



# The Common Pool Dilemma of Global Public Goods: Lessons from the World Bank's Net Income and Reserves

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**Summary.** — The function of international organizations (IOs) as suppliers of international or global public goods (GPGs) has received increasing attention in recent years. But in a world with many claimants and limited resources, GPGs are more likely to have common pool properties than be pure public goods. The paper develops a joint-products model of public goods supply by international organizations, examining how specific institutional features of international organizations affect the supply of GPGs. The sources and distribution of the World Bank's net income—the single largest source of discretionary funds available annually to an IO—are used as the lens to analyze the issue. The paper examines the tension between control rights on net income (which reside primarily with nonborrowing shareholders) and the sources of net income, which largely lie with minority, borrowing shareholders. The analysis suggests that while the joint-product model of member-country support for international organizations has much merit, institutional features that were incorporated when these institutions were established sharply affect both the absolute magnitude and the distribution ratio of the benefit streams. © 2002 Elsevier Science Ltd. All rights reserved.

*Key words* — international organizations, World Bank, global public goods, common pool, international relations

## 1. INTRODUCTION

The decisions of the Executive Board of the World Bank are usually made by consensus. In July 1998, the Executive Directors of the World Bank considered certain resolutions that bore on the institution's net income and reserves, and then presented measures to augment them. Unlike most other international organizations, the World Bank and other international financial institutions generate substantial resources—in the form of net income—through their operations. In an institution where contested votes are rare, the resolutions barely passed—indeed the vote was the closest in the World Bank's history.<sup>1</sup> The resolutions were approved by just nine of the 24 executive directors (representing 51.7% of the votes) while 12 executive directors (representing 36%) voted against the resolutions and an additional three executive directors (representing 12.3%) abstained. The majority vote represented less than a fifth of the world's population and just a slightly larger proportion if measured by the number of member countries of the institu-

tion.<sup>2</sup> Indeed, the resolution would have been defeated were it not for informal arm-twisting of a critical swing vote—that of South Korea—which at the time was beset by a financial crisis and particularly vulnerable to pressure from the G-7 and the Bank's management. As the time for the voting approached, the constituency represented by the Executive Director for South Korea vacated his Chair and left the meeting, whereupon the Alternative Executive Director for the constituency (representing Australia) occupied the chair and cast the constituency's vote in favor of the proposal. Although South Korea's voting share was only 0.6%, a vote by a chair carries the voting power

\* For their helpful comments on earlier drafts I am indebted to Gerry Helleiner, Aziz Ali Mohammed, Dani Rodrik, Robert Wade, Ngaire Woods and two anonymous referees. Doina Rares, Odette Lienau and Zuzanna Olszewska provided excellent research and editing assistance. An earlier version of this paper was presented for the G-24 Technical Group. Final revision accepted: 8 October 2001.

of the entire constituency represented by the chair—the votes cannot be split. Had the South Korean Executive Director cast his vote against the management's proposal or even decided to formally abstain, management and the G-7's proposal would have been defeated. At the time, the voting share of the constituency represented by South Korea in the World Bank's board had 3.09% of the vote.<sup>3</sup>

Why was the issue so contentious that it could produce such deep fissures in the institution? At one level, as befits a financial institution, the vote ostensibly reflected the control rights of the World Bank's members by virtue of their differential shareholding. But a closer analysis of the underlying issues affecting the sources and uses of the World Bank's net income is much more revealing. During the 1990s, when demand for global public goods rose relative to the Bank's resources, the use of these resources became increasingly politically contentious. This paper argues that the distributional issues inherent in the vote were not just a matter of control rights exercised by shareholders. Rather, they speak to broader causal links between the institutional context of decision making and the priorities that prevail in the supply of international public goods (IPGs) or global public goods (GPGs). The paper further argues that an understanding of the historically locked-in institutional design features of international organizations is critical to understanding outcomes in the international cooperation mediated by these organizations.

The task of understanding international cooperation (and more broadly international governance) has generated much interest within international relations scholarship in recent years. The literature has identified international organizations (IOs) as a key mechanism for transnational cooperation, conflict management, and collective action. It has also pointed out that they are important, although by no means exclusive, institutional mechanisms for providing GPGs.<sup>4</sup> Intergovernmental IOs, the focus of this paper, include bodies that range from formal organizations such as the United Nations (UN), the World Bank, and the International Monetary Fund (IMF) to less formal arrangements such as the groupings of countries into the G-7, G-10, G-20, G-24, and G-77. All of these institutions serve similar purposes: they generate information and lower the costs of undertaking transactions, encourage members to think about their common

future, create linkages across issues, and serve as agents that both create and diffuse ideas, norms, and expectations.<sup>5</sup> Furthermore, they allocate scarce resources—and so have a hand in their attendant distributional consequences and conflicts. They are arbiters in facilitating negotiations, and also managers who help enforce rules in the form of sanctions, conditionalities, or direct force. On the one hand, IOs provide and embody global rules, standards, and dispute resolution mechanisms—they are intermediate GPGs in and of themselves. At the same time, they help secure and supply other global public goods that are final objectives, such as peace, economic order, and financial stability.

Prominent theories of international cooperation share a presumption that interstate bargaining is inherently costly, entailing an investment of time, money, energy and personnel.<sup>6</sup> This theoretical scaffolding, however, is for the most part weak with regard to the role of IOs. Indeed, it has been observed that states take IOs more seriously than scholars.<sup>7</sup> Regime theory focuses on the institutional organization of international cooperation; while insightful, it has little to say either on the operational roles of IOs or on the issues of distribution and power in international politics that may affect these roles.<sup>8</sup> Decentralized cooperation theory argues that states solve collective action problems in the international arena through strategies of reciprocity.<sup>9</sup> While it points our attention to institutional capacities other than centralized enforcement in mediating international relations, it too underplays the role of formal International Organizations. IOs are also of little import to the *realist* school of international relations, since they are skeptical that states would cede any meaningful authority to these institutions.<sup>10</sup> A contrasting perspective argues that key properties of formal organizations—centralization and agency—allow states to achieve collective goals through IOs that they cannot achieve on a decentralized basis.<sup>11</sup>

Although IOs do suffer from a considerable mortality rate, for the most part their "stickiness" is indicative that states see some net benefits in participating in them.<sup>12</sup> An interesting theoretical insight into the continued support for IOs builds upon the work of Lawrence Broz (1999), who explains the collective action behind the creation of the US Federal Reserve by way of a joint-products (selective incentives) model. The supply of public goods

inevitably leads to collective action problems. Broz argues that the provision of a nonexcludable public good is more likely, however, when it is linked to the provision of another good that is private and excludable. The selective payoffs inherent in the latter motivate private beneficiaries to provide the former, i.e., the public good.

Although Broz's work is based on analyzing the political support for the provision of public goods in the domestic arena, it can easily be extended to the provision of international public goods. It could be argued that the continued support of the United States and other major industrialized countries for international organizations with universal membership rests on the joint products provided by these institutions. The World Bank, for instance, provides public goods such as "international development" along with private benefits, such as serving the commercial or strategic interests of key shareholders, since the joint production mechanism of these goods cannot be disaggregated. The payoff to contributors includes both the nonexcludable public good and the excludable private good, but (as per Broz's selective incentives model) it is self-interest and not collective interest that leads to the provision of the public good.

Although there is much merit in extending Broz's elegant analysis to why IOs as providers of GPGs continue to attract support from member states, there are three potential weaknesses in this approach. One, self-interest alone does not fully explain support for public goods such as international development and global poverty reduction by institutions such as the World Bank—here constructivist explanations, especially ideational factors, undoubtedly matter as well.<sup>13</sup> Second, and more important for this paper, the dynamic features of a joint-products model are unexplored. The creation of an institution that provides public goods may well depend on that institution's ability to provide private benefits to interest groups whose support is vital for the creation of the institution. But what happens once the institution is created and the ratio of the public goods benefits to private benefits changes sharply? Once established, the rules created to garner early support for the institution have strong hysteresis effects on institutional change, even if the ratio of public to private benefits changes drastically. A third issue relates to the reality that in the spectrum of public goods, *pure* public goods are not very common. We are

more likely to observe public goods where benefits can be excluded (club goods) or where there is rivalry in consumption (common-pool resources). The World Bank's net income is an excellent example of an impure public good—a common-pool resource whose distribution has clear rivalry characteristics. This paper argues that the production and consumption of such goods by IOs is critically affected by institutional rules crafted at the time of the institution's creation. Thus, even though the costs of producing the stream of joint products by IOs may change, the distribution of benefits between the two streams is only minimally affected by the distribution of the costs of production. Rather, the distribution is strongly influenced by institutional rules that reflect the organization's original production costs. Despite consequent changes in production costs, the lock-in effects of initial rules continue to strongly affect how common-pool resources are distributed in IOs. This time-lag issue renders the World Bank's decisions related to net income—as illustrated at the beginning of this paper—sharply divisive.

If there is any validity to the adage that the Devil is in the details, then international relations (IR) theories definitely tend to avoid the Devil. A major weakness of IR theoretical literature on international organizations is its level of abstraction, with limited factual and empirical moorings. There is great need to better understand intraorganization features of IOs, which eventually affect output variables. For instance, in surveying various theoretical explanations of formal international organizations, Abbot and Snidal argue that the many roles ascribed to IOs potentially give them "an influence well beyond their material power, which is trivial on conventional measures."<sup>14</sup> These "trivial" conventional measures, however, are unspecified. For a country facing a liquidity crisis when global financial markets are in turmoil, the IMF's material resources are certainly not trivial—at least in the face of the alternatives given that financial markets can turn illiquid in times of financial crises. The World Bank's lending to sub-Saharan Africa may be trivial relative to global financial flows, but it is hardly trivial in the face of the alternative sources of foreign exchange available to these countries. As we shall see in analyzing the billion dollar-plus net income of the World Bank (the rough magnitude of the World Bank's net income in the 1990s), IO funds can be substantial, particularly when compared to

the alternatives available to developing governments—non-earmarked foreign aid budgets. Another recent example demonstrates the pitfalls from a lack of attention to detail in IO analysis. In attempting to demonstrate that IMF lending has become increasingly politicized, Thacker (1999) argues that IMF loans in the 1980s to Hungary, Romania, and Yugoslavia on the one hand, and the absence of loans to Czechoslovakia and Poland, on the other, reflected these countries' political positions *vis-à-vis* the IMF's largest shareholder—the United States. Whether Romania was indeed moving toward the United States in the 1980s is debatable; the fact that Czechoslovakia was not a member of the IMF also makes this a moot point.

The structure of this paper is as follows: first, it briefly surveys recent work on global public goods and analyzes the role of international organizations in their provision. It then examines the analytics of net income in the World Bank, focusing on the historic evolution of policies bearing on the issue in the institution. Subsequently, the paper discusses the reasons for recent shifts in the allocation of net income and their implications for the provision of Global Public Goods. Finally, the paper examines the implications of this analysis for the study of IOs.

## 2. INTERNATIONAL ORGANIZATIONS AND GLOBAL PUBLIC GOODS

The supply of public goods is shaped by two principal factors. First, the level of governance at which public goods are supplied (i.e., local, national, or international) rises as the externalities associated with economic activities rise. Second, the level of governance at which public goods are supplied also rises (i.e., moves from local to national to international) as the heterogeneity of individual tastes and attributes decreases.<sup>15</sup>

In recent years, an increasing density of transactions across international borders—a process commonly referred to as “globalization”—has focused attention on issue areas that are transnational in their effects. One strand of the burgeoning academic and popular interest in globalization has begun to focus on GPGs (or IPGs)—beneficial activities or products whose effects spill across national boundaries. Some issues, for instance managing river basins that span political boundaries, have long

histories. Others, like financial stability, are relatively recent; more integrated capital markets have augmented the transmission of financial shocks. In any case, there is a growing sense that a stronger underpinning of GPGs is essential to provide insurance against the risks of globalization (and thereby limit a possible political backlash that may jeopardize its benefits). There is also greater consensus that there should be some coordination mechanism in activities where markets are likely to under-supply these public goods.

The problem, of course, is that the provision of GPGs requires substantial resources, be it through taxes, user fees, or voluntary financial contributions. But because their benefits spill over and are difficult to price, GPGs, like all public goods, tend to be undersupplied.

GPGs vary significantly in three respects: geographical scope (over a few countries, a region, or the globe); how individual actions aggregate to produce the overall supply; and the extent of rivalry and excludability in consumption.<sup>16</sup> Kaul, Grunberg, and Stern (1999) and Sandler (1999) provide a rich taxonomy of GPGs based on their characteristics. They distinguish between their spatial and generational impact, as well as whether they are pure public, impure public (goods that are rivalrous), goods where excludability is possible (club goods) and those with joint products. Figures 1–3 capture the varying conceptions of GPGs. If GPGs are conceived as *international* public goods, IOs with universal membership should focus their activities on the upper-right quadrant of Figure 1. But, if people, not countries, are the real object of development, then IOs should

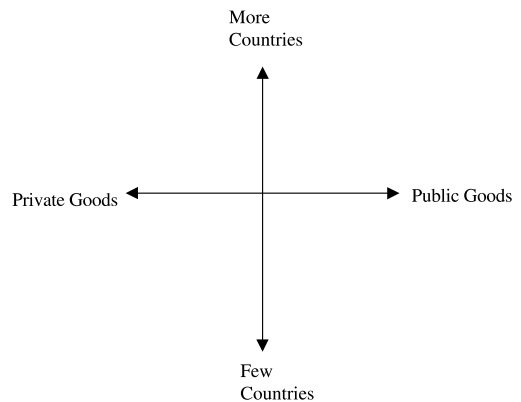


Figure 1. Conceptualizing international public goods.

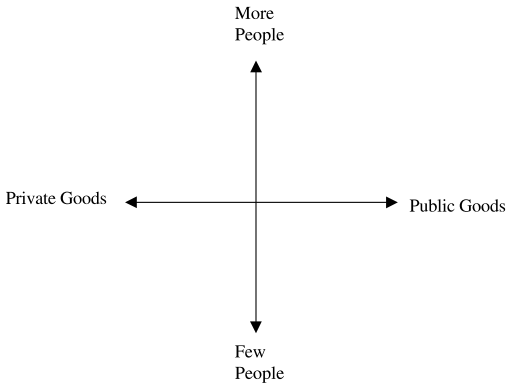


Figure 2. *Conceptualizing global public goods (static).*

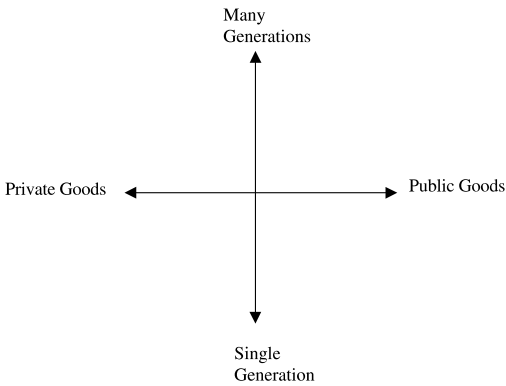


Figure 3. *Conceptualizing global public goods (dynamic).*

focus on the upper-right quadrant of Figure 2. But if, in addition to the spatial dimension, there is a generational dimension arising from the tradeoffs between the provision of certain public goods that may provide near-term benefits while worsening long-term costs, IOs should focus on activities that fit in the upper-right quadrant of Figure 3.

These distinctions help to point out the complexity and tradeoffs that underlie the provision of global public goods. GPGs provided by IOs with universal membership are likely to exhibit characteristics of common-pool resources—goods that are nonexcludable but rivalrous in consumption. Peace is a public good. But, as the recent experience of the UN's peacekeeping operations has shown, escalating demands juxtaposed against limited resources inevitably lead to rationing and prioritization. From peacekeeping to environmental issues and health to systemic stability, all seem *a priori*

virtuous candidates for international public resources. It is unclear, however, which environmental issues get priority—saving the ozone layer, biodiversity, or protecting whales? The eradication of which disease gets priority funding—malaria, respiratory diseases, or dengue fever? The choices reflect how different preferences and interests interact with specific institutional structures to affect the distribution of limited resources. The resulting prioritization and sequencing will shape the provision of different international public goods, not just over space and socioeconomic groups but over time in generational terms as well.

A recent comprehensive analysis of the regime for global public goods finds the regime wanting in three key respects:<sup>17</sup>

- A *jurisdictional gap* between the levels at which policy making should occur (the global or regional level) and the level where it largely does occur (national level)—problems are not being addressed at the level at which they should be.

- A *participation gap* that leaves decision making largely at intergovernmental levels and within key governments, with limited room for the private sector and even less for civil society.

- An *incentive gap* arising from the limited and weak nature of instruments to ensure that the agreements reached are actually implemented.

For the purposes of this paper, what principally matters are the factors that explain the variance in the quantity of, and the priorities regarding, GPGs supplied by IOs. The World Bank offers an interesting and important window into these issues. For better or worse, it remains the preeminent international development organization that supplies a range of goods ranging from the purely private, such as loans to the private sector by the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), to local public goods (rural roads), national public goods (economic growth), and international public goods (agricultural research). As an international organization with universal membership, the World Bank is itself an intermediate GPG. An analysis of the Bank's finances reveals three sources of funding for GPGs: its administrative budget, its net income, and its reserves. While the three are analytically (and financially) interrelated, each is separately a source of GPGs, with different spatial and generational tradeoffs as well as

different tensions between intermediate and final GPGs. The Bank's administrative expenses contribute to GPGs indirectly through lending for individual countries and so raising various countries' economic well-being. The international spillover effects of these activities, however, are generally limited. A second indirect contribution of the Bank's administrative expenses to GPGs is knowledge creation and dissemination, and a third is the institution's role as aid coordinator and fiduciary agent (for the nearly 3000 trust funds it administers on behalf of member countries). A more direct contribution of the Bank's administrative expenses is through its special grants program and its role as network manager and coordinator for regional and global networks.<sup>18</sup>

A second source of GPGs is the Bank's net income, whether it is used to fund IDA for onlending to poor countries, to lower loan charges, or for other GPGs. Finally, the third source of GPGs is the Bank's reserves, whose contribution is more intergenerational in that it contributes to the institution's financial stability and continued availability as a resource for future generations.

### 3. NET INCOME AND THE LEVELS OF RESERVES: ANALYTICAL ISSUES

The IBRD's equity (or reserves), the "free" money available to the institution, can increase either through a fresh injection of paid-in capital or through additions to retained earnings. In practice, the cost of additions to paid-in capital is borne to a considerable extent by the larger, nonborrowing shareholders. Retained earnings, on the other hand, can only increase from successive annual allocations from net income, which depend on both the level of income as well as the percentage of income transferred to reserves. The former depends in part on revenues stemming from loan charges whose cost is borne by the borrowers and, to a more limited extent, on income generated by the Bank's liquid portfolio. But net income is also a function of expense—in the Bank's case, of administrative expenses. In general, net income declines as administrative expenses increase. But, to the extent that administrative expenses are incurred to generate new loans, which in turn partially generate the revenues underlying net income, the relationship is more complex. A schematic representation is presented in Figure 4.

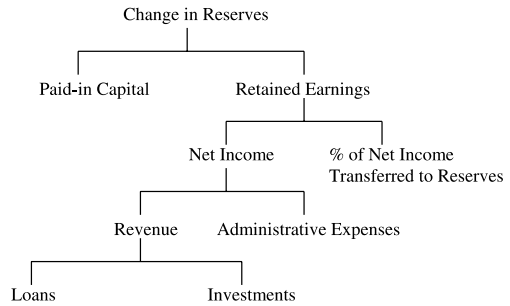


Figure 4. Sources of changes in reserves.

The levels and allocation of net income—as well as related issues concerning capital increases, the level of reserves, loan charges and administrative expenses—have been debated within the institution over nearly four decades. Higher levels of net income increase the institution's capacity to absorb higher risks from loan arrears as well as to fund additional GPGs. To the extent that the World Bank is itself a GPG by virtue of its functions, its financial stability is critical to the realization of this goal. A higher reserves-to-loans ratio provides both greater protection against higher portfolio risks as well as greater "free resources" to augment net income. Although a decline in the reserves-to-loans ratio can be a matter of concern as it adversely affects the institution's income generating capacity in future years, there are no unequivocal criteria for an appropriate level of reserves, as Bank presidents have privately acknowledged in the past.<sup>19</sup>

Funding higher reserves through higher loan charges—and by implication altering the distribution of net income—has long been a contentious issue among the institution's shareholders; fault lines run along a North-South cleavage as well as among the borrowing countries. In the former case, the major shareholders have understandably pushed for higher reserves both to reduce their risk of contingent liabilities and to reduce paid-in capital increases in any future capital replenishment. During the 1980s, another justification for higher loan charges was to provide adequate provisions for non-accruals. This rationale revealed the fissures in the Bank's self-image as a financial cooperative, since the burden was largely shouldered by one group: the borrowers who had continued to service their Bank debt in a timely fashion. The other use of net income

favored by nonborrowing shareholders of the Bank has been transfers to IDA. Pressures in this direction grew particularly during the 1990s, as the Bank's financial health improved on the one hand and donors' budgetary commitments to IDA flagged on the other (see Figure 5).

Borrowers have been primarily interested in reducing their borrowing costs, and have therefore opposed increased charges and pushed for reduced levels of reserves and net income. For high income and creditworthy borrowers in particular, if loan charges are lower than market rates, it reduces the incentive of creditworthy borrowers to go to the market. On the other hand, high loan charges make little difference to the demand for Bank loans by less creditworthy borrowers, whose demand for IBRD loans is price inelastic. In addition to the level of interest rates, the structure of loan charges, including grace periods, commitment fees, front-end fees, and currency risks, can have varying impacts on net income. Changes in interest rates have only a gradual effect on net income, while adding front-end fees to loans has a more rapid impact. The latter, however, shifts the burden to current borrowers and consequently has intertemporal equity implications.

It is important to note that although the Bank's lending rates have been based on a mark-up on borrowing costs, in effect its lending rates are tantamount to a lagged cost-plus pricing. Higher administrative expenses reduce net income and transfers to reserves, thereby reducing the rate of increase of reserves. While earlier this could be rectified by a capital increase, in recent years, increasing loan charges have become the sole politically feasible route.

#### 4. ALLOCATION OF NET INCOME, GLOBAL PUBLIC GOODS, AND THE BANK'S FINANCIAL HEALTH

A historical detour on the evolution of policies surrounding net income and related financial issues is helpful to understanding the key features of the World Bank as a supplier of Global Public Goods.

At the end of the 1970s, the Bank faced severe financial risks arising from the interest mismatch of its borrowing and lending. It then instituted a series of changes in its financial policies that boosted its net income not only in the short term but also in the long term. Although this ostensibly came about because of

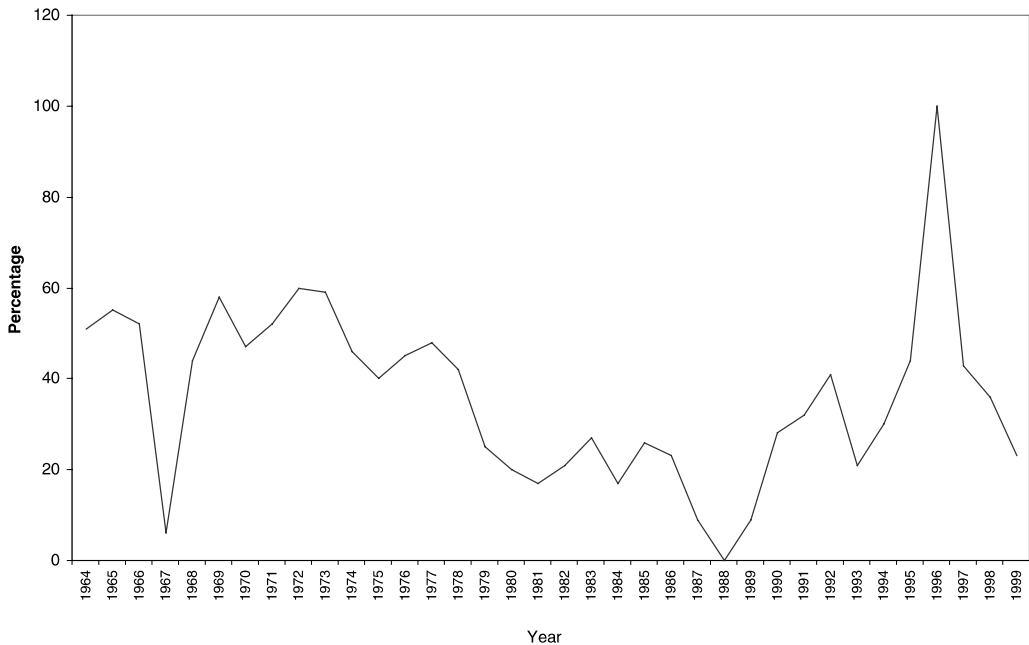


Figure 5. IDA transfers and special grants as a percentage of net income (1964–99).

high returns on the Bank's investments, in fact it was achieved by transferring currency risk to borrowers in its fixed-rate loans; these loans, however, were funded by lower-cost borrowings (the result of declining global interest rates in the first half of the 1990s). From the mid-1980s onward, other than the paid-in portion of the 1988 General Capital Increase (GCI) that moderately boosted the Bank's equity, borrowers disproportionately bore the costs of the Bank's financial policies. The policies' benefits, in the form of higher net income and reserves, were shared by all (this policy has since been revised).<sup>20</sup>

In 1991, with the prospect of high projections of net income, the Executive Directors approved a framework to guide the annual process of net income allocation. First priority was accorded to a targeted reserves-to-loans ratio (which gradually rose to 14.25% by 1995 before declining to 13.69% in 1999, in part due to the large volume of quickly disbursing loans to East Asian borrowers). Second priority was placed on reducing borrower costs by pre-funding waivers of loan interest charges for the following fiscal year (up to 25 basis points) to all borrowers who serviced all of their loans within 30 days of their due dates during the prior six months. The framework also identified two other uses for the residual net income. One was to support high-priority development activities. The other was to temporarily accumulate funds in a "surplus account," adding to the institution's financial strength and pending future use of those funds. Both uses were indicative of the changing nature of "burden sharing" in the funding of development activities.

At the time of its creation, the principal rationale for creating the surplus account was new uncertainty about the risk scenario; the account represented a compromise between strongly divergent views within the Board on the level of reserves. The insistence by most of the G-7 shareholders on a larger level of reserves appeared to be prompted by two concerns. The first was the pressure on the Bank by the G-7 to lend more to Eastern Europe, particularly Russia, as well as to loosen its negative pledge clause to the same end.<sup>21</sup> Second, the major shareholders, as well as the Bank's management, believed that achieving *any* paid-in capital in the next General Capital Increase (GCI) would be extremely difficult. With this in mind, a surplus account (with a moveable cap) could be seen as a device to squirrel away funds

that could later be added to equity if fears of an absence of additional paid-in capital in a future GCI were realized. At the same time, the surplus account, by adding to the institution's earnings capacity, also helped fuel an expanding administrative budget.

The debates on the use of net income also brought into relief long-simmering dissent on what should or should not be funded from the administrative budget. The Bank first made grants from its net income in 1964, beginning with IDA. From 1982 onward, the Bank's auditors argued that since grants made to organizations not affiliated with the Bank were "expenses," they should be treated as a part of the cost of doing business and included under the administrative budget. In consequence, the Bank ended up with two types of grants: one, the "special grants program" (SGP), included in the administrative budget, and the other, grants generated from net income.

The inclusion of "special programs" above the line in the balance sheet was unfortunate, since the expenditure for special programs largely financed global public goods. Beginning with an annual allocation for international agricultural research (the Consultative Group on International Agricultural Research—CGIAR) in 1971, the "special grants program" funded from the administrative budget steadily increased in scope and size, funding two broad areas: international agriculture (slightly over three-fifths) and health (about a fifth).<sup>22</sup> In the 1990s, additional special grant-like programs were added: the Institutional Development Fund and the CGAP (Consultative Group to Assist the Poorest). Together, these three programs constitute the "Special Programs" and account for one-twelfth of the administrative budget—an allocation of around \$110million in FY98. But, since these expenditures were included in administrative expenses, they inflated the Bank's costs of doing business. As noted earlier, the Bank's loans were priced increasingly on a cost pass-through basis; as such, borrowers effectively picked up the tab for the Bank's provision of global public goods "above the line." Moreover, as noted below, they also effectively picked up the tab for the Bank's provision of public goods "below the line"—i.e., out of net income.

In the 1990s, after the Bank had rebuilt healthy reserves and a surplus, its net income emerged as a tempting target to fund a range of worthy causes (see Table 1). Pressed by the G-7



Table 1. *Transfers from net income to fund public goods*<sup>a</sup> (\$ millions; end-FY 1999)

	1996	1997	1998	1999	Total
IDA	250	600	304	352	6087
Trust funds for Gaza and West Bank	90	90	–	90	320
HIPC	–	500	250	100	850
MIGA capital increase	–	–	150	–	150
Debt reduction facility for IDA-only countries	100	–	–	–	300
Trust fund for Bosnia and Herzegovina	150	–	–	–	150
Contributions to special programs (from administrative budget)	113	120	112	129	

<sup>a</sup> World Bank annual reports.

in the 1990s, the Bank funded (through trust funds) three initiatives for non-members out of its net income:<sup>23</sup> \$30 million for the G-7 mandated study of the Former Soviet Union (just preceding its collapse and the accession of its successor states as members of the World Bank), a trust fund for Bosnia following the collapse of Yugoslavia, and another for the Gaza Strip and the West Bank. These examples reflect particular foreign policy interests of some of the Bank's largest shareholders rather than intrinsic merits or benefits to the institution's membership as a whole. Traditionally, the large shareholders would have funded their interests out of direct claims on their own budgetary resources. In the strained political and fiscal environment of the 1990s, however, these private interests were declared global public goods and so the costs were shared by all of the Bank's members.

The Heavily Indebted Poor Countries (HIPC) debt initiative represented another new and significant claim on net income. The IBRD borrowers' negotiating stance toward the HIPC initiative is noteworthy in what was left unresolved—and in the price paid as a result. At least some of the earlier loans that were now to be written off under the HIPC initiative had been undertaken as a result of political pressure by the major powers and/or poor judgement by Bank managers. It was also the case that for years many IBRD borrowers (as well as some nonborrowers) had privately expressed skepticism regarding aspects of this lending. But, presumably based on the belief that “what goes around comes around,” none had ever gone on record against such lending.<sup>24</sup> With the richer countries making separate additional contributions to the HIPC trust fund, the Bank's share reflecting real contributions from its borrowers (largely lower-middle income and middle-income countries) reflected the new equation of burden-sharing in GPGs.

The widening gap between the World Bank's net income and the demands being placed upon it again came to the fore in 1997 (World Bank, 1997). The issue became more salient with the onset of the Asian crisis and, in May 1998, the Bank's management argued that the issue needed urgent redress and proposed several steps aimed at addressing the problem of falling income and rising demands (IBRD, 1998a). The Bank's management argued that the institution's predicament stemmed from the financial “subsidy” inherent in its loan pricing policies and sought to raise net income principally by augmenting loan charges and by modifying the uses of net income. But the manner in which the problem was defined—declining net income as an aberration that needed to be rectified—is questionable. The issue could easily have been turned on its head by arguing that the increase in net income during 1987–97 (see Figure 6), and not its subsequent decline, was the aberration.

Even before the onset of the Asian crisis and the additional demands on the institution, the IBRD's net income had already come under stress from the cumulative effect of several factors: the expiry of lucrative fixed rate loans, low world interest rates that reduced the return on the Bank's equity, excessive administrative expenses as well as costs incurred in yet another round of internal organizational restructuring, and the adoption of single currency loans by some borrowers.<sup>25</sup> In addition, the decline in dollar net income was also the product of currency fluctuations.<sup>26</sup>

As stated at the beginning of the paper, the July 1998 proposals for augmenting the Bank's net income and reserves were approved by only the slightest majority.<sup>27</sup> The result was to shift the burden of supplying global public goods through resort to higher Bank net income and reserves. The consequences of the changes

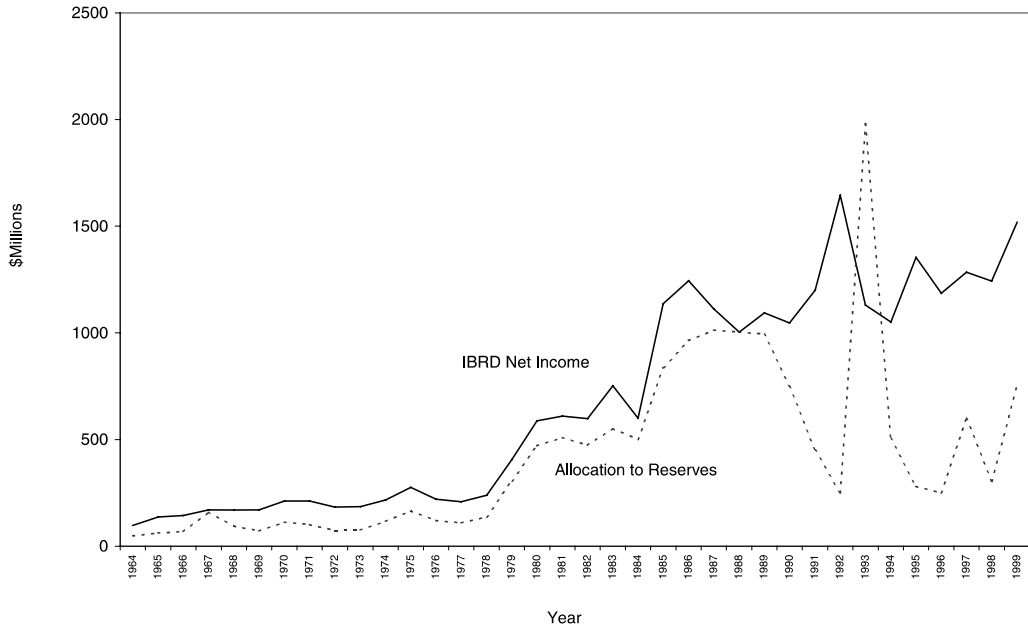


Figure 6. IBRD net income and allocation to reserves (1964-99).

proposed and adopted shifted the source of funding for GPGs as well as the type of GPGs selected for support. First of all, they shifted the burden of paying for GPGs to IBRD borrowers. Second, the use of mechanisms such as front-end fees had intertemporal implications. Did alternatives exist? And if they did, why were they not considered?

##### 5. THE BANK AS A SUPPLIER OF GPGS: SHIFTS IN BURDEN SHARING

To the extent that the Bank's management and some shareholders felt that the crux of the problem facing the Bank was the need to augment reserves, it is worth asking why policy change only focused on net income (given the links between net income and additions to reserves) while other options were not considered. Two options that were given short shrift are examined here, namely, cuts in administrative expenditures and a capital increase. The latter option would have increased shareholder equity, particularly by increasing the contributions of major shareholders; this would have been more equitable both across borrowers and between borrowers and nonborrowers.

##### (a) Cutting administrative expenses

The Bank management's proposals on increasing net income focused almost exclusively on the revenue side. The option of cutting expenditures was categorically rejected by management as "simply not possible."<sup>28</sup> Rather, by highlighting the "increase in the implicit subsidies to borrowers as the spread on loans covers a declining share of administrative expenses," the Bank's management took administrative costs as a given.<sup>29</sup> In reality (and unlike commercial banks) the World Bank is a price setter in its lending rate rather than a price taker; this sharply reduces its incentives to cut costs. The institution has long had a "soft" budget constraint.<sup>30</sup> Between the mid-1970s and mid-1990s, the Bank's administrative costs doubled (in real terms) per project approved. Contrary to what might be expected given this increase, project effectiveness fell or, eventually, remained stagnant with a modest upturn recently (see Table 2).

It should be emphasized that these increases were *not* due to salary increases per staff person. Rather they stemmed from the increasing costs incurred as a result of adding ever more issues to the Bank's agenda. The number of professional staff per operation

Table 2. *World Bank: project costs and effectiveness*<sup>a</sup>

	1975–77	1985–87	1995–97
Administrative costs/project (millions of 1997 \$)	2.3	3.7	4.4
Professional staff/operation	10	14.3	16.7
Percentage projects rated Satisfactory <sup>b</sup>	85	68	69

<sup>a</sup> *Source*: World Bank annual reports for administrative costs and Operations Evaluation Department for project effectiveness.

<sup>b</sup> Data for the percentage of satisfactory projects is the average for the periods 1974–80, 1981–89 and 1990–95. While actual figures for the years in question are likely to differ, the trends are clear and would not affect the inferences drawn.

approved was 11.2 in the 1960s and nudged down moderately to 10.2 in the 1970s. During the 1980s, it jumped by a third (to 13.5) and climbed again to 17.2 in the 1990s.<sup>31</sup> The “budget compact” of 1997–98 did little to turn things around—the average number of professional staff per operation averaged 20 for fiscal years 1999–2000. If the World Bank’s administrative costs have increased over time, they are also higher in relative terms. Table 3 compares relative costs of the World Bank to the European Investment Bank (EIB). The World Bank’s costs are markedly higher (using volume of lending as the numeraire)—by a factor of seven—whether the administrative expenses are normalized by the dollar value of the loans or by the number of operations.

The standard response of the Bank’s management has been that, on the one hand, fixed costs increased with the increase in the number of borrowers and, on the other hand, variable costs increased because projects have become more “complex” due to a more sophisticated understanding of the development process. It is true that the EIB does less, in terms of both project preparation and research, and its clientele is quite different. But, administrative costs of the Bank increased during much of the 1990s, even while lending stagnated. During 1986–96, the Bank’s (IBRD and IDA) administrative budget increased by 95% even as lending increased by just 28%. The increase in

expenditure was most apparent in areas removed from direct lending. Corporate management expenditure—whose links with direct lending is weak but with management and major shareholder prerogatives is strong—increased by 142% in this period (from \$56.5 million in 1986 to \$136.5 million in 1996—10% of the administrative budget).<sup>32</sup>

Administrative expenses also increased substantially because nonborrowing shareholders have insisted on introducing ever-mounting safeguards along with increases in reviews, consultations, conditions and the like. Many of these were introduced through the backdoor of IDA replenishments, but they soon became Bank-wide policies.<sup>33</sup> Complexity, however, is not an exogenous variable *per se*. Over time, the Bank’s growing bureaucracy pressed for ever-more safeguards and regulations, which skewed bureaucratic incentives within the Bank itself.

Nominally, the Bank’s principals—its Executive Board—act on behalf of the members to exercise oversight. But built-in structural features of the Board—ranging from the frequency of rotation for Executive Directors to widely varying agendas—make its task of oversight difficult.<sup>34</sup> While asymmetric information between principals and agents always strengthens the agent’s hand, the problem is particularly acute in the case of the Bank, where differing interests among principals and the inherent ambiguities in ascribing specific

Table 3. *Relative costs of IBRD versus EIB (FY99)*

	World Bank	EIB
Administrative expenses (\$ millions)	849	186
Outstanding loans (\$ billions)	117	192
Administrative expenses (\$ million) per \$ billion in loans outstanding	7.3	0.97
Administrative expenses per operation (\$ million)	6.5	0.6

*Source*: FY 1999 annual reports.

outcomes on the ground to specific institutional actions further strengthen the agents' hands. In any case, borrowing country members of the Board are both principals and agents, which leads them to oppose or at best reluctantly support tight budgets. The roots of this attitude lie in a collective action problem. Borrowing countries are individually unwilling to publicly cross swords with management on the budget, fearing that their programs will be singled out to bear the burden of cuts.<sup>35</sup>

(b) *Raising equity through additions to paid-in capital*

A capital increase serves two purposes in the case of the World Bank. First, it raises its capacity to lend. Despite the recent spurt in lending following the Asian crisis, the IBRD continues to enjoy comfortable "headroom" (the difference between its subscribed capital and reserves and its outstanding loans) and does not need a capital increase to augment its lending capacity. Second, the fraction of a capital increase that is paid-in boosts equity and maintains the links between power and financial burden in the institution. In the past, when shareholders deemed that the reserves needed strengthening, a capital increase was always integral to the proposals put forward by management. During the 1990s, unlike the years preceding them, major shareholders refused to countenance a capital increase. This was evident during the contentious discussions around the last General Capital Increase (GCI) approved in 1988, when the Bank's major shareholders cited increasing budget difficulties and insisted that the paid-in component be reduced to just 3.0%. Barely three years later, even as their fiscal problems worsened, the OECD countries accepted a 30% paid-in contribution to a new multilateral development bank: the European Bank for Reconstruction and Development (EBRD). The rapid agreement among the major OECD countries on a much larger budgetary outlay (\$3.45 billion, as compared to \$2.25 billion in the case of the 1988 IBRD GCI) for an institution whose major functions could potentially have been replicated by the IBRD at a smaller cash outlay is puzzling. The very creation of the EBRD is a strong portent of the emerging relative preference for club-like GPGs among the Bank's major shareholders.

Reserves play an unstated but fundamental role in affecting the tenor of governance in the

Bank. Unlike the UN system, the Bretton Woods institutions' unequal distribution of power was initially expressly linked to an unequal financial burden—both direct (in the form of paid-in capital in the IBRD) and indirect (the contingent liabilities inherent in callable capital). In earlier years, the Bank's management was more cognizant of the reality that higher reserves reduce the financial burden of rich country shareholders. First, higher levels of reserves weaken the case for additional lump-sum injection of paid-in capital; instead, reserves increase incrementally through transfers from net income, thereby shifting the burden of raising equity to borrowers. Second, since reserves serve to absorb risk, they reduce contingent liabilities (the non-paid-in part of subscribed capital). In the 1970s, during his tenure as World Bank president, Robert McNamara quietly ran down reserves, seeing this as an effective strategy to concentrate the minds of obdurate shareholders on agreeing to a capital increase. But, over time and especially since the mid-1980s, both the direct and the indirect burden upon shareholders has waned, while the distribution of power has remained constant. For instance, in real dollars, the Bank's largest shareholder's capital contributions to the IBRD were greater before 1949 than they are today.

The crux of the matter, however, is that as far as indirect contributions go, shareholders' contingent liabilities are miniscule not only because of the historical track record of IBRD debt servicing, but also because rising reserves and substantial loan-loss provisions make a call on capital ever more improbable. Over its history, as the Bank's financial strength grew and took firmer roots, the cost of "ownership" fell: easier Bank borrowing and comfortable equity reduced the need for additional paid-in capital, and higher reserves and the track record on defaults diminished the risks to the callable part of subscribed capital. One consequence of these financial trends has been that the influence that comes with ownership has become less expensive, indeed almost cost-free—and therefore more attractive. This reality has been manifest in the greater intensity of disputes centered on even slight changes in capital share and the use of net income by the major shareholders for private purposes—precisely the sorts of problems inherent in common pool public goods.

Thus, transfers from IBRD net income to IDA allow major shareholders to retain the power of their voting shares over IDA while

limiting their financial outlays. The Bank transferred \$150 million from its net income to partially pay for the capital increase of the Multilateral Investment Guarantee Agency (MIGA, an affiliate organization) in 1998. This transfer, which took place even as the Bank's management lamented the trends in net income, meant that, in effect, IBRD borrowers paid for the Bank's nonborrowers to retain their voting power in MIGA!

## 6. GLOBAL PUBLIC GOODS AND INTERNATIONAL ORGANIZATIONS: THE COMMON POOL DILEMMA

International organizations provide both public and private goods. The analysis of this paper reveals that while the joint-product model of member-country support for international organizations has much merit, institutional features that were incorporated when these institutions were established can sharply affect both the absolute magnitude and the distribution ratio of the benefit streams.

Notwithstanding the many criticisms mounted at them in recent years, the international financial institutions—the multilateral development banks and the IMF—remain a critical resource for providing GPGs to the global community. But in a world with many claimants and limited resources, the supply of GPGs by international organizations poses several dilemmas. The first dilemma stems from the common pool problem, in which all members share a resource but where there is rivalry in consumption. The dilemma posed here by rivalry in consumption is not the rivalry of consumption *within* a specific GPG, such as a malaria vaccine or CFC reductions to safeguard the ozone layer. Rather, the crux of the problem concerns the rivalry of consumption *among* different GPGs, since resource constraints will ensure that only a few are produced at a given time. The second and more critical issue concerns the financing of GPGs—who pays, and how that affects the priorities among the many possible GPGs.

Despite much ado about global public goods, there is little substantive analysis that would help IO members to rank global public goods in order of their relative contribution to global welfare. This analytical hiatus gives both principals (the Bank's major shareholders) and agents (the Bank's management and staff) greater discretion. It allows them to press for

private interests in the guise of GPGs. With foreign aid budgets declining and the remaining budgets further constrained by bilateral objectives, the resources of the World Bank—whether its administrative budget or its net income—have been viewed as a cash-cow by interest groups wishing to finance both genuine GPGs as well as narrower private goods. Less than half of the World Bank's administrative budget is directly related to its lending activities. The rest reflects major-shareholder driven mandates (whether directly or through their "stakeholders") and presidential proclivities which are not challenged by IBRD borrowers.

The individual interests of all concerned parties have meant that opposition to this change has not occurred. IBRD borrowers have worried about private costs, management and staff about their livelihood, and major-shareholders and Western NGOs about the loss of a useful mechanism for putting pressure on borrowing governments. Major shareholders in particular have used their control rights to secure their particularistic objectives.

At the same time, seeking to reinvent the Bank's public image, its management and staff may tend to label all kinds of activities or "networks" as GPGs, meriting involvement on the basis of the moral claims that public goods invoke, and their ready slogan-appeal for Northern taxpayers.<sup>36</sup> While many initiatives certainly do meet the criteria of public goods, the management also includes what one might call "Potemkin GPGs." A good example was the Bank's initiative related to the World Faiths Development Dialogue that the World Bank's President, James Wolfensohn, sponsored jointly with the Archbishop of Canterbury in late 1998. Subsequently, a decision was taken to transform this initiative into a more formal and long-term organization, and the Bank generously offered a senior manager to serve as Interim Chief Executive. The direct and indirect administrative costs (apart from the opportunity costs) of this initiative are in the order of a million dollars annually. Although the initiative may well provide private "halo" benefits, its benefits as a GPG are moot for the borrowers who will, of course, pay for it.<sup>37</sup> In a similar vein, the Bank spends as much on public relations as on research.<sup>38</sup>

More generally, there is no consensus on the criteria for prioritizing the provision of GPGs, although several decision-making criteria have been suggested. These include a measure of the good's "publicness"—the degree to which, by

assigning property rights and internalizing externalities, private actors can be harnessed to supply GPGs—in addition to the goods contributions to social justice.<sup>39</sup> Other possibilities include strategic linkages that would tie the provision of a GPG with benefits for one group to the provision of GPGs that benefit another, a ranking based on a global social cost-benefit analysis with explicit distribution weights, and subsidiarity.<sup>40</sup> While these criteria may themselves result in different priorities, they at least provide the possibility of rule-based decision making. For instance, in the World Bank's case, the "subsidiarity" principle would ensure that whenever the locus of a problem and the potential benefits of its solutions are clearly of a regional nature, regional multilateral institutions should bear the first burden, except in cases where such institutions are especially weak.

Finally, the most contentious issue concerns the shifts in burden sharing in the provision of GPGs through the International Financial Institutions. This paper has argued that, in the case of the World Bank, the burden of financing GPGs has fallen increasingly on IBRD borrowers. It is indeed true that IBRD loans have a subsidy element in that they are cheaper than market alternatives, but that is due in large part to the much lower default rates of IBRD loans. In the Bank's earlier years, the low cost of IBRD borrowings was due to the guarantees by AAA-shareholders. More recently, however, the combination of a regular debt-servicing record and rising reserves has played a more important role. Indeed, the financial and risk planning scenario of the Bank is explicitly based on assumptions that preclude the possibility of callable guarantees.

A similar trend in shifts of the benefit stream for joint-products provided by IOs is observable in other IFIs as well. The IMF, which is charged with providing global financial stability—a critical GPG in the recent years—began to face pressures in the 1980s arising from arrears from its borrowers. It averted a prospective financial problem by instituting a scheme whereby the burden of the financial consequences of the overdue obligations to the Fund was shared equally by adjustments of the rate of charge and the rate of remuneration.<sup>41</sup> As the Fund's historian has observed, however, it simultaneously began raising the rates it charged borrowers "to levels close to short-term market interest rates... thus greatly reducing the concessional element in Fund

lending." This resulted in the Fund becoming a stronger financial institution, but one that was also becoming a "more conventional financial intermediary."<sup>42</sup> The trend continued in the 1990s and in September 2000 when, bowing to G-7 pressure, the IMF further increased the rates charged to borrowers.<sup>43</sup>

The large literature on financial crises has highlighted several critical factors (and culprits) behind the recent turbulence.<sup>44</sup> These factors include poor policies and weak institutions in borrowing countries, the herd behavior of financial markets, and pressures from rich countries and indeed from the IMF itself for rapid financial and capital account liberalization. Borrowing countries have paid twice for global financial instability—both through the harsh domestic economic costs, and higher charges for IMF borrowing. To the extent that internalizing these costs will affect their future behavior, borrowers have paid a high premium for alleviating future financial instability. Of the other actors, market institutions paid a relatively small price, with IMF loans rescuing their chestnuts from the fire. The costs to the IMF were largely reputational, which, given its monopoly position, were limited in their implications for the institution. Finally, the richer countries paid through an increase in their contingent liabilities (since the IMF's loans draw largely upon their quotas and currencies), but even this cost was severely limited. First, the wealthier countries receive in return a claim on the IMF that has the quality of a currency-diversified international reserve asset on which they are paid interest, and which has been increasing (the so-called remuneration rate). Second, the IMF began to build up substantial reserves to buffer any arrears that might arise—paid by increases in charges to borrowers. In any case, the record of the last half-century suggests that lending countries have solid reason to be relatively sanguine—there has not yet been a call on their contingent liabilities arising from the IMF's drawings on their currencies.

Although the common pool problem may be most acute in Bretton Woods institutions because of their global membership, even the regional development banks that have "club" characteristics face similar, if less pressing, dilemmas. In these institutions as well, the financial burden, directly or through opportunity cost, has emerged as an increasingly contentious issue between borrowers and non-borrowers. In 1999, many Asian governments

protested against the Asian Development Bank's (ADB) decision to raise loan charges and introduce front-end fees on ordinary loans in order to boost profitability and augment the ADB's reserves. During the ADB's Annual Meetings in Thailand, the United States urged a further review of the "adequacy of loan charges," a view opposed by both India and China. The controversy over loan charges was a counterpoint to the argument over a capital increase for the ADB. Borrowing countries argued that they had already borne their share of the burden of improving the bank's balance sheet by agreeing to increased charges; nonregional shareholders, they argued, continued to fail to contribute in their refusal of a capital increase for the ADB. In the Inter-American Development Bank, on the other hand, borrowers empowered by their voting majority (largely regional members), written into the IDB's articles at the time of its creation, prevailed in blocking efforts by nonborrowing shareholders to increase loan charges.

## 7. CONCLUSION

In recent years international financial institutions have witnessed a perceptible shift in burden sharing, with borrowers now picking up a greater part of the burden; the World Bank provides an excellent case in point. Over the past half century, the IBRD has witnessed a

steady downward trend in the share of usable capital in total usable equity—more than two-thirds of its usable equity now comes from retained earnings and less than a third from usable capital. But, control rights have essentially remained unchanged in these institutions. Consequently, the priorities implicit in the selective support of Global Public Goods reflect historical control rights in the IFIs, not the changing patterns of burden sharing in the past three decades. The pattern is similar in other international organizations. For instance, in the United Nations, Japan pays nearly a fifth of the budget but is not a permanent member of the Security Council while China, funding barely 1%, enjoys the benefits that come with being a permanent member of the Security Council. Dumbarton Oaks continues to cast a heavy shadow on the current realities of the United Nations, however much the world may have changed since its inception.

Finally, the arguments presented in this paper suggest that our understanding of the roles that IOs currently play in the international system could benefit from a shift in International Relations scholarship. In particular there are likely to be substantial gains if the two strands of analysis on International Organizations—the more descriptive but factually grounded strand of international legal studies and the analytical but empirically weak IR literature—drew much more from each other than they have in recent years.

## NOTES

1. Interviews by author and a reading of Kapur, Lewis, and Webb (1997).
2. The nine Executive Directors voting for the resolutions represented the G-7 countries, the Nordics and the chair representing the South Pacific community (including Australia, New Zealand and South Korea). Resolution No. 98-4, "Addition of FY98 Net Income to Reserves," and Resolution No. 98-5/IDA Resolution No. 98-1, "Transfer by the Bank to the Association; Acceptance of Transfer by the Association," July 1998 (World Bank, 1998).
3. In addition to South Korea the constituency included Australia, Cambodia, Kiribati, Mongolia, Marshall Islands, Federated Straits of Micronesia, New Zealand, Papua New Guinea, Samoa, Solomon Islands and Vanuatu.
4. Civil society actors and markets are other important sources of GPGs.
5. See Ruggie (1992), Martin and Simmons (1998).
6. Abbot and Snidal (1998).
7. Abbot and Snidal (1998, p. 29).
8. See Krasner (1983), Keohane (1984).
9. Oye (1986).
10. See, for example, Mearsheimer (1995).
11. Abbot and Snidal (1998).

12. One analysis of IOs in the 1980s found that hundreds were created and died during this period. Only two-thirds of the IOs that existed in 1981 were still active in 1992. See Shanks, Jacobson, and Kaplan (1996).
13. Finnemore (1996, pp. 88–127); Kapur *et al.* (1997, Chapters 2–7). The strong support by Nordic countries for foreign aid cannot be explained by self-interest alone, unless self-interest is defined so broadly as to lose its analytical sharpness.
14. Abbot and Snidal (1998, p. 8).
15. Oates (1972) first spelled out the classic version of this argument, focusing on the tradeoff between externalities and spillovers on the one hand and the costs of “one size fits all” solutions resulting from centralized provision, on the other.
16. See Kanbur, Sandler, and Morrison (1999).
17. Kaul *et al.* (1999)
18. Examples include the Consultative Group for International Agriculture (CGIAR), the Global Development Network (for ideas), the Global Alliance for Vaccines and Immunization (health), the Global Environment Facility (environment) and the Global Water Partnership.
19. Although in the Bank’s early years the “comfort factor” those high levels of reserves signaled to markets helped lower its borrowing costs, this has not been the case for the last three decades. Unless there is a sharp year-to-year decline or reserves are at very low levels markets pay little attention to the IBRD’s reserves. As the Bank’s second president Eugene Black admitted, “since this [level of reserves] is a psychological matter, it cannot readily be given precise quantitative expression,” while for Woods “the question [of the adequacy or inadequacy of the reserves] was not susceptible of a mathematical determination. It was a question of judgement” Kapur *et al.* (1997, p. 936).
20. See Kapur *et al.* (1997, Chapter 16).
21. The “negative pledge” clause in the Bank’s loan agreements requires a borrower who creates any lien on public assets for the benefits of other creditors to equally and ratably secure the Bank’s loan as well.
22. The criteria for the Special Grants Program (SGP) emphasize multi-country benefits, multi-donor support, and independence of the recipient institution from the Bank Group. In FY 1998, funding for the SGP accounted for about 5% of the Bank’s budget (around \$80 million dollars).
23. The Bank, in rare instances, had used part of its net income to fund humanitarian efforts. Examples included grants to the World Food Program in 1984–85 to support relief efforts for the famine in sub-Saharan Africa and in 1993 to fund relief operations in Rwanda.
24. It may be argued that the borrowers had only themselves to blame. Having weakly exercised their responsibility for decision making as shareholders, it was perhaps proper that IBRD borrowers share the financial implications of their silence.
25. The IBRD introduced single-currency loans in 1993, allowing its borrowers a choice in loan terms for the first time since the 1950s. Borrowers could avail of fixed-rate or LIBOR-based loans in any currency in which the Bank reasonably could fund itself.
26. This currently results in the Bank’s dollar net income declining when the dollar appreciates and vice versa. In turn, this reflects the *de facto* veto of the United States in preventing the institution from shifting its unit of account from the US dollar to the SDR (unlike the IMF, which began using the SDR more than two decades ago).
27. The proposals called for an increase in the contractual loan spread by 30 basis points (from 50 to 80 basis points above the Bank’s funding cost), charging borrowers a 1% (100 basis points) front-end fee, maintaining the commitment fee (75 basis points) along with a one-year waiver of 50 basis points, and eliminating for FY 1999 and 2000 the 25 basis-point interest rate waiver the World Bank offers to borrowers that service their debts on time. The Board eventually agreed to increase the contractual loan spread from 50 to 75 basis points, introduce a one percent front-end fee, the commitment fee was maintained, and the 25 basis-point interest rate waiver was reduced to five basis points on existing loans (i.e., loans with a contractual loan spread of 50 basis points) while it was maintained at 25 basis points for new loans i.e. those contracted at 75 basis points spread.
28. IBRD (1998a,b, R98-134, paragraph 23).
29. IBRD (1998a,b, R98-134, paragraph 34).
30. Kapur *et al.* (1997, Chapter 18).



31. The average for the 1960s is from FY 1966–70. For the 1970s the figures are for FY 1971–80, for the 1980s FY 1981–90 and for the 1990s FY 1991–2000. The World Bank's fiscal year runs from July 1 to June 30.
32. Corporate management expenditures include the Board and Executive Directors offices, Development Committee, the Executive Office, the Secretary's department, the Inspection Panel, OED, the Administrative Tribunal, the Ombudsman and Appeals, and External Affairs.
33. Kapur *et al.* (1997, Chapter 17).
34. See Naim (1996).
35. Another alleged reason is the fear of developing countries that budget cuts would adversely affect their nationals employed in the Bank.
36. I would like to thank one of the anonymous reviewers of this paper for flagging this important point.
37. At the time of writing, the status of this initiative was under review.
38. The FY 2000 budget figures for the External Affairs Unit of the Bank are \$26 million and for DEC (Development Economics), \$36 million. The Operations Departments have a budget item, "External Partnerships and Outreach"—the budget figures for which were \$21 million in FY 2000. Some of this is genuine partnership and some of it is public relations. Assuming that half of this last item is the latter budgetary expenditures for public relations in FY 2000 were \$36.5 million while research was \$36 million. The data are from "World Bank Programs and Budgets FY01," June 8, 2000.
39. See, for example, Rao (1999) and Sen (1999).
40. On these topics, see Sandler (1999), Kapur (1999) and Kanbur *et al.* (1999).
41. The rate of remuneration is the interest rate the IMF pays on a member's average remunerated reserve tranche position—that part of its reserve tranche that is equal to the difference between the member's *norm* and the IMF's holdings of its currency (other than excluded holdings). The rate of charge is the interest rate paid by a member when it borrows (purchases) other members' currencies or SDRs from the IMF.
42. Boughton (1999, Chapter 17).
43. The G-7 pressed the IMF to charge higher rates from its long-term borrowers at its Okinawa summit in July 2000, prompting the IMF's Managing Director to remark, "I don't think it should have been necessary that the G-7 had gone on the market with their ideas. I would have preferred the G-7 would have presented their ideas in the IMF within the normal working process of the Fund." Transcript of a Question and Answer session following an Address by IMF Managing Director Horst Köhler, National Press Club, Washington, DC, August 7, 2000. Available at: <http://www.imf.org/external/np/tr/2000/tr000807.htm>.
44. Notable works include those by Akyuz and Cornford (1999), De Gregorio, Eichengreen, Ito, and Wyplosz (1999), Kahler (1998), Rogoff (1999) and Sengupta (2000).

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