ARE WORLD BANK CLAIMS OF SUCCESS CREDIBLE? IT IS TIME FOR AN EXTERNAL PERFORMANCE AUDIT

by
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The Enron debacle proves once again that fact-finding missions are suspect when they do not stand at full arms length from their subject. At the German government employment office, scandal arose when claims of 50% placement rates were sliced to 17% by the national equivalent of our General Accounting Office. Corporations always seek to elevate the price of their stock; government institutions always wish to expand their funding. External auditors are there to pierce the film of self-congratulation and to provide the transparency that protects the public interest.

After 50 years and $500 billion of aid, we have no evaluation of World Bank performance except the one it chooses to promote. The Bank boasts that for projects completed in 2000-2001, 78% had satisfactory outcomes according to "independent evaluation". But, when the auditors are captive, when the timing of judgment is premature, when the criteria are faulty and when the numbers are selectively chosen--then the conclusions are worthless. No matter how many volumes are compiled or how many graphs display the upward slope of improvement, the fundamental computer maxim of "Garbage in, garbage out." holds true.

The World Bank is now seeking replenishment funding for the International Development Association (IDA), the arm of the Bank dedicated to lending at near zero interest rates to 72 of the globe's neediest nations. Every three years the demand is repeated; world-wide donor totals now reach $13 billion per cycle. The amounts for the U.S. share alone are significant: $2.4 billion in 1999, $2.5-2.8 billion in 2002, ? in 2005.

Sums this significant must be weighed against alternative uses. Taxpayer resources should not continue to be committed without knowing the truth about the effectiveness of Bank programs.

Only ¼% of the U.S commitment to IDA funding for the next three year cycle would pay for a truly independent evaluation to measure recent results and to establish a benchmark from which to gauge progress in the efficacy of aid. The condition of an external performance audit of IDA programs together with provision for its financing should be written into the upcoming appropriation.[1]

[1] Senator Crapo of Idaho and Senator Enzi of Wyoming focused on the issue of an external performance audit of World Bank programs in the 106th Congress. See S. Con. Res. 136 in the 2nd session.

Independence: Purely Cosmetic

Independent normally denotes freedom from control or influence. Yet the Bank's Operations Evaluation Department (OED) is a department of the Bank, staffed by Bank employees on a rotating tour of duty except for the Director General. A revolving door that leads back to standard line jobs and advancement in the Bank does not foster disinterested and rigorous judgment calls. A temporary change of desk and a new nameplate do not alter the signature on the paycheck. The Executive Board, to which the group reports, is passive at best. Because results are published, there is strong pressure to display performance gains by what is promoted as the "New Bank". Outside verification is precluded because there is no public access to the underlying data.

Timing: Too Soon

Results cannot be measured before the fact. At the Bank, outcome is defined as "likelihood" and rated by the loan officer at the time of final disbursement of funds, often years before physical plants are up and running. Generalized adjustment programs, which now represent almost 40% of total lending, receive the most elevated marks. Their time horizon extends far into the distant future since promised reforms will require many years to impact the economy and often are never implemented. What the Bank proclaims as results are really only projections made at a moment when optimism is high.

During testimony before the International Financial Institution Advisory ("Meltzer") Commission in early 2000, World Bank President James Wolfensohn was asked: why does the Bank measure its success at the time of the last loan disbursement and why is performance of programs not scrutinized routinely, four or five years later, after an operating history is available? He responded: "I've asked the same questions...Why do we measure the data from the date of the last (loan disbursement) payment?" But after six years of the "New Bank", even a simple change in timing has not been forthcoming.

Decisive information is still lacking when 25% of project reports are audited by OED, most between six months and three years after the first evaluation by the loan officer. If performance were measured after an operating history is established, success rates would be verifiable and, in all likelihood, substantially lower.

Seldom does the Bank return to inspect long-term project success. Only 5% of World Bank programs receive <u>Impact Evaluations</u>, undertaken 3 to 10 years later. These do not measure project results but dwell upon important but highly subjective calls such as improvements in the environment, the role of women, the interaction of societal institutions, income distribution and general welfare. 30% of internal investigations found that a lack of monitoring precluded valid judgments. Though the Bank devotes significant resources to the supervision of the procurement of inputs, little effort is expended to measure the effective, concrete product of programs.

Criteria: Long Term Impact Shortchanged

For the Bank, "satisfactory" runs the wide and undifferentiated gamut from marginally satisfactory to highly satisfactory and can be highly subjective. Sustainability, the sine qua non of development, is relegated to a separate column and to secondary status. This is "the likelihood that the project will maintain its results in the future…[and] whether, given the risks, future benefits are likely to exceed debt service payments, operation and maintenance costs." While the Bank boasts of 71% satisfactory outcomes in the 1996-99 period, only half of Bank projects overall and 38% in poor countries met the Bank's sustainability test. How can a project that does not meet this minimal standard be rated "satisfactory"?

Does it matter whether the school was built on time and under budget if no children learn to read? As Bank President Wolfensohn testified before the Meltzer Commission: the Bank can have "a very satisfactory program of building schools…(but) (i)f we have not simultaneously dealt with roads to get the kids to school, teacher training…, you won't have a successful long term project."

The Numbers Game: Bait and Switch

When the numbers take a sudden upward turn, has there been true improvement or has the bar been lowered? After the publication of the Meltzer Commission report in 1999, sustainability ratings that had stagnated at 50% for years jumped to 72% in 2000. Statistics can also be selectively chosen and spotlighted. Some years the Bank's annual report focuses on performance by numbers of projects (1998 and 1999), other years by the dollar amounts of lending (2000) whichever provides the more favorable image. Even on the same page, the basis switches for different measures.

Need for an External Audit

Debate over the numbers leads nowhere if words like "independent" and "outcome" and "satisfactory" have misleading meanings. Why not establish truly impartial audits by private sector firms to examine, on site, the lasting contribution of IDA projects after a three to five year operating history. Individual program audits and aggregate evaluations of performance would be published and the exercise repeated every three years to provide a continuing benchmark for Bank efforts in the poorest countries.

$5-7 million dollars, or just ¼% of the U.S. commitment to this replenishment cycle, would cover the cost of a performance audit of one third of IDA programs over the 1997-99 period. Auditors would report directly to the legislative and executive branches of the Group of Seven governments. The General Accounting Office and its G7 counterparts would review the results of the audits and the aggregate evaluations and report to their legislatures on the methodologies and quality of the procedures.

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

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

It is widely agreed that rich countries must commit ever more resources to building a better life for the world's poor. On behalf of global taxpayers -- both the poor recipient citizens who labor in want to repay unproductive loans and the donor constituencies who provide the financing and must make up the shortfall when debt is forgiven -- World Bank stewardship must be under serious and continuous external review. The Bank must become the example of the standards of accountability and transparency that it promotes to its borrowers. Provision for a tri-annual external performance audit must become a condition of all appropriations from this year forward.