the development paradigm and greater demands upon project management that often conflict with the prior demands for greater selectivity, cost-effectiveness and efficiency in Bank lending management.

Internal Catalysts for Reform

Despite the overwhelming external consensus on the need for organizational change in the Bank, the divergence of demands among the various actors discussed above negates the possibility of a coherent reform strategy pushed from the outside. Thus, when examining the various factors leading to the Bank's most current "Strategic Compact" reform initiative, it is essential to examine the internal factors driving change, most notably the role of evaluation groups, internal reform advocates, and organizational leadership.

The most critical internal "whistling blowing" leading to reform imperative was the 1992 report of the Portfolio Management Task Force, commissioned by then President Lewis Preston and headed by a long-time senior Bank manager, Willi Wapenhans. Building on a series of past reports of the Operations Evaluation Department (OED), other evaluation mechanisms and internal staff surveys, the report uncovered shocking statistics with respect to the declining effectiveness of the Bank's portfolio of past programs and projects. Within one decade, the number of projects judged

unsatisfactory at completion had increased from 15% in 1981 to 37.5% in 1991, with the share of projects with major problems at 20% in 1991. Moreover, the report revealed a disturbingly low level of borrowers' compliance with legal covenants attached to loans, with only 22% of all conditions found to be fulfilled in 1991 (World Bank, 1992: 9).

The Wapenhans report attributed this dismal performance in part to unfavorable country conditions, such as poor macroeconomic policies and the volatility of oil prices and subsequent debt crises leading to global economic stability over past two decades. However, in a critical departure from previous portfolio evaluations, the Wapenhans Report looked past these external factors to focus on the internal features undermining the organization's realization of overall development objectives. At issue were the various bureaucratic characteristics that had prevented the Bank from responding quickly to changing development priorities, creating an over-reliance on universal, abstract development knowledge and "blueprint" project models that ultimately failed to respond to the specific needs of the Bank's increasingly disgruntled Part II countries. At the heart of the discussion was the condemnation of the Bank's organizational culture, specifically defined by the authors as deeply embedded in a set of perverse incentive structures that created an "approval culture" and "disbursement imperative" in which staff were pervasively preoccupied with new lending and getting projects siphoned through the multiple layers of senior management and the Executive Board. Although these cultural elements had been targeted and vilified by the Bank's external critics for years¹⁰, to have the argument made by Bank staff using the Bank's own evaluation data served as a wake-up call for Bank management.

Several of the norms and routines of the Bank's culture were specifically pinpointed in the Wapenhans report and subsequent internal and external evaluations as causes of the Bank's failing effectiveness. For example, because staff perceived rewards (such as promotions) to be distributed

¹⁰ See, for example, Tendler, 1975; Payer, 1982; Ayres, 1983; Hancock, 1989.

on the basis on lending quantity, staff had every incentive to seek out fundable projects even in the absence of client initiative or interest. Project appraisals were perceived as marketing devices for securing loan approval, and negotiations with borrowers were often “largely coercive exercise[s] designed to ‘impose’ the Bank’s philosophy and to validate the findings of its promotional approach to Appraisal” (World Bank , 1992: 14-16). Moreover, project appraisals were often excessively optimistic, overselling the project’s chance for success in order to get the borrowing government on board and get internal approval. The zeal to lend overshadowed attention to implementation planning and identification of (and thus steps taken to manage) major risks to project performance as well as issues of long-term impact and sustainability of development objectives. Likewise, project management after approval often waned, and task managers and team members tended to abandon projects soon after they started. This led to considerable staff turnover and discontinuity in the management of projects that severely hindered on-going supervision (something highly under-resourced in terms of staff time and money), including the monitoring of borrower government compliance and the realistic on-going assessments of intermittent risks and whether or not the project as designed appeared to be appropriate for achieving the original development objectives. Finally, the highly marginalized role of the OED and the absence of mechanisms ensuring institutional feedback and learning meant first that there were no pragmatic measures for holding staff and management accountable for the lack of results, nor were there any means of incorporating the lessons of OED evaluations and project implementation completion reports into future country strategy papers and similar projects.

The report’s subsequent leak to the public converged with a series of other dissenting reports and commentaries published by current and former Bank staff and senior management also condemning the Bank’s entrenched organizational culture (Wapenhans, 1994; Naim, 1994; Daly, 1994). In 1997, an internal evaluation of the newly created Quality Assurance Group (QAG)

reiterated the perceived imperative to ‘sell’ projects, the related absence of any selectivity, and the bias towards large blueprint loans aligned with perceived Bank lending priorities that did not fit the needs or interests of the borrowing countries. In one report, the QAG concluded that “institutional amnesia is the corollary of institutional optimism and, despite the lessons of experience, Bank staff are overoptimistic and tend to propose overambitious operations that are beyond local implementation capacity” (QAG, 1997: 1).

A critical turning point in the internal catalysts for a more comprehensive reform of the Bank came with the presidency of James D. Wolfensohn, replacing the ailing Lewis Preston in late 1995. Entering office a year after the watershed 50th anniversary of the Bretton Woods Institutions and the much publicized public protest campaign, Wolfensohn was eager to be perceived as the leader who would fundamentally change the World Bank. Proclaiming that he had read nearly 50 books critical of the Bank (World Bank Staff Association, 2001: 1; Rich, forthcoming: 2-6), he immediately took steps to appease the Bank’s multiple critics by declaring a commitment to participatory, social and environmentally sustainable development and the need to pay attention to hitherto ‘taboo’ development issues, particularly anti-corruption. Wolfensohn appeared most adamant about promoting an open, transparent and results-oriented culture. In a speech delivered to staff in March 1996, he severely criticized senior management, pointing to internal surveys that showed that nearly 40% of staff had little confidence in their managers and that a “glass wall of cynicism and distrust” pervaded staff-management relations (Rich, forthcoming: 1).

Historically speaking, the president of the Bank has always exercised a profound influence over the direction of organizational activity. Surpassing the formal authority of the Board of Executive Directors, the president possesses considerable agenda-setting power, in effect deciding *which* issues and loan decisions are brought to the table and *when*, as well as exercising considerable discretion in administrative decisions regarding senior management personally and budget allocations

(Kapur, 2000a: 7). Therefore, when Wolfensohn publicly criticized the past behavior and culture of the Bank and created a series of “renewal tasks forces” within the organization, he was widely perceived among internal and external reform advocates to be the decisive precipitating factor for change marking a major turning point in the Bank.

The impetus for change in the World Bank is thus the cumulative effect of changing interests and norms in the Bank’s external authorizing and task environment composed not just of principal member states but also a complex array of non-state actors noted in the previous section. Yet the relative autonomy and influence of the Bank, engendered over the past fifty plus years, through its tremendous financial leverage and storehouse of development knowledge and expertise, creates a degree of insulation between the IO and its environment overlooked by conventional international relations theory that privileges bureaucratic interests and incentives and produces an inertial response to outside pressures for change. As predicted in principal-agent models, this is perpetuated when the interests of those environmental actors are inconsistent or even in conflict. Yet it is the internal pressures for change, particularly from the top of the organizational hierarchy, which are the vital precipitating factors determining *when* the IO will respond to pressures of change and *which* prevailing demands will get the most attention in specific reform strategies. Ultimately, however, the ability of the Bank to realize the envisioned behavioral change has been hindered not only by these apparent conflicts within its external environment, but more importantly by the resilience of organizational culture.

THE STRATEGIC COMPACT

Launched in April 1997, the Compact is portrayed as an agreement “...between the Bank and its shareholders: to invest now in order to deliver a fundamentally improved institutions in the future – quicker, less bureaucratic, able to respond continuously to changing client demands (improve

products) and global development opportunities, and more effective in achieving its main mission: reducing poverty” (World Bank, 1997: 1). Funded by a \$250 increase in the administrative budget over the three years reform period, after which the budget was supposed to return to 1997 levels, the Compact pledges a “renewal” of the Bank’s prevailing development paradigms and practices to fix past performance failures, to reinvigorate stagnate demand, and respond to the growing criticism undermining the Bank’s external legitimacy.

The Compact was premised on four overlapping pillars. The first is characterized as “Refueling Current Business Activity”. This component is a direct response to the declining demand for Bank services and claims that the Bank promoted development strategies detached from the reality of client needs. As such, this entailed a series of reforms intended to make the Bank more responsive to borrowing countries’ interests by reallocating resources towards the ‘front-line’ of operations and moving away from ‘blueprint’ lending to more country-specific lending and non-lending programs built on improved measures of project management, economic analysis work, and enhanced feedback from the Bank’s various evaluation groups. In order to shift the Bank from an ‘inward-looking’ to results-oriented and country-focused institution, the reform also entails a dramatic decentralization of management and staff to field offices and placing greater administrative budget control in the hands of the Bank’s Country Directors.

The second component entitled “Retooling the Development Agenda” promised greater investment in new or previously neglected sectors, such a social, environmental and ‘governance’ related projects. At the core of this plan are the four new thematic networks situated between research, policy and operational units and centered on the areas of Environmental and Socially Sustainable Development (ESSD), Human Development (HD), Finance and Private Sector Infrastructure (FPSI), and Poverty Reduction and Economic Management (PREM). The related third component of reform attempts to reframe the organization’s basic identity as the “Knowledge Bank”.

Using the four new networks, the Bank hopes to alleviate perceived gaps between the Bank's research and operations divisions, creating internal feedback loops and learning mechanisms that would enable the Bank to more easily respond to shifts in the interests of its member states as well as theoretical and empirical discoveries within the broader international development community . In doing so, the Bank would secure its "comparative advantage" amongst competing financiers as a global leader in development information and expertise.

Finally, the last pillar of the Compact initiative is an ambitious architectural reform under a complex matrix management system meant to strengthen the Bank's bureaucratic ability to address the first three reform components. Including the above mentioned shift in accountabilities and resources to the field, this "Revamping of Institutional Capabilities" specifically focuses first on integrating internal information systems to promote intra-organizational communication and second on realigning human resources towards new development agendas through staff turnover. It also promises to reallocate resources towards improving the weak areas of portfolio management, including supervision of project implementation, on-going monitoring of program performance, and realistic evaluation and feedback mechanisms. The implicit objective of this last initiative is to address and disrupt the underlying ideologies, norms and routines that constitutes the destructive culture of the "old" Bank and create new incentive structures that would realign the expectations and behavior with the desired image of the "new" Bank.

After the close of the Compact implementation period in 2000, the Bank commissioned an internal review of the reform process to gauge how far the organization had come in meeting its change objectives. Unsurprisingly, the statements and reports later released to the public highlight the Compact's tremendous progress. In particular, the primary assessment report issued in March 2001 emphasizes the drastic transformations in the Bank's organizational structure and the apparent

impact on lending performance.¹¹ The data indicates a remarkable improvement in the quality of project design and implementation planning, with QAG evaluations showing a jump in ratings of project quality-at-entry from 78% satisfactory or better in 1996 to 89% in 1999. Likewise, OED data on the outcome of exiting projects in 1999 indicates 77% with satisfactory or higher ratings (up from 65% in 1993), with an even larger improvement in the quality of the Bank's non-lending economic and sector work. Overall, progress appears in almost all of the Compact's targeted areas of lending performance, including a decline in the number of on-going projects considered 'at risk' and upturns in estimates of development project sustainability and institutional development impact.

Simultaneously, the Bank has streamlined its bureaucratic procedures and decreased the time taken to prepare, appraise, and approve projects. On average, the number of months taken to go from project concept to approval by the Bank's Board of Executive Directors declined from just under 24 months in 1996 to around 14.5 months in 2000 (World Bank, 2001a Annex 1: 7). These efforts are seen to not only improve the Bank's ability to flexibly respond to client interests through increased country dialogue. It also enables the Bank to focus more on partnerships with other aid agencies on the ground and on local capacity-building exercises and participation of local groups in project design and implementation that enhances the potential of borrowing countries sustaining development objectives past project completion. On this last point, the assessment pointed to the 65 NGO specialists now located in several of the Bank's field offices, as well as the increased level of civil society and NGO participation in the construction of Country Assistance Strategies. Finally, progress towards the goals of refocusing the development agenda and enhancing knowledge sharing within the Bank is demonstrated (though hardly proven) in the number of staff shifted to new areas of development research and lending and the increased proportion of projects associated with new development themes. The Compact is thus proclaimed by the Bank to be, for the most part, a success.

¹¹ The report specifically highlights the rapid decentralization of staff to the Bank's mission offices, which now house approximately 30% (2500) of the Bank's overall permanent staff, including 28 of its 53 Country Directors. World Bank,

Short-Changed: The Tenacity of Organizational Culture

“Changing the culture of any organization is a lengthy and complex process. The change process itself is influenced by the culture in place. If the latter is strong – when shared beliefs, values, and norms consistently drive behavior – the change process is even more difficult. Such is the current situation in the Bank.” (From “The Culture of the World Bank and Its Implications for the Reorganization Process,” Internal report of the World Bank, 21 March 1987, p. 16).

The above quote, written in memo regarding the now infamous attempt to reorganize the World Bank under president Barber Conable in 1987, ironically echoes the sentiments of the various assessments associated with the Bank’s most reform effort.¹² Despite an explicit recognition in the early Compact planning documents of the need to address and change the various elements of the organizational culture, the evaluation reports issued after the completion of the Compact period in 2000 note with disturbing regularity the tenacity of underlying incentive structures that drive stability or adaptation, rather than fundamental change or learning, in the expectations and behavior of Bank staff. This compounded by the fact that the reform goals themselves contain an inherent contradiction, creating mixed signals and thus considerable uncertainty and anxiety amongst organizational members. As compelled by the principal member states, the first reform goal seeks to streamline the Bank’s bureaucracy and become more oriented to client (particularly borrowing country) interests by shortening and decreasing the cost of project design, appraisal, and oversight. The second goal strives to appear more responsive to the critical demands of vigilant and vocal NGOs, civil society organizations, and their attendant national parliaments by adopting a series of time-consuming and costly accountability measures and safeguard policies that inevitably require

2001b: 10, 64.

greater delays, expenditures, and conditions attached to loans - things that the borrowing governments are increasingly reluctant to take on.

In this light, it is unsurprising that the reform process has proven more adept at transforming the institution to better align with the first of these reform objectives. After all, the norms required to achieve the improved client responsiveness and country-focus were largely in place in what the Wapenhans Report called the ‘approval culture’ and ‘disbursement imperative’. The particular interests and demands of the Bank’s client states (barring national parliament interests in some instances) involved significant structural readjustments in the Bank’s hierarchical architecture, yet relatively few disruptions in the informal ideologies, norms and routines. The accompanying aim of altering the reliance on abstract, blueprint development knowledge and inward-looking focus of Bank staff proved slightly more difficult, yet not completely resistant to reorganizational efforts. On the other hand, the operational procedures and set of broadened development agendas advocated within the second goal of becoming more “poverty-focused” and accountable for development results did fundamentally challenge much of this existing culture. In retrospect, these objectives are clearly more at odds with what may be called the ideological triad of economic, apolitical, and technical rationality and the pre-existing perceptions of what issues and interests should take priority in the loan program or project management cycle.

This conflicting dichotomy between various Compact goals and outcomes becomes abundantly clear in closely reading the various assessments, revealing the multiple areas in which the inertia or resistance of organizational culture has impeded the full realization and internalization of desired incentives and behavior and the “mainstreaming” of new development topics. Thus, it is not unexpected to find the recurrent message within many of the Compact evaluations that argue “the Bank needs to eliminate the disconnect between its espoused culture and the way people behave with

¹² For descriptions of the Conable reorganization of the World Bank and its consequences, see Rich, 1994: 182 and Caufield, 1996: 178-187.

each other.... The Bank needs to find a better balance between the “hardware” of change (strategy, structure, process, systems) and the “software” (culture and behavior)....” (World Bank, 2001a: 54). More fundamentally, the Compact process, like previous reform attempts at the Bank, reveals that the obstacles to learning and change are affected not only by the apparent tension between strategic reform goals resulting in part from conflicts among external interests and demands, but more deeply are shaped by the “tension between the mindsets and behaviors required by change designs and vision, and the existing culture” (World Bank, 2001a Annex 8: 16-17). Three areas of the Compact initiative demonstrate this cultural inertia and the resulting unanticipated obstacles to organizational reform.

(1) The Matrix Management System

One of the most important admissions of the formal Compact assessment concerns the areas of structural reform targeting improved client responsiveness that have ultimately run counter to traits of existing organizational culture and have as a result produced unintended consequences and ‘disconnects’ (World Bank, 2001a: i). An obvious example is the ‘internal market’ system of work program agreements. Under the new matrix management system, Country Directors are given increased control over a majority portion of the Bank’s overall administrative budget. The intention is for the Country Directors, presumably most in-tune with the interests and needs of the Bank’s borrowers, to use the budgets to contract with the Bank’s new networks of expertise to find the staff with the most appropriate skills to fulfill country workplans and to accordingly put together project teams on an ad hoc basis to design and appraise specific loan projects.¹³ By contracting out to the various networks in response to specifically identified client needs, the new system was also intended to eliminate supply-driven work and organizational patronage networks. However, the system

¹³ Interview with Anil Sood and William Rex, 1 February 2002, World Bank, Washington, D.C.

actually backfired and “created stress, job insecurity, and poor morale as staff competed with each other for work. It also resulted in protectionism with budgetary disincentives to using people from other units” which directly counteracted the intended outcome of greater cross-organizational collaboration between research divisions, sector networks, and operational units (World Bank, 2001a: 42). In one assessment it was further noted that the internal market system inadvertently opposed knowledge sharing, despite this intended function of the Bank’s new thematic networks, as “budget downsizing and job insecurity create incentives for staff to hold onto knowledge as a form of power.” As a result, the “Knowledge Bank” has remained ‘unhealthily supply-oriented’ and the inward-looking incentive of seeking the internal approval of organizational superiors persists, as staff proactively seek out venues for their ideas and services (World Bank 2001a Annex3: 11, 24).

(2) Project Management: Safeguard Policies and Performance Measurement

As noted by critical external observers and NGO activists, the internal market system has also undermined on-going attempts to increase internal attention to safeguard and other environment and social assessment procedures in the design, appraisal, and implementation of projects.¹⁴ As noted in a recent report by the OED, for example, the Environmental Department’s loss of budget control to Country Directors and the subsequent need for environmental specialists to ‘sell’ their services in an internal competitive market has dampened incentives for project task managers to hire environmental specialists who carry out lengthy and expensive environmental assessments that may hold up or add to the total costs of project preparation or supervision (OED, 2001b and Rich, forthcoming: 40). Likewise, whether or not National Environmental Action Plans and other environmental or socially-related concerns get integrated into the Bank’s overall lending strategies is often highly contingent

¹⁴ Interview with Kay Triekle, Executive Director of the Bank Information Center, 31 January 2002, Washington, D.C.

upon the particular interests or sympathies of Country Directors, who exercise considerable influence over who or what obtains input into the composition of the decisive Country Assistance Strategies.¹⁵

On a related note, it is somewhat surprisingly that the original Compact plan did not give attention to safeguard policies at all, considering how this is of central concern to many external critics. According to the assessment reports, this was resisted for the most part by the borrowing country governments, who saw higher standards for compliance with environmental and social safeguards (such as in the case of the Involuntary Resettlement and Indigenous Peoples policies) to contribute once again to higher costs, time delays and overly strict conditions in project preparation, loan approval and supervision (World Bank, 2000: 5 and 2001a: 18). Neglect of this issue has facilitated the Bank's ability to pursue its aim of becoming more responsive to its Part II member state governments (if not their populaces) and has consequentially also reinforced the preexisting disbursement imperative and approval culture. As a result, the increased accountability standards and compliance associated with safeguard policies has contributed to a emerging risk-aversion among staff seeking to please their superiors and borrowing governments. Anecdotal evidence cited in a recent report by the Quality Assurance Group suggests that some managers are actually discouraging staff from tackling operations that might trigger these policies (QAG, 2001: 16). The recent renewed attention to compliance issues is in large part due to a growing awareness of the "reputational risks that any non-compliance with such policies might pose for the Bank" (World Bank; 2001a: 18).

This risk-aversion has also affected project implementation, particular in how project performance indicators are monitored and reported. The Compact period created tremendous pressure on managers and project staff to produce performance results that would show improvements across the board in project quality at entry, the likelihood of sustainability and the

¹⁵ This problems was discussed at length in an informal discussion at the Tuesday Group meeting of NGOs, Oxfam International, Washington D.C., 5 February 2002. See also OED, 2001b.

potential for institutional development impact.¹⁶ A parallel imperative in the Bank's espoused "results-oriented culture" is showing a decline in the number of projects in the Bank's overall portfolio that are "at risk" for implementation failures or little or no development impact. However, the QAG Annual Report on Portfolio Performance 2001 warns that top-down pressure may be compelling project team (task) managers to underreport risks, and as such the magnitude of the improvement in this category may be seriously exaggerated (QAG, 2001: 14). The implication is that internal pressures to produce desirable ratings and cultural norms favoring excessive optimism in appraisal and supervision exercises have continued to prevent the kind of blunt evaluation necessary to prevent a rise in the number of projects at risk as the Bank's overall portfolio moves in considerably more complex and demanding areas of lending (OED, 2002b: 9).

Persistent, chronic weaknesses in the formal mechanisms and incentives governing monitoring and evaluation are further impeding the Bank's shift towards the desired results-oriented culture. Despite the recommendations of the Wapenhans Report and the articulated goals of the Compact, staff still tend to focus primarily on the project inputs rather than the process of implementation and attention to issues of sustainability, indicating that the Bank is far better at take-offs than landings and fueling current debate about the effectiveness of foreign aid. Current statistics on supervision evaluations support this assertion, showing continuous problems in the managing on-going projects that are considered at risk. For example, thirty percent of sampled projects in the QAG's 2001 Annual Report on Portfolio Performance scored less than satisfactory on monitoring and evaluation criteria (QAG, 2001: 24). Moreover, the attention to the dramatic improvement in the percentage of exiting projects showing satisfactory or better outcomes is dampened by the modest

¹⁶ As noted by many others already, the pressure to show performance improvements has put demands on staff to continue to be overoptimistic in their own reported evaluations of project outcomes, sustainability and potential institutional development impact, contributing to a continued "disconnect" between these positive staff evaluations and the independent evaluations conducted after project completion by the Operations Evaluation Department (OED, 2001a; OED 2002a; and QAG 2001, 21). Others suggest that the top-down pressure to produce ratings in line with

and even dismal statistics on the current percentage of projects promising likely or better sustainability after completion (70%) or substantial or better institutional development impact (only 56%) (OED, 2001: table 7).¹⁷ Beyond the confusion in the extent of the Bank's versus borrower's role in monitoring and ensuring compliance during implementation, managers and staff still remain unconvinced that good quality supervision is recognized or rewarded in the same way as lending work. As a result, despite increases in resources devoted to supervision, the focus is still on upstream rather than downstream project management as under the preexisting approval culture, and supervision remains the first item to be cut in any of the regional budgets (Bank Information Center, 2001).

(3) Partnerships and Participation

In any situation, achieving coordination and cooperation and defining areas of “comparative advantage” between foreign aid agencies is often a nearly impossible task, trying to reconcile competing mandates and running up against fiscal year deadlines for financial disbursements (Tendler, 1975; DAC, 1996; Kanbur, Sandler, and Morrison 1999; Berg 2000). The Compact assessment notes the Bank's lack of progress in pursuing the espoused partnerships, stating that “there needs to be an increased desire to cede responsibility to other players if they have a greater comparative advantage” (World Bank 2001a).¹⁸ In a decidedly more cynical view, Alex Wilks of the Bretton Woods Project argues “whilst the mantra of ‘partnerships’ is normally invoked, people in UN institutions and in NGOs feel that the Bank frequently dominates the sectors and tries to achieve

Compact targets also compromised the autonomy of the OED and QAG, leading to some doubt over how the numbers are reported and linked to performance targets. See, for example, Wade, 2001b and Rich, forthcoming: 49-50.

¹⁷ The OED report also warns that these ratings are determined in part by the self-evaluations of task managers and project staff, thus implying that even here there may be excessive optimism.

¹⁸ Selectivity and partnerships were also the subject of the OED's 2001 *Annual Review of Development Effectiveness*. See OED 2002b.

prominence for itself” (Wilks, 2001: 2).¹⁹ The aspiration of the Bank’s Comprehensive Development Framework to let go of areas of lending and non-lending activities is belied by the Bank’s attempt to define itself as the Knowledge Bank based on a wide venue of cross-sectoral expertise and the recent Strategic Framework Papers that established the Bank’s ‘core competencies’ to encompass everything from “empowerment, security and social inclusion; the investment climate; public sector governance, education, and health” (Wolfensohn, 1999; World Bank, 2001c). Moreover, one explicit impetus behind the Compact was the decline in the Bank’s overall lending portfolio, compelling the reform to refine new development agendas and find new outlets of lending that would expand the Bank’s current lending volume and thus secure its future business. Gwin (2001: 6) argues that the Bank still sets quantitative lending targets for particular sectors, lending instruments or groups of countries, which are “in practice, disincentives for greater programmatic and country selectivity.”

More critical, however, is the Bank’s shortfall in achieving its goal of increased participation of NGOs, local civil society groups, and other “stakeholders” in all areas of its development activities. This participation agenda has been strongly pushed by actors outside the Bank, particular NGOs and epistemic communities of scholars who critically pointed out that the so-called ‘beneficiaries’ of Bank-sponsored programs often did not have a say in their selection, design and implementation. Supported by a strong coalition of actors within the Bank particularly in the environmental and social development departments, as well as Wolfensohn in his Comprehensive Development Framework, the Bank now carefully keeps track of the amount and type of input by these groups into Country Assistance Strategy papers, Poverty Reduction Strategy Papers, and

¹⁹ Several interviews with various aid agencies in Moscow during the course of this research revealed similar arguments, with the common perception that the sheer size and status of the World Bank tends to crowd-out other voices, with most attempts at coordination of activities consisting of pure informational meetings or invitations to ‘go along for the ride’. (Interviews with the AFL-CIO, EU TACIS, Ford Foundation, and USAID staff; Moscow, Russia, September-October 1999).

specific projects; pointing out the significant increase in participatory activity over the last several years.²⁰

However, the quantitative increase in levels of participation has not necessarily led to an internalization of the participation agenda in terms of how management and staff perceive the value and necessity of this input and integrate it into existing project management routines. Although it is clear that many Bank staff strongly believe in this purpose, the amount of time and cost entailed in carrying out extensive consultations and soliciting feedback clashes with the existing approval culture and the Bank's other reform goal of streamlining project preparation and disbursing development loans more quickly in line with borrowing governments' demands. Therefore, one of the primary complaints of NGOs during the past several years is that the quantity of participation has not necessarily translated into quality participation, as consultations are often conducted with a limited number of local groups given little forewarning or preparatory documentation.²¹ This is likely to become an even more contentious issue within the context of the growing demand for debt relief, as the trade-off between the speed of debt write-offs and the demand for adequate consultation processes of the prerequisite Poverty Reduction Strategy Papers becomes evident.

Ideological Shifts?

Beyond the formal assessments of the specific reform strategies enacted under the Compact initiative, there are other instances where the organizational culture of the Bank has persisted in varying degrees, limiting the extent to which the organization has been able to fully embrace and

²⁰ World Bank (2001a Annex 2) notes, for example, that approximately 75% of the Country Assistance Strategy Papers prepared for 2001 contained significant levels of consultations with NGOs, civil society organizations, and other potential stakeholders and beneficiaries. The Compact assessment also points out that increased participation has been greatly facilitated by the decentralization process of the reform initiative, which has placed Bank staff in closer and more frequent contact with local groups. However, the most damning evidence of the gap between the desired and actual behavior of the Bank regarding the participation agenda lies in the client surveys, revealing that only 14% of the sampled borrowing country representatives believed the Bank's performance to be average or above in terms of helping to strengthen civic participation in national development efforts (World Bank, 2001a Annex 1: 8).

“mainstream” shifts in its espoused development agendas and practices. This is the inertia in the ideological culture of the Bank, resting on a hegemonic triad of economic, apolitical and technical rationality, that has proven perhaps even more impervious to formal structural change than the organization’s underlying norms and routines.

As well-established in scholarly work on the Bank, the attempt to “refocus on the development agendas” has led to adaptation rather than the extensive learning, as defined in the previous theoretical section. The quantitative shift in the Banks staff skills mix towards the new “priority” sectors as part of the Compact may have countered the physical dominance of economists at the Bank and may eventually lead to a meaningful shift in how the “Bank” as a collective set of actors “thinks” about development,²² but this has not spontaneously disrupted the economic heterodoxy within the Bank’s development approaches. Several informal interviews confirm non-economic social scientists within the organization feel compelled to adapt their ideas to the theoretical and methodological language or ‘discourse’ of prevailing economic theory, whether it be the neoclassical economics prominent in the 1980s or the current fashion of new institutional economics, in order to influence conceptual and operational reality in the Bank.²³ Cernea’s (1995: 15) lament that non-economic social scientists “did not land in an intellectual vacuum” but rather “landed onto an in-house culture unfamiliar and resistant to this new socio-cultural knowledge and expertise” is echoed in many recent commentaries on the manifestation of new development ideas within the Bank.

²¹ Informal discussion at the Tuesday Group Meeting, Oxfam International, Washington, D.C., 5 February 2002. See also the internal report on participation in World Bank 2002.

²² See Stern (1997) for a description of the hiring and promotional practices of the World Bank pre-1991 which firmly established the dominance of economists within the institution. While the staff turnover has placed more individuals within sectors or departments focusing on the defined priority areas, there is no publicly available data on their academic or professional training to determine whether or not there remains a bias in hiring and promotion towards individuals with specific backgrounds.

²³ See for example, Ferguson, 1990; Kardam, 1993; George and Sabelli, 1994; Naim, 1994; Nelson, 1995; Escobar, 1995; Miller-Adams, 1999; Williams, 1999. See also the discussion of paradigm maintenance in Wade, 1996.

Take, for example, the comments of Bebbington at a recent Bank workshop. In referring to the struggle of social development groups to impact the core agendas and operations of the Bank, Bebbington (2002) suggests that the concept of social capital be linguistically defined and methodologically quantified in a way that would enable conversation within the organization.²⁴ Despite his apparent unease with the idea of the concept of social capital capturing all aspects of social development, he pragmatically recognizes that “whether or not ‘social capital’ is ultimately the best way of talking about the social foundations of a fairer and more humane world, it is incumbent on the group carrying forward a social development agenda to continue seeking a way of talking about their work that might permeate the languages, thoughts and practices of others within the institution” (Bebbington, 2002: 5). McNeill, in a discussion on the Bank’s approach to the concept of sustainable development, concurs and explains the predominance of economics thinking in the Bank as due to the discipline’s quantifiable, reductionist and technocratic appeal missing in much of non-economic social science that endows economics with a “special status when it comes to the making of policy” (McNeill, 2001: 6).

The sources of this ideological persistence preventing organizational learning and instead inciting adaptation with respect to shifts in development paradigms is perpetuated by other cultural traits of the Bank. Past the inevitable bureaucratic inertia in rethinking taken-for-granted models and routines,²⁵ the juxtaposition of the Bank’s image as an open, self-critical organization eager to engage in debate versus the many recent examples of the pervasive intolerance of dissent indicates the limits of the organization in challenging its own past development ideas and practices.²⁶ Pereira da Silva (2001: 562) argues, for example, that “...a more democratic and open culture of internal discussion,

²⁴ See also Woolcock, 1998.

²⁵ See, for example, two very interesting discussions by senior Bank officials on the organization’s response to the East Asian financial crises, in which the Bank attempted to apply the standard economic analysis and rescue packages that ultimately backfired in this very different context. (Stiglitz, 1999; Pereira da Silva 2001; 562)

²⁶ See, for example, the now infamous cases of the dismissal of Bank chief economist Joseph Stiglitz and the resignation of *World Development Report 2000/2001* lead author Ravi Kanbur (Wade 2001a).

positive incentives to express dissent and transparent mechanisms to reward the quality and pertinence of work would certainly help to avoid the blind application of recipes to any crisis, any situation, and any country.”

While journalists, scholars and Bank staff members have in many instances blamed President Wolfensohn personally for this phenomenon, it is clear that it is an problem endemic to the entire organization, particular between levels of management and staff.²⁷ In a recent contribution to the World Bank Staff Association Newsletter, Ellerman (2001: 3) attacked senior management for “enshrining their Official Views” and making it clear that “those who argue against Official Views outside the organization – particularly with any public notice – are seen as traitors being disloyal to the organization itself.” In a more critical indictment of the Bank’s culture, a leaked internal memo from the Middle East and North Africa department (2001: 1) linked this intolerance of dissent to the more general growth in distrust between management and staff members during the entire reform process. The memo claimed that “the management rhetoric of teamwork, culture, ethics, accountability are the mantra adopted by senior management but which we see practiced far too rarely.”²⁸ In response, one critical conclusion of the Compact assessment is the need for managers to role model the espoused values and behaviors of the reform in order for staff to internalize new cultural norms (World Bank, 2001a: 55).

In conclusion, the implementation and outcome of the Compact reveals clearly that the reform strategy overemphasized structures and systems as change levers (World Bank, 2001a: 44). In doing so, the reform initiative largely neglected the process of informal institutional change in the

²⁷ For indictments of Wolfensohn, see Fidler 2001 and Rich 2000 and forthcoming. Rich, for example, cites an internal letter from Wolfensohn to the Bank staff on 1 June 1995, saying “I will regard externally-voiced criticism of the Bank – of ourselves – as an indication of a desire to find alternative employment.” (Rich, forthcoming: 5). See also the internal memo of the Middle East and North Africa Department (2001, 2): “We do not think that the President receives honest feedback from his senior managers. He does not welcome criticism or tolerate dissent, be it from the Board, or the managers, or the Staff Association. Managers at all levels live under fear. Many have learnt that it services them to agree with him. He is thus isolated from reality.”

underlying ideologies, norms and incentive structures governing practice that would overcome internal resistance and lead to a meaningful and sustainable change (learning) in organizational behavior aligned with the desired image of the new Bank. This is complicated by the recognition that even targeted attempts at identifying and changing the organizational culture have led instead to various degrees of adaptation or retrenchment of the status quo -- producing uneven results and cognitive and behavior shifts that are “not sufficiently embedded to withstand high stress” (World Bank, 2001a: 43).

As a result, the Compact assessments admit that the reform process will need to continue: Although the Bank recognized the challenge of cultural change at one level, it underestimated the sustained attention and discipline needed over time to make a significant shift. The Bank’s culture runs deep and was long in the making, and achieving the vision will be a formidable endeavor requiring patience, commitment and resources. In this perspective, current achievements should not be minimized, and conversely no amount of commitment or resources will produce a transformed culture overnight. (World Bank, 2001a Annex 8: 6-7)

RETHINKING IO CHANGE: A NEW WORLD BANK?

The empirical case study offered here of the World Bank’s Strategic Compact reform initiative reveals that the process of change in international organizations in response to dramatic environmental changes is not spontaneous. Rather, the process of reform is triggered by a complex set of multiple external and internal actors and forces, contingent upon the particular relationship and degree of autonomy and influence held by the IO within its broader material and normative environment. Past this catalyst point, the *process* and *outcome* of change is shaped by the internal,

²⁸ This is confirmed by recent staff attitude surveys that report that only 18% of staff in 1999 responded favorably to the question of mutual trust between senior management and staff (World Bank 2001a, Annex 8, 9). See also Wade, 2001b

bureaucratic feature of organizational culture. This culture more often than not constrains the extent to which formal institutional modifications in the structures, rules, and espoused agendas of the organization will translate into deep behavioral shifts that go beyond status quo or limited adaptation to learning in the form of a fundamental changes in the underlying ideologies, norms and routines that govern the expectations and behavior of organizational members.

Although this only represents one inductive case study of IO change with limited generalizability, it invites scholars of international relations to open up the proverbially “black box” and to step across disciplinary boundaries to explore the intervening variable of organizational culture in equations of IO change. The difficulty in asserting such a theoretical framework is the inability to definitively measure and demonstrate the specific causal impact of the abstract and intangible concept of bureaucratic culture. Consequently, more research is needed on the role and impact of organizational culture in other international organizations and sophisticated analyses of their change behavior. We have used the case of the World Bank to generate some initial hypotheses and to provide empirical data points with respect to organizational culture as an independent variable for changes in and of IOs.

The pronounced awareness of cultural impediments to reform in the World Bank, as repeatedly demonstrated within formal written assessments, internal memos, official speeches, and interviews with staff, emphasizes that organizational culture is a critical variable in fuller, dynamic explanations of reform in this important international organization. In the end, as Hofstede (1991: 18) pointed out, corporate or organizational culture are “the psychological assets of an organization, which can be used to predict what will happen to its financial assets in five years' time”. Seen from that point of view, the World Bank may have run into financial trouble long ago.

for a discussion of how these staff attitude surveys have shown a steady decline in internal trust over the 1990s.

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