“Examining Results and Accountability at the World Bank”
Subcommittee on Monetary Policy and Trade
Committee on Financial Services, US House of Representatives

Written Statement of
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Mr. Chairman, Ranking Member Moore,

Thank you for the opportunity to testify this morning on the World Bank’s work in low-income countries. My name is Scott Morris, and I’m a senior fellow and director of the US Development Policy Initiative at the Center for Global Development, a non-partisan think tank for international development policy issues based here in Washington, DC.

Let me start with the observation that the World Bank is the leading provider of development assistance in the world, providing financing and technical expertise in nearly 150 countries globally. But by leader, I don’t just mean the bank is the largest. According to most independent assessments, the World Bank consistently appears as the most, or one of the most, effective development institutions globally on key measures of cost efficiency, project outcomes, and policy influence. These were the findings of multilateral aid reviews conducted by governments in the UK, Australia, Sweden, the Netherlands, and Denmark; by independent organizations like mine; and by an extensive survey of developing country leaders conducted by AidData, a US-based research organization.

I raise this point at the outset not in order to say “case closed” but to provide a broader context for considering important questions of World Bank reform and instances of project-level failures, as evidenced by the testimony of the other witnesses on this panel. Let me be clear: each of the cases raised here this morning represents unambiguous World Bank failings. When we look at the details of the Uganda project alone, it’s clear that no one should simply wave away a case like this as just one project out of the 1600 or so that they bank conducts each year.

I would like to offer a few observations on how to think about these cases of failure in the bank, three areas of reform that I think deserve consideration, and finally, I would like to offer some thoughts on the degree to which the United States, as the largest shareholder of the World Bank, can continue to exercise effective oversight and influence in this multilateral institution.

I. How to Think About Failure

Risk of failure is inherent in the work that the World Bank does, particularly operating in difficult environments, whether in very poor countries like Uganda, or countries beset by conflict like Afghanistan. Zero risk would essentially mean zero activity for the institution. The key questions are: how does the bank manage risk and promote effectiveness, and how well does it learn from its failures when they do occur?

Managing risk/promoting effectiveness. The bank has multiple layers of monitoring and checks aimed at promoting effectiveness and guarding against corruption. Consider two areas. First fraud and corruption: of the approximately 1600 active projects at the bank in a given year, the bank's investigative arm (INT) is typically investigating 50-60 substantiated cases of fraud and wrongdoing. In these cases, the INT office is aggressive in its response, employing debarment of firms from bank procurement and working with local authorities to pursue prosecutions. Separate from INT, the bank also has an independent complaints mechanism, the "Inspection Panel", with origins in your committee. By receiving and evaluating complaints independently, the panel plays an important role in the bank's system of checks and balances.

Second, if we look more broadly at the *effectiveness* of World Bank projects (are they having the impact that is intended?), one important measure here is the degree to which the institution is even trying to answer that question. This may seem obvious, but the critical function of program evaluation is often sorely lacking in many public agencies and institutions. So, whereas the World Bank, through various independent mechanisms, conducts hundreds of project and program evaluations each year (and through sampling methods is able to assess overall portfolio performance), a recent GAO report determined that the Department of Defense (DoD) had conducted just four evaluations within its $8 billion foreign assistance programs in 2015, and none of them was determined to be high quality.

Further, the World Bank has made considerable strides in recent years toward making its internal data public so that independent researchers and evaluators can conduct their own assessments of bank projects and programs. One of the failings at DoD identified by GAO was the lack of transparency in reporting program results.

Learning from failures*.* What's the evidence that the World Bank learns from its failures? It's notable that the bank's board of directors just recently approved a $230 million road project in Bolivia, in which risks similar to the Uganda project associated with a large influx of labor were identified and actively mitigated as part of the project design. More systematically, the bank has also launched a Gender-based Violence Task Force, which should in part help to address a longstanding problem within the institution of compartmentalization of lessons learned within one region or sector.

Finally, we should keep in mind that financial risk is largely borne by the country. Unlike most US foreign assistance, which is disbursed as grants, World Bank support, even in low-income countries, is typically in the form of a loan with varying degrees of subsidy. And for various reasons, countries almost never default on World Bank loans. The financial strength of this model is reflected in the recent AAA rating for World Bank bonds linked to IDA's lending to low-income countries. So, we absolutely should care about corruption to the degree that it jeopardizes the underlying development projects in these countries, but we should also recognize that it is not a problem that has ever put the bank itself in any kind of financial jeopardy.

II. How Can the World Bank Do Better?

Nonetheless, a significant number of World Bank projects fail to achieve their intended outcomes, and a non-negligible number of projects fall victim to fraud and corruption. How can the bank do better?

- First, greater reliance on results-based mechanisms like the Program for Results, which both empowers the client country and shifts more of the burden of delivering measurable outcomes onto the countries. The bank and the country agree at the outset on appropriate standards of oversight and a set of desired outcomes (such as an increase in literacy rates through education funding, or a reduction in travel times through a road project), and the bank only disburses money if those outcomes are achieved. Early evidence from P4R suggests that it is achieving good results, and it will be important to see how well these results-based projects perform over time in comparison to traditional bank project lending, which simply disburses funds to pay for project inputs (textbooks in schools, or asphalt for roads).

- Second, as much as I believe that the INT office works aggressively to respond to allegations and evidence of corruption, I also think we would have a stronger overall evidence base for the bank's performance if INT had the capacity to conduct randomized audits of bank projects each year. So, not just responding to signs of corruption, but proactively reviewing a random selection of projects where no such evidence exists. The selections could be targeted to projects that fall within key areas of risk (countries, sectors, etc.).

- Third, the bank is taking some steps toward adopting new technologies to improve project accountability and performance. I think they could move more aggressively in these areas. For example, recognizing the remarkable degree of smartphone coverage even in the poorest countries, the bank could be deploying apps that enable both whistleblower-type reporting, as well as more transparent community-level ratings of bank projects. Think "Yelp" for World Bank projects.

III. How Can the United States Do Better?

The last point I would like make relates to the role that you play, and more generally the role of the United States government in driving reform efforts in the World

Bank. The United States is the largest shareholder in the World Bank, but in practice, US influence in the institution in key areas has typically come through its donations to the World Bank's International Development Association (IDA). As the largest cumulative donor to IDA since its founding in 1962, the United States, and particularly the US Congress, has effectively leveraged these resources to shape policy in the institution in areas like anti-corruption with the creation of the independent inspection panel, bank safeguards and procurement rules, and key aspects of program evaluation.

US IDA commitments have also helped to shape World Bank engagement in key countries and situations of US interest, such as supporting Jordan's hosting of a massive influx of refugees from Syria, efforts to contain Ebola in West Africa, and just this week, a $1.6 billion commitment to address the unprecedented famine in Sub-Saharan Africa and Yemen.

Given the uncertainty of foreign assistance funding this year, it is worth recognizing what US IDA contributions deliver for US taxpayers: an institution that is widely recognized as either the best, or among the best, sources of development finance and expertise in the world; and a mechanism for leveraging very modest US contributions (representing two-tenths of one percent of the defense budget) into IDA assistance to 77 low income countries on the order of $25 billion a year. And as the bank continues to pursue innovations in its financial model, that leverage will get even better for the United States.

But steering the bank's work requires active engagement, which in turn continues to rely on a strong US pledge to IDA and a commitment to honoring that pledge.

Finally, it is worth considering the role of these contributions in a broader context – both the World Bank's role and performance relative to other international organizations, and the role of these institutions relative to the capabilities and functions of bilateral programs at USAID, the MCC, and OPIC. I would encourage you to consider a formal review of the foreign assistance toolkit as a way to inform and guide any major changes to the foreign assistance budget over the next year. All told, these programs (bilateral and multilateral) represent less than one percent of federal budget outlays. It is well worth a rigorous test of their cost effectiveness and alignment with US interests in the world before proceeding with deep cuts, program eliminations, or consolidation. So I would urge this committee to take part in such a review from the standpoint of your jurisdiction over the multilateral institutions.

Thank you again for the opportunity to share my thoughts and I look forward to your questions.