"Our Poverty Is a World Full of Dreams:” Reforming the World Bank

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Under what circumstances do international organizations change their operations and routines? Examining the recent Strategic Compact reform initiative, we argue that change in the World Bank is “triggered” by a complex set of factors stemming from changed interests and norms in the Bank’s environment. The process of change, however, is something shaped by organizational culture, which is defined as the deeply embedded ideologies, norms, and routines that govern the expectations and behavior of bureaucratic staff. This organizational culture represents the internal friction that propels change in a slow, path-dependent direction that produces outcomes that are not necessarily congruent with the preferences of the organization’s powerful shareholders or the intentions of internal reform initiators. Keywords: World Bank, Strategic Compact, organizational culture, organizational reform, James Wolfensohn.

Perhaps the most succinct description of the World Bank in this past decade is that of an international organization that is “overstretched and underloved.”2 The Bank is simultaneously faced with declining levels of official development assistance, a rapidly expanding development agenda, and increasing competition from private capital and other aid agencies. This is compounded by mounting criticism from vigil ant and vocal nonstate actors, which is compelling the international organization (IO) to adopt new policies that hold it to an unprecedented level of transparency and accountability. Internally, a series of scathing evaluations of the Bank’s past performance indicted many of the bureaucratic policies and practices that contributed to its declining effectiveness.3 Thus, when James Wolfensohn entered office as president in June 1995, one of his first acts was to proclaim his intention to fundamentally change the institution.4 The response was an ambitious U.S.$250 million, thirty-month reform initiative named 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 defines and pursues its core mission of alleviating world poverty.
Despite widespread consensus on the need for reform, fundamental organizational change has proven elusive. This constitutes a puzzle for scholars of international organizations. Realist and rational institutionalist theories say little about IO change or naively predict that member states may adapt IOs at will. Principal-agent models correct this by examining how varying degrees of IO autonomy and heterogeneity among member state demands may buffer IOs, who evade reform pressures until principals sort out their differences and collectively apply control mechanisms that realign the incentives and behavior of the organization. The literature on transnational advocacy networks examines how nonstate actors may incite IO reform by employing tactics of information, symbolic, leverage, and accountability politics. Constructivist approaches more broadly envision change as reflecting ideational shifts in epistemic communities and discursive structures constituting the normative environment of IOs. Certainly, these varying accounts of the external factors driving IO change are essential. Yet the tendency to “black box” the IO in all these approaches neglects critical factors internal to bureaucracies that may better explain the pace, degree, and specific outcomes of organizational change.

Indeed, recent 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 deeply rooted organizational culture. Defined here as the ideologies, norms, and routines governing the expectations and behavior of the bureaucratic staff, this culture exerts a path-dependent effect on organizational change, limiting the extent to which reform initiators are able to go beyond modifications in formal structure and rules to disrupt underlying informal values and incentives needed to incite meaningful and sustainable changes in organizational behavior. Not surprisingly, 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 resistance and has in some cases backfired. In either instance, what the experience of the Strategic Compact (henceforth the Compact) indicates is that a fuller understanding of the complex dynamics of IO change must address both the systemic factors triggering demand for change and the internal bureaucratic features that shape the execution and outcome of strategic reform.

We begin our case study by examining the various external factors that catalyzed the Compact initiative during the 1990s. Here we describe the Bank’s bureaucratic character, focusing on the dominant culture that
was vilified in past reform attempts and whose transformation was thus explicitly pinpointed as central to the change initiative. In the next section, we briefly describe the Compact’s methods and its portrayed successes in official Bank publications. This is then followed by a section in which we highlight the tensions and conflicts encountered during the implementation of the Compact, illustrating where organizational culture impeded reform goals. In the last section, we discuss more broadly the role of culture in the study of IO change.

“Triggering” Reforms of the World Bank

The External Factors

The dramatic shifts in the Bank’s environment in the past decade have stimulated widespread pressure for reform. Most visible are the changing interests of the major donor member states. Collectively they possess the most direct means of influencing the Bank’s activities via their capital subscriptions to the International Bank for Reconstruction and Development (IBRD); the triannual replenishments of the International Development Association (IDA), the soft loan window of the Bank; and their weighted votes within the Bank’s board of executive directors. With the collapse of the Soviet Union and the vanishing imperative of containing communism, these donors found much of their political rationale for supporting development aid disappear. Concern over domestic budget constraints and waning public support prompted these countries to scale back development funds while simultaneously scrutinizing the past effectiveness of aid programs and the perceived “bureaucratic flab” of overpaid and undertaxed international bureaucracies. 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 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. As a result, the Bank tackled issues ranging from the transition of postcommunist economies, to the rebuilding of societies torn apart by ethnic conflict, to the spread of HIV/AIDS, to debt relief, and most recently to poverty as the roots of international terrorism.

Various official Bank reports consistently identify pressures for reform as coming from the organization’s borrowing countries. Even though the number of borrowers has increased, their demand for Bank services appears to have stagnated in the 1990s. The Bank attributes
much of this to growing discontent with the strict conditions placed on Bank loans, such as costly safeguard and fiduciary requirements, as well as criticism of past projects and structural adjustment lending. Moreover, borrowing governments are quick to complain about slow and inflexible bureaucratic procedures, leading to delays and excessive red tape during loan appraisals and negotiations. Given the importance of client demand to the Bank’s continued viability as a business, the need to appear more responsive to client demands is central to the Bank’s reform process.

Beyond pressures stemming from the Bank’s principals, there are important structural processes and nonstate actors catalyzing change in the organization. Key here is the tremendous increase in private capital flows to developing countries. In the past decade, private capital climbed to nearly five times the amount of total official development assistance. Much of this translated into abundant, unconditioned private sources of money for revenue-earning infrastructure, transportation, and energy projects that traditionally represented the bread and butter of the Bank’s lending business. Despite the argument by Bank officials that a large majority of this aid goes to a very small number of developing countries, critics viewed this data as evidence that the Bank was no longer needed to fulfill its original mandate of facilitating foreign investment and economic growth. When private capital flows suddenly declined after the financial crises in East Asia, Russia, and Brazil in 1997–1998, demand for Bank loans rebounded but also introduced the daunting task of using development aid to cope with the global risks associated with unfettered financial globalization. The volatility of private capital flows 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 nonlending 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.

Apart from powerful shareholder countries, nongovernmental watchdog and civil society organizations generate considerable pressure for Bank reform. Lacking the financial teeth of the Bank’s principal states, these nonstate actors have nonetheless inflicted injury to the Bank’s external legitimacy by publicizing the devastating effects of several Bank projects. Growing from a small protest movement surrounding the Bank’s large infrastructure projects in the 1980s, such as the infamous Polonoroeste road project in the Brazilian Amazon, there are numerous
nongovernmental organizations (NGOs) that sprout up around any Bank-funded project that has the potential to harm the human rights and security of the local population and environment. By intensively lobbying national parliaments (especially the U.S. Congress) during IDA replenishment negotiations, NGO coalitions are able to enact the member states’ power of the purse to compel the Bank to adopt a series of operational policies. These include new informational disclosure rules and requirements of environmental and social assessments during project appraisals, as well as the creation of an Independent Inspections Panel in 1993 endowed with the authority of hearing complaints about the Bank’s noncompliance with organizational policies from groups potentially or directly harmed by this negligence.

This transnational movement affects the Bank’s autonomy by holding the organization accountable for its practices. Moreover, the visibility of NGO actions, as demonstrated in the 1994 “Fifty Years Is Enough” movement and mass protests surrounding the International Monetary Fund (IMF) and World Bank annual meetings, attracts public attention to the Bank’s activities. Prompted by constituencies, this generates greater pressure on donor member countries to monitor and sanction the “deviant” behavior of the organization. In response, the Bank recently espoused a commitment to “participatory” and sustainable development that commits the IO to extensive consultations with NGOs and local civil society groups.

The Internal Factors

Awareness of the Bank’s need for reform was hardly held by external actors alone. A much-noted critical catalyst came from within the Bank with the 1992 report of the Portfolio Management Task Force, commissioned by then president Lewis Preston and headed by a longtime senior Bank manager, Willi Wapenhans. Building on a series of past internal evaluations and staff surveys, the report uncovered shocking statistics on the declining effectiveness of the Bank’s lending portfolio. Specifically, it found that the number of projects judged unsatisfactory at completion had increased from 15 percent of the sample evaluated in 1981 to 30.5 percent in 1989 and 37.5 percent in 1991. Within the total portfolio, the share of projects with major problems had increased to 20 percent in 1991, and cancellations of lending programs had increased by 50 percent from 1989 to 1991. Moreover, the report revealed a disturbingly low level of borrowers’ compliance with legal covenants attached to loans, with only 22 percent of all conditions fulfilled in 1991.
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. However, in a critical departure from previous reports, it focused on the organizational features undermining the Bank’s realization of development objectives. At issue were the bureaucratic characteristics that prevented the Bank from responding quickly to changing development priorities, creating an overreliance on universal, abstract development knowledge and “blueprint” project models that failed to respond to the specific needs of the Bank’s disgruntled debtor countries. The report directly condemned the Bank’s organizational culture. This culture was defined as embodying perverse incentive structures that created an “approval culture” and “disbursement imperative” in which staff were pervasively preoccupied with new lending and getting projects quickly siphoned through the multiple layers of senior management and the executive board. Although these cultural elements were targeted by the Bank’s external critics for years, to have the argument made by Bank staff using the organization’s own evaluation data served as a wake-up call for Bank management.

Several cultural norms and routines were specifically pinpointed as problematic. For example, because staff perceived rewards (such as promotions) to be distributed on the basis of lending quantity, the incentive was to seek out fundable projects even in the absence of client initiative. 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.” Moreover, project appraisals were excessively optimistic, overselling the project’s chance for success in order to get borrowing governments on their side and to get the board’s approval. The zeal to lend overshadowed attention to implementation planning and identification of 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, leading to discontinuity in project management and hindering ongoing supervision. This included monitoring borrower government compliance, assessing intermittent risks, and determining whether or not the project as designed was appropriate for achieving the original development objectives. Finally, the marginalized role of the Operations Evaluation Department (OED) and other institutional feedback mechanisms provided few pragmatic measures for holding staff accountable for project results.
The report’s leak to the public mobilized support for Bank reform. A critical turning point was the leadership change to James Wolfensohn, replacing the ailing Lewis Preston as president in mid–1995. Entering office a year after the watershed fiftieth anniversary of the Bretton Woods Institutions, Wolfensohn was eager to fundamentally change the Bank. He immediately took steps to appease the Bank’s critics by declaring a commitment to participatory development, socially and environmentally sustainable development, as well as hitherto “taboo” development issues such as anticorruption. Wolfensohn appeared most adamant about promoting an open and “results-oriented” culture.

Historically speaking, the Bank president exercises strong influence in the organization. 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 personnel and budget allocations. Therefore, when Wolfensohn openly criticized the past behavior and culture of the Bank and created a series of “renewal tasks forces” within the organization, he was widely perceived by internal and external reform advocates to be the decisive precipitating factor for launching Bank reform.

Generally speaking, however, there is no one factor driving change in the Bank. Rather, the reform impetus is the cumulative effect of changing interests and norms in the Bank’s external environment. Yet the relative autonomy and influence of the Bank, engendered over the past fifty plus years through its tremendous financial leverage and expertise, creates a degree of insulation from this environment. Such autonomy, in turn, privileges bureaucratic interests and incentives and can buffer the IOs from outside pressures for change, especially when these pressures are inconsistent with core organization values and practices. The intrinsic inertia of bureaucratic change—something well documented in organizational theory—is further perpetuated when multiple principals seek to push the IO in different directions, resulting in inconsistent marching orders. With this complex understanding of IO change in mind, we turn our attention to the Bank’s experience in implementing the Compact.

**Strategic Compact**

Launched in April 1997, the Compact reform program was portrayed as an agreement “between the Bank and its shareholders: to invest now in
order to deliver a fundamentally improved institution in the future—quicker, less bureaucratic, able to respond continuously to changing client demands . . . and global development opportunities, and more effective in achieving its main mission: reducing poverty.” Funded by a U.S.$250 million increase in the administrative budget over a three-year period, the Compact pledged a “renewal” of development paradigms and practices to fix past performance failures, to reinvigorate stagnant demand, and to respond to the growing criticism undermining the Bank’s external legitimacy.

The Compact was premised on four overlapping pillars. The first, “Refueling Current Business Activity,” was a direct response to the declining demand for Bank services and to claims that the Bank promoted development strategies detached from the reality of client needs. The goal was to make the Bank more responsive to borrowing countries’ interests by reallocating resources toward the “front line” of operations and moving away from “blueprint” lending to more country-specific programs built on improved measures of project management, economic and sector analysis work, and enhanced institutional self-evaluation. In order to shift the Bank from an “inward-looking” to a “results-oriented and country-focused” institution, the reform also entailed a dramatic decentralization of management and staff to field offices. More critically, this placed considerable control over administrative budgets in the hands of the country directors, who now contract out for staff services through detailed work program agreements aligned with the perceived needs of local clients.

The second component, entitled “Retooling the Development Agenda,” promised greater investment in neglected sectors, such as social-, environmental-, and governance-related projects. At the core of this plan are four new thematic networks situated between research, policy, and operational units and centered on the areas of Environmentally 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 attempted to reframe the organization’s basic identity as the “Knowledge Bank.” Recognizing the Bank’s “comparative advantage” among competing financiers as a global leader in development expertise, the Compact sought to create a “world-class knowledge management system” and to foster knowledge sharing within and outside the organizations to more actively link development research to aid operations. Using the thematic networks, management hoped to alleviate gaps between the Bank’s research and operations divisions, and to create internal feedback loops and learning mechanisms.
that would enable the Bank to more easily respond to shifts in the interests of its member states and to advances within the broader international development community.

The last pillar of the Compact was architectural reform, which introduced a complex matrix management system designed to strengthen the Bank’s ability to address the first three reform components. Including the previously mentioned shift in accountabilities and resources to the country offices, this “Revamping of Institutional Capabilities” focused first on integrating internal information systems to promote intraorganizational communication and second on realigning human resources toward new development agendas. It also reallocated resources toward weak areas of portfolio management, including project implementation supervision, ongoing monitoring of program performance, and realistic evaluation and feedback mechanisms. The implicit objective of this last initiative was to disrupt the underlying norms and structures that characterized the culture of the “old” Bank and to create new incentive structures that would align staff 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 program. Unsurprisingly, the statements later released to the public highlight the Compact’s tremendous progress. In particular, the primary assessment report placed on the Bank’s external website in March 2001 emphasizes the drastic transformations in the Bank’s organizational structure and the apparent impact on lending performance. The data indicate remarkable improvement in the quality of project design and implementation planning, with evaluations showing a jump in ratings of project quality at entry from 78 percent satisfactory or better in 1996 to 89 percent in 1999. Likewise, OED data on the outcome of exiting projects in 1999 indicate 77 percent with satisfactory or higher ratings (up from 65 percent in 1993), with an even larger improvement in the quality of the Bank’s nonlending 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 ongoing projects considered “at risk” and upturns in estimates of development project sustainability and institutional development impact.

Most important, the assessment uses these numbers to illustrate a shift in the Bank toward the first Compact goal of fostering an organizational structure and culture focused on client needs and the quality, rather than the quantity, of lending outputs. The rapid decentralization of the Bank is heralded as the biggest success, disrupting the image of the Bank as a Washington, D.C.-centered organization far removed from
the poverty it is supposed to be alleviating. The number of individuals in the Bank’s country offices increased to nearly 30 percent (approximately 2,500) of the Bank’s overall staff, including an increase from three to twenty-eight (out of fifty-eight) country directors located in the field by late 1999.

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 twenty-four months in 1996 to around fourteen-and-a-half months in 2000. This reportedly improves the Bank’s ability to flexibly respond to client needs 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, which enhances the potential of borrowing countries to sustain development objectives past project completion. On this last point, the assessment pointed to the sixty-five civil society specialists now located in the Bank’s country offices and the increased level of civil society and NGO participation in the production of Country Assistance Strategies (CAS) papers. Finally, progress toward refocusing the development agenda and enhancing knowledge sharing within the Bank is demonstrated (though hardly proven) in the number of staff and projects focused on new areas of development research and operations.

The Compact is thus proclaimed by the Bank to be, for the most part, a success. However, even the most optimistic of the publicly released reports take a note of caution, arguing that the reform fell short in a few areas due to uncontrollable factors associated with the East Asian financial crises, the need to respond to major postconflict situations in the former Yugoslavia and East Timor, and the growing demand for debt relief that diverted the Bank’s attention and resources to the Heavily Indebted Poor Countries (HIPC) initiative. Internally, the massive reform effort entailed extensive staff layoffs and budget constraints, combined with considerable uncertainty over the redefinition of the Bank’s core missions. This created distrust between Wolfensohn, senior management, and staff as well as a general malaise, stress, work overload, and “change fatigue” within the organization.

The Tenacity of Organizational Culture

Despite the Compact’s target of transforming the Bank’s culture, the reform assessments consistently note the tenacity of preexisting incentive
structures thwarting fundamental change in the behavior of Bank staff. Cultural inertia is compounded by contradictions in the Compact goals reflecting conflicting demands of the Bank’s external environment. For example, the Compact seeks to streamline the Bank’s bureaucracy and become more oriented to borrowing country needs by shortening and decreasing the cost of project design, appraisal, and oversight. At the same time, the Compact strives to appear more responsive to NGOs and donor countries by adopting time-consuming and costly accountability measures and safeguard policies that inevitably result in greater delays, expenditures, and conditions attached to loans.

Overall, the reform process has been more successful in meeting the first of these reform objectives. After all, the informal institutions at the staff level required to achieve an improved client responsiveness and country focus were already embedded in what the Wapenhans report called the “approval culture” and “disbursement imperative.” The particular interests of client states (barring some national parliament interests) involved adjustments in the Bank’s formal architecture, yet relatively few disruptions in the informal ideologies, norms, and routines. The accompanying aim of altering reliance on abstract, blueprint development knowledge and the inward-looking focus of Bank staff proved slightly more difficult, yet not completely resistant to reorganization efforts. However, the second goal of making the Bank more “poverty-focused” and accountable for development results did fundamentally challenge much of the preexisting culture. Here, the specific objectives are more at odds with the embedded culture of economic, apolitical, and technical rationality and the prevailing perceptions of what issues should take priority in project management.

Engineering cultural change in any bureaucracy, much less one the size of the Bank, is an arduous and often uncontrollable task. Retooling hierarchies and incentive structures must grapple with preexisting habits and ideologies that shape how Bank staff members think and act in their daily routines. Thus, it is not unexpected to find the recurrent message within many of the Compact evaluations that argue that “the Bank needs to eliminate the disconnect between its espoused culture and the way people behave with 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).”\(^{25}\) More fundamentally, the Compact process, like previous reform attempts at the Bank, reveals that obstacles to change are affected not only by tension between reform goals, but also by the “tension between the mindsets and behaviors required by change designs and vision, and the existing culture.”\(^{26}\)
In the remainder of this section, we demonstrate the compound effect of conflicting external demands and internal cultural inertia on IO change with respect to three crucial reform areas contained in the Compact: streamlining safeguard policies, improving project performance, and “mainstreaming” a new development paradigm.

**Safeguard Policies**

As noted by external critics, the new matrix management system undermines attempts to increase internal attention to safeguard policies and to other environmental and social assessment procedures in the design, appraisal, and implementation of projects. For example, a recent OED report highlights the Environment Department’s loss of budget control to country directors. The change requires environmental specialists to “sell” their services in an internal competitive market and has inadvertently dampened incentives for project task managers to hire specialists who carry out lengthy, expensive environmental assessments. Likewise, whether or not National Environmental Action Plans and related concerns get integrated into the Bank’s lending programs is often highly contingent on the particular interests or sympathies of country directors, who exercise considerable influence over who or what obtains input into the composition of the decisive CASs.

Somewhat surprisingly, the original Compact plan did not give explicit attention to safeguard policies at all, considering how this is of central concern to many external critics. This was resisted by borrowing country governments, who saw higher standards for safeguard compliance as contributing to higher costs, time delays, and overly strict conditions in project preparation, approval, and supervision. Neglect of this issue has facilitated the Bank’s ability to pursue its aim of becoming more responsive to its debtor governments, if not their populaces. As a result, there is an emerging risk aversion among Bank staff seeking to please their superiors and borrowing governments. Anecdotal evidence cited in a recent report by the Quality Assurance Group (QAG) suggests that some managers are actually discouraging staff from tackling operations that involve sensitive safeguard policies, such as projects with resettlement components. 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.”

**Project Performance**

This risk aversion has also affected project implementation, particularly 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 potential for institutional development impact. A parallel imperative in the Bank’s espoused “results-oriented culture” was to show a decline in the number of projects that are “at risk” for implementation failures or little or no development impact. However, the 2001 Annual Report on Portfolio Performance warns that top-down pressure may be compelling project team (task) managers to under-report risks, and as such the magnitude of the improvement in this category is exaggerated. Projects are not given the label of “at risk” until the project manager places three or more warning “flags” in the project files. As a result, managers will often avoid giving a third flag or apply “golden flags” that override existing risk designations. QAG estimates that even if only one-quarter of the projects holding two risk flags were given a third, the overall percentage of projects at risk in the total loan portfolio would jump from the current 12 percent to 16 percent.33 The implication is that internal pressures to produce desirable ratings and informal norms favoring excessive optimism in appraisal and supervision have continued to prevent the kind of blunt evaluation necessary to identify projects at risk.34

Persistent, chronic weaknesses in the formal mechanisms and incentives for monitoring and evaluation are further impeding the Bank’s shift toward a “results-oriented culture.” Despite the recommendations of the Wapenhans report and the articulated goals of the Compact, staff members still tend to focus on project inputs rather than implementation and sustainability, indicating that the Bank is far better at takeoffs than landings. Current supervision evaluations support this assertion, showing a small improvement in some areas but continuous problems in managing ongoing projects that are considered at risk. Thirty percent of sampled projects in 2001 scored less than satisfactory on monitoring and evaluation criteria.35 Moreover, the attention to the dramatic improvement in the percentage of exiting projects showing satisfactory or better outcomes is thwarted by statistics on the percentage of projects promising likely or better sustainability after completion (70 percent) or substantial or better institutional development impact (only 56 percent).36 These numbers are even lower in the key sectors that are specifically targeted for reform. For example, the likelihood of project sustainability associated with environmentally and socially sustainable development averaged only 53 percent in 2000–2001, with an institutional development impact rating of only 43 percent. Beyond the confusion in the extent of the Bank’s versus borrower’s role in monitoring
and ensuring compliance during implementation, managers and staff members remain unconvinced that good quality supervision is recognized or rewarded in the same way as preparatory work for lending. As a result, despite increases in resources devoted to supervision, the focus is still on upstream rather than downstream project management, and supervision remains the first item to be cut in any of the regional budgets.37

**A New Development Paradigm?**

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 and limited the “mainstreaming” of newly espoused development agendas and practices. The inertia of the dominant *ideological* paradigm of the Bank has proven even more impermeable to formal structural change than the organization’s underlying structures and routines.

As scholarly work on the Bank has clearly shown, the attempt to “refocus the development agenda” during the 1990s reflected a pattern of institutional adaptation as opposed to deeper “social learning.”38 The quantitative shift in the staff skills mix toward the new “priority” sectors may have countered the physical dominance of economists in the Bank39 and may eventually lead to a meaningful transformation in how “the Bank” as a collective set of actors “thinks” about development, but this has not spontaneously disrupted the economic orthodoxy within the Bank’s development approach. Several interviews with Bank staff confirm that noneconomic social scientists within the organization feel compelled to adapt their ideas to the theoretical and methodological language of the prevailing economic theory, whether it is neoclassical economics prominent in the 1980s or the current fashion of institutional economics, in order to influence conceptual and operational reality in the Bank. The observation by Michael Cernea that noneconomic social scientists (especially sociologists and anthropologists) hired in the mid-1990s “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 commentaries on the fate of new development ideas within the Bank.40

Consider, for example, the case of “social capital.” Referring to the struggle of social development specialists to impact the core agenda and operations of the Bank, a recent paper by Bank insiders describes how the concept of social capital has been linguistically defined and methodologically quantified in order to enable a conversation between the established majority of economists and other social scientists within the
organization. Despite the apparent unease with the concept of social capital capturing all aspects of social development, former Bank staff member Anthony Bebbington 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.” Desmond McNeill, in a discussion on the Bank’s approach to the concept of sustainable development, concurs. He explains the predominance of economic thinking in the Bank as due to the discipline’s quantifiable, reductionist, and technocratic appeal missing in much of noneconomic social science that endows economics with a “special status when it comes to the making of policy.”

This ideological persistence inhibiting the embrace of new agendas is perpetuated by other cultural traits. For example, the Bank’s espoused image of an open, self-critical organization eager to engage in debate is contradicted by recent examples of intolerance vis-à-vis open dissent. Discussing the effects of the East Asian financial crisis on development thinking, Bank staff member Luiz Pereira da Silva argues that “a more democratic and open culture of internal discussion, 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.”

In sum, post hoc analyses of the Compact clearly reveal that the reform strategy overemphasized formal structures and systems as change levers. It largely neglected the process of change regarding ideologies, norms, and incentive structures held by staff members. Without achieving such cultural change, organizational outcomes reflect little more than incomplete, and contradictory, adaptation to external demands. Even targeted attempts at identifying and changing the organizational culture have led to various degrees of adaptation or even retrenchment of the status quo.

Where reform has made significant inroads, it has neatly corresponded with preexisting cultural traits—for example, with respect to the decentralization agenda of the Compact. However, the success story reported in official Bank assessments of the Compact has to be contrasted with the largely failed attempt to refocus the development agenda and practices toward areas of Bank activity that do not fit well with the preexisting culture. New development paradigms and strategies surrounding ideas of socially and environmentally sustainable development, for example, appear to be fully embraced in Bank rhetoric and
organizational structure. Yet the challenges these agendas pose to the
dominant ideology as well as to operational norms and routines have
made learning and even adaptation rather difficult, leaving these issues
with a relatively weak voice in the key areas of the Bank’s operational
work.47

Conclusion

Reforming a huge and complex international organization such as the
World Bank is by no means an easy undertaking. However, international
relations theories based solely on a rationalist ontology do not capture
or explain important elements of the change process. The empirical case
study offered here of the World Bank’s Strategic Compact reform ini-
tiative reveals that the process of change in IOs in response to dramatic
environmental changes is not and cannot be spontaneous. Rather,
the process of reform is triggered by a complex set of multiple external and
internal actors and forces, contingent on 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, 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. Such rev-
olutions in organizational culture and behavior are rare, necessitating
transformations in the ideologies and comfortable routines of staff
members that conflict with the adaptive and habitual tendencies of
human nature. Viewing the process of IO change with an understand-
ing of this cultural inertia explains why many critics skeptically regard
Bank reform as old wine in new bottles. Reality does not match rheto-
ric on many occasions; the mere appearance of fundamental change in
organizational behavior and outcomes is therefore the rule rather than
the exception.

Although this case study of the World Bank represents only one
inductive case study of IO change, it invites scholars of international rela-
tions to open up the proverbial “black box” and step across disciplinary
boundaries to explore the influence of organizational culture in equations
of IO change. This bureaucratic culture approach adds to the explanatory
power of rationalist-based (such as principal-agent) accounts, fleshing out
the critical influence of the internal social life of organizations. Similar
recent studies of the IMF, the UN High Commissioner for Refugees, and
the United Nations confirm that this is a fruitful avenue of research.48

The difficulty in assessing the merits of such a heuristic framework
lies in the inability to definitively measure and demonstrate the specific
causal impact of the abstract and intangible concept of culture.49 Nev-
evertheless, we are confident that our discussion of World Bank reform is
a critical case that contributes to a better understanding of how culture
matters for the behavior and change of international organizations.

Notes

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1. The official motto of the World Bank Group reads: “Our Dream is a
World Free of Poverty.”
Decisions,” Bretton Woods Project, available online at www.brettonwoodspro-
Affairs 80, no. 5 (2001), and Stephen Fidler, “Who’s Minding the BANK?”
Foreign Policy 126 (September-October 2001).
4. Composed of five institutions, the World Bank Group currently has 183
member states, a total permanent staff of around 8,500 in its Washington, D.C.
headquarters and its 107 mission offices, and a cumulative committed portfo-
lio of well over $500 billion in outstanding loans, grants, and guarantees; see
Organizations: Agency Theory and World Bank Environmental Reform,” Inter-
6. Margaret E. Keck and Kathryn Sikkink, Activists Beyond Borders:
Advocacy Networks in International Politics (Ithaca: Cornell University Press,
1998).
7. Michael Barnett and Martha Finnemore, Rules for the World: Interna-
tional Organizations in Global Politics (Ithaca: Cornell University Press,
2004).
8. Cf. Chris Argyris and Donald A. Schön, Organizational Learning (Reading,
Mass.: Addison-Wesley, 1978); Nils Brunsson, The Organization of Hypocrisy:
Talk, Decisions and Actions in Organizations (New York: John Wiley, 1989);
and Edgar H. Schein, Organizational Culture and Leadership (San Francisco:

10. Between 1990 and 2000, absolute levels of total official development assistance (ODA) stayed the same, at around $53 billion, whereas ODA as a percentage of GNP fell from 0.33 percent to 0.22 percent. OECD, International Development Statistics 2001, available online at www.oecd.org/dac (accessed 15 September 2001).


17. Ibid., pp. 14–16.

18. Ibid., p. 17.


24. Ibid., p. 6.

25. World Bank, Assessment of the Strategic Compact, p. 54.


27. Interview with Kay Treakle, executive director of the Bank Information Center, 31 January 2002, Washington, D.C.

29. Ibid.
46. World Bank, *Assessment of the Strategic Compact*, p. 44.
47. Bank lending in social and environmental development did rise dramatically during the Compact period. Seen from this vantage point, the Bank has undoubtedly been responsive to external demands. However, going beyond measurable indicators of change involving deeply held beliefs and operating procedures has proven more elusive. This also applies to the national counterparts with whom the Bank is working. For example, a recent survey among Bank country directors found that 63 percent report that client governments are less intensively interested in confronting social problems in Bank-financed projects. As a result, Bank staff struggle to convince national governments of the benefits of social development—for example, stakeholder participation. See World Bank, *An OED Review of Social Development in Bank Activities* (Washington, D.C.: World Bank, 2004), p. viii.
49. This apparent shortcoming is related to the preference for constitutive (“how possible”) as opposed to causal (“why”) explanations in social constructivist epistemology. See Alexander Wendt, *Social Theory of International Politics* (New York: Cambridge University Press, 1999), pp. 77–89.