Passing the Buck: World Bank Anti-Corruption Reform and the Politics of Implementation

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Abstract: The World Bank Group's attempt to address governance and corruption (GAC) issues in borrower countries began in the late 1980s and continues through to today. This thesis examines the gaps between the Bank's official reform timelines and public rhetoric, and the actual implementation of corruption and governance controls at the project level. I examine a subset of Bank projects--mid sized transportation projects--as well as the case of Bank behavior in Indonesia, to illuminate the necessary incentive structures and stakeholder preferences to bring about effective GAC engagement in the Bank's lending behavior. The empirical results examined within this thesis support an argument for a complex principal-agent model of the Bank which necessitates a confluence of principal interests, as well as permissive economic and political circumstances, in order for reform to progress from talk to action.

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"The future is in our hands. We are not hapless bystanders. We can influence whether we have a planet of peace, social justice, equity, and growth or a planet of unbridgeable differences between peoples, wasted resources, corruption, and terror."

-James Wolfensohn, 9th President of the World Bank Group[1]

[1] Wolfensohn, James D. "A Better World is Possible: The President of the World Bank Calls for Responsible Growth that Addresses Social and Environmental Concerns as Well as Economic Goals." *The Futurist* 37.4 (2003).

Chapter 1. Introduction and Literature Review

1.1 Introduction:

Within the field of International Relations, international organizations (IOs) represent a large subset of the institutional framework through which global politics operates. Theory of IO behavior, however, is contentious: are IOs merely responsive to global political climate, or do the institutions themselves have agency, beliefs, and norms that guide their behavior? And if these organizations do act independently, to what extent is their action shaped by the bureaucratic structure, incentives, and culture within the organization itself? Does reforming IOs merely entail more insulation to avoid politicization, or does reform demand change to the institutional and bureaucratic framework? This thesis engages these questions with respect to the reform of one highly contentious IO: the World Bank.

Founded in 1944 as a Bretton Woods institution, the World Bank now comprises both the International Bank for Reconstruction and Development (IBRD) and a later, more development-oriented addition, the International Development Association (IDA).[2] Although initially designed to deal with post-World War II reconstruction, the modern IRDB works primarily by making loans to developing countries. The IDA, created in 1960, uses donor funds to provide grant-based development aid. Both bodies together form the World Bank, which today states its mission as to "End extreme poverty within a generation and boost shared prosperity."[3] On an executive level, World Bank leadership and governance falls to the President, the Board of Directors, and the executive board. The Board of Governors represents the 186 member

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[2] World Bank Group. "History." *Worldbank.org*. http://www.worldbank.org/en/about/archives/history (accessed Feb 2016).
[3] World Bank Group. "About." *Worldbank.org*. http://www.worldbank.org/en/about (accessed Feb 2016).

countries of the World Bank, with each country represented by one Governor and one Alternate Governor. However, this body convenes only annually. The President and the Board of Directors work on-site at the bank, and exert much more continuous influence over the Bank as an institution.[4] The President and Board of Directors exercise the Bank's power of approval or disapproval over applications for credit and grants by recipient countries.[5]

The World Bank's institutional management involves significant leadership on the part of the Executive Directors. The Executive Directors comprise 25 individuals, with a representative from China, France, Germany, Japan, the U.K., and the U.S., as well as 19 other directors elected by member state vote.[6] These directors meet as a board twice weekly, typically on Tuesdays and Thursdays, approving IBRD loans and IDA grants, country strategies, and other matters of Bank policy and operations.[7] The Executive Board reviews hundreds of documents a week, reaching decisions by consensus and rarely conducting formal votes.[8]

The World Bank Group presidency is generally held by an American political, financial, or development leader, and is appointed directly by the American government.[9] The president enacts strategic plans for the Bank, can instigate institutional changes and reforms, and serves as a public advocate for the Bank's mission.[10] The Bank president serves a five-year term, and works to improve the Bank as an institution and a development agency, with significant

[4] World Bank Group. "Directors." *Worldbank.org.* http://www.worldbank.org/en/about/leadership/directors (accessed Feb 2016).
[5] World Bank Group. "Directors." *Worldbank.org.* http://www.worldbank.org/en/about/leadership/directors (accessed Feb 2016).
[6] Bretton Woods Project. "The World Bank board of executive directors." *Brettonwoodsproject.org*. http://www.brettonwoodsproject.org/2005/04/art-174885/ (accessed Feb 2016).
[7] Bretton Woods Project. "The World Bank board of executive directors." *Brettonwoodsproject.org*. http://www.brettonwoodsproject.org/2005/04/art-174885/ (accessed Feb 2016).
[8] Bretton Woods Project. "The World Bank board of executive directors." *Brettonwoodsproject.org*. http://www.brettonwoodsproject.org/2005/04/art-174885/ (accessed Feb 2016).
[9] Lavelle, Catherine. "American Politics, the Presidency of the World Bank, and Development Policy." *The World Bank Group Archives: Information Management and Technology Department* (2013): 2.
[10] Lavelle, Catherine. "American Politics, the Presidency of the World Bank, and Development Policy." 2-3.

influence from the American governments to which they have ties.[11] Beginning in the 1990s through the present, the rise of private lending for development has begun to exceed official aid spending, creating doubt and uncertainty about the Bank's relevance on the international scene.[12]

The rest of the Bank's governance structure comprises member states with voting powers, with these states split into groups of net creditors and net lenders. Bank membership includes 188 member states in the loan-focused International Bank for Reconstruction and Development (IBRD) and 177 members in the more grant-based International Development Association (IDA).[13] The World Bank Group allots voting powers in rough proportion to 'shareholder' status, with countries that provide greater funding for the Bank (such as the United States) possessing greater voting powers than countries who contribute little to the Bank or are net borrowers from the institution.[14] These voting shares (along with executive appointments and other features of governance) stem from the Bank's conception as a result of the Bretton Woods conference near the end of World War II.[15]

Beginning in the late 1980s, discussion of governance and corruption in developing countries, and its effects on development, began to permeate the development world as the best next horizon for increasing aid effectiveness. The World Bank, as a multilateral lender and development agency who at the time was considered to be apolitical, was caught in the middle of this debate and pursued various reforms in order to engage with these issues, which this thesis explores in detail throughout. However, as with many reforms, there lies a crucial difference

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[11] Lavelle, Catherine. "American Politics, the Presidency of the World Bank, and Development Policy." 5.
[12] Lavelle, Catherine. "American Politics, the Presidency of the World Bank, and Development Policy." 19.
[13] World Bank Group. "Members" *Worldbank.org*. http://www.worldbank.org/en/about/leadership/members#5 (accessed Feb 2016).
[14] Leech, Dennis and Robert Leech. "Voting Powers at the Bretton Woods Institutions." *Homo Oeconomicus* 22.4 (2005): 611.
[15] Leech, Dennis and Robert Leech. "Voting Powers at the Bretton Woods Institutions." 611-613.

between a formal policy change and a thorough adoption of new norms and practices, the phenomenon of which was demonstrated at length in Catherine Weaver's seminal work on the World Bank, *Hypocrisy Trap* (2010). As Weaver explores, the Bank's attempts to instill new practices throughout their massive bureaucracy frequently progresses slowly, if at all. Dramatic changes in formal policy frequently result in lackluster changes throughout the organization, leading the Bank to lag behind other development groups, even while paradoxically serving as a norm-setter throughout much of the development world. Aligned with this manner of investigating the Bank's behavior and performance, this project seeks to understand how the World Bank adapted to deal with governance and corruption in borrower countries, with a focus on how, when, and why these practices were institutionalized. Through investigating the mechanisms through which the governance and corruption agenda progressed from rhetoric to lending practice, this thesis gains insight into fundamental questions of which groups among the Bank's vast network of institutional hierarchy and external stakeholders possess the ability to affect true institutional change.

1.2 Literature Review

This thesis seeks to understand the process of World Bank reform pertaining to governance and corruption (GAC) in projects, focusing on both the political pressures under which reform occurred, and the range of dynamics governing reform implementation. This thesis distinguishes between the political aspects of Bank reform insofar as the Bank is embedded in global politics, as well as the organizational perspective of reform implementation, in practice, at the project level. This section of the thesis reviews the current literature regarding both aspects of the Bank's behavior.

The first relevant body of literature includes the existing scholarship and theoretical perspectives on IO behavior and reform. The realist perspective holds that IO behavior is a function of global geopolitics, and that "the term IO is a reference to the specific patterns of order that can arise from great-power self interest and interactions."[16] Through this lens, IO behavior and reform are entirely determined by the preferences and behavior of major powers, leaving no agency to the organizations themselves. Certain findings relating to the World Bank make it clear that this is certainly a factor. World Bank loan allotment as a tool of political influence has been well demonstrated by James Raymond Vreeland and Axel Dreher's work on countries' high attainment of World Bank loans during the terms of non-permanent United Nations Security Council members.[17] However, although this perspective poses a determinant of IO behavior, it fails to fully explain exactly how such organizations navigate conflicting pressures in their environments. The geopolitical view presupposes that IOs are unitary actors with no independent agency, an assumption challenged from both directions by the following perspectives. Likewise, such a perspective treats international organizations as more international than organization, and fails to account for organizational forces that may shape behavior, as will be investigated later in this section.

Perspectives that grant IOs agency draw from sociological and resource-dependence perspectives to understand IO behaviors, but may understand IOs as unified actors and recognize no difference between IO leadership and employees when investigating 'organizational behavior'. Barnett and Coleman (2005) treat IOs as actors with agency which "choose among a set of strategies in order to pursue their goals in response to changing environmental

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[16]Weiss, Thomas G. and Rorden Wilkinson. *International Organization and Global Governance.* New York City: Routledge (2014).
[17]Vreeland, James Raymond and Axel Dreher. *The Political Economy of the UN Security Council.* New York City: Cambridge UP (2014):157-159.

pressures."[18] (593). These goals, they argue, involve the IO (1) furthering their mandates, (2) surviving securely, and (3) increasing their autonomy.[19] Strategies taken by IOs depend on depend on two dimensions relating to the environmental pressures at hand, depicted in the following diagram.[20]

Cultural incongruity	*Organizational security*	
	Low	*High*
Low	Acquiescence	Compromise
High	Avoidance, manipulation, strategic social construction	Defiance, manipulation, strategic social construction

Table 1. Barnett and Coleman's (2005) characterization of how an international organization will respond to pressures, based on the degree to which pressures run against current organizational culture (cultural incongruity) and the amount of autonomy and independent security granted to the organization (organizational security).

As posited in the table, organizational strategy will be determined by both the organization's security (in terms of both normative salience and resource dependence) as an entity and the degree to which the demanded changes cohere with the organization's culture. This model seems to understand a coherent or unitary culture, and an IO that engages in a largely unified strategy response based on the salient organizational culture. In this sense, it may apply better to more uniform bureaucracies than the World Bank, but does provide an entry-point for acknowledging cultural factors that very likely shape certain elements of IO action. Although Barnett and Coleman apply this to Interpol, this thesis considers this framework as well in attempting to understand why the World Bank pursues reform in the way in which it does. Moreover, certain analogous moments in Interpol's reorientation towards incorporate fighting terrorism into its

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[18] Barnett, Michael N., and Liv Coleman. "Designing Police: Interpol and the Study of Change in International Organizations." *International Studies Quarterly* 49 (2005): 593.

[19] Barnett, Michael N., and Liv Coleman. "Designing Police: Interpol and the Study of Change in International Organizations." 597-598.

[20] Barnett, Michael N., and Liv Coleman. "Designing Police: Interpol and the Study of Change in International Organizations." 600.

mandate and sphere of influence can help provide insight into the Bank's attempt to involve itself with GAC issues.

Engaging more with the 'dysfunction' side of IO behavior, Barnett and Finnemore (1999) adopt the perspective of sociological institutionalism to understand IO behavior. From this vantage point, they argue that bureaucratic norms, the "impersonal, generalized rules that define bureaucracies," can "make them unresponsive to their environments, obsessed with their own rules at the expense of primary missions, and ultimately lead to inefficient, self-defeating behavior."[21] Relating to the Bank, this highlights a tension which runs throughout this investigation, looking at the relationship between Bank leadership, which is deeply embedded in the political world, and Bank employees, whose incentives are more reliant on the institutional structure, including such apolitical factors as their own likeliness to be promoted. However, the political dimension of this perspective also clearly applies to World Bank reform. Barnett and Finnemore note that organizations such as the World Bank rely on both the "legitimacy of the rational-legal authority they embody" and "control over technical expertise and information."[22] That both of these legitimizing mechanisms hinge on the de-politicization of such institutions proves ironic as the institutions themselves are often mandated to resolve politically occurring problems.[23] This conflict between pressure to remain apolitical and inherent politicization manifests directly in this case study of Bank reform regarding GAC issues, as corruption is heavily politically embedded and yet the Bank must attempt to handle in an objective, technocratic way. This thesis attempts to deal with the political pressures surrounding these

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[21]Barnett, Michael N., and Martha Finnemore. "The Politics, Power, and Pathologies of International Organizations." *International Organization Int Org* 53.04 (1999): 699-700.
[22]Barnett, Michael N., and Martha Finnemore. "The Politics, Power, and Pathologies of International Organizations." 707.
[23]Barnett, Michael N., and Martha Finnemore. "The Politics, Power, and Pathologies of International Organizations." 708.

reforms as part of a complex balance between the Bank's legitimacy as an apolitical but technically skilled institution, global expectations of the Bank as enacting anticorruption norms, and reliance on donor states (all of whom have their own political objectives relating to corruption).

Another relevant body of literature deals with World Bank reform and dysfunction, predominantly employing sociocultural or principal-agent frameworks to examine the decoupling of World Bank policy and organizational behavior. Catherine Weaver's book *Hypocrisy Trap* is arguably the cornerstone of recent World Bank literature, arguing that difference between the Bank's 'talk' and 'action' generally "reflect continuous tension within and between external and internal pressures."[24] This thesis will rely partially on Weaver's historical documentation of the Bank's governance and corruption reforms, as Weaver's book provides rich historical data (as well as internal perspectives due to an ethnographic/interview centered approach). However, this thesis challenges aspects of Weaver's sociocultural argument that the Bank's internal culture dooms the institution to stagnation and organized hypocrisy. Although culture is certainly a powerful force in institutional performance, there are a number of analyses that call upon both principal-agent frameworks and cultural explanations with which this thesis aligns more fully.

Among these hybrid approaches, Weaver and Leiteritz argue that the Bank culture's effect is "path-dependent," limiting the translation from changes in formal structure to "meaningful and sustainable changes in organizational behavior."[25] This loosens the sociocultural lens to allow that the organization can alter incentives, values, and other

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[24] Weaver, Catherine. *Hypocrisy Trap*. Princeton: Princeton UP (2009): 93.
[25] Weaver, Catherine and Ralf Leiteritz. "'Our Poverty is a World Full of Dreams': Reforming the World Bank." *Global Governance: A Review of Multilateralism and International Organizations* 11.3 (2005): 370.

institutional pieces that shape individual behavior, but that culture can warp the effects of such changes. The translation from formal structural changes to organizational behavior relies not only on the official reform, but also on the understanding and adoption of the reform protocols throughout the organization. Weaver and Nelson speak to this point as well, arguing that "organizational culture derives from the basic need for stability, consistency, and meaning" and that, therefore "uncertainty and complexity drive decision makers to develop routines and provide predictable means of responding to daily tasks."[26] In this vein, Weaver and Nelson proceed to argue that IOs such as the World Bank are 'open systems,' and therefore "the assumption that [their culture] is hermetically sealed from external pressure, competition, political and cultural elements swirling in the international environment is implausible."[27] Such analyses maintain that institutional culture produces powerful effects on the Bank, but that it can be affected by changing rules, norms, and ideas from both within and outside the Bank. Culture exerts certain pressures, but is also malleable and environmentally responsive, although perhaps less so than the Bank's policy.

Another body of literature lands a little further on the principal-agent end of the spectrum, while still incorporating both theoretic perspectives. Nielson, Tierney, and Weaver argue that the "quantity and quality of information about agent actions" available increases the potential for accountability between principals and agents, and that "change (in the desired direction) is more likely when...information asymmetries are resolved."[28] Applied to the Bank, this argument allows for considerable cultural influence, as Nielson et al argue that "where new

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[26] Weaver, Catherine and Stephen Nelson. "The Cultures of International Organizations." *The Oxford Handbook of International Organizations* ed. Katz Cogan, Jacob, Ian Hurd, and Ian Johnstone. Oxford: Oxford UP (2014).
[27] Weaver, Catherine and Stephen Nelson. "The Cultures of International Organizations."
[28] Nielson, Daniel L., Michael Tierney and Catherine Weaver. "Bridging the Rationalist-Constructivist Divide: Engineering Change at the World Bank." *Journal of International Relations and Development*, 9.2 (2006): 110.

rules clashed with previous norms and practices, the results have been mixed and the numbers may represent the degree of actual change in project management" due to the difficulty of engineering formal changes in a way that coheres with Bank culture.[29] In essence, this argument relates the credible enforcement of institutional changes to the adoption of these changes throughout a bureaucracy like the Bank's. Where ambiguity remains, or rules are unenforceable, culture can override official changes, preserving pre-existing organizational behaviors.

Principal-agent literature specific to World Bank reform speaks to the role of the Bank's diverse principals. This point of view highlights member countries, Bank hierarchy (such as the President, Board of Governors, or other powerful agents in the Bank's structure), and sector/area level executives as members of either collective principals or nested principal-agent problems in facilitating organizational change.[30] Within this complex principal-agent setup "member countries must solve collective action problems multilaterally before motivating their agents" resulting in cases in which "IOs...receive marching orders from organizationally distinct principals" which can result in conflicting environmental pressures.[31] From this perspective, slow organizational reform would reflect the challenges of implementing complicated and often conflicting mandates from diverse principals. Arduous or ineffective reforms stem from the nature of the Bank's environment rather than the institution's own maladies. It is worth noting, however, that even within this model, Nielson and Tierney note the difficulty of "delegating without losing control," given that "IO agents act at the end of a long 'chain of delegation'

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[29] Nielson, Daniel L., Michael Tierney and Catherine Weaver. "Bridging the Rationalist-Constructivist Divide: Engineering Change at the World Bank." 129.
[30] Nielson, Daniel L. and Michael J. Tierney. "Delegation to International Organizations: Agency Theory and World Bank Environmental Reform." *International Organization* 57.02 (2003): 241-276.
[31] Nielson, Daniel L. and Michael J. Tierney. "Delegation to International Organizations: Agency Theory and World Bank Environmental Reform." 242.

making transfer of commands fairly complex."[32] The accountability mechanisms they mention to facilitate proper delegation, such as screening, monitoring, contract arrangements, and checks and balances within the bureaucracy, all require perceived credible commitment on the part of the Bank employees to whom they pertain. The need for credibility and mutual understanding in a pure principal-agent model opens a clear area in which organizational culture remains relevant; and for this reason this analysis of the Bank incorporates insights from both points of view.

Through this survey of the literature spectrum from sociocultural to principal-agent theory of World Bank reform, this thesis highlights a few key insights in hypothesizing the way in which organizational change could proceed at an IO like the World Bank. Firstly, across the principal-agent analyses, the role of information at all levels of organizational interaction seems clear. Clear communication between different stakeholders and principals, as well as the ability to credibly commit to the organizational change in question, are paramount. Secondly, the sociocultural literature informs that where principals are unclear or stated changes conflict, culture provides a necessary heuristic to individual actors attempting to navigate a dizzyingly complex and rapidly evolving institutional world.

A final relevant area, the economic and sociological literature on organizational behavior and decision-making helps inform the central inquiry of this thesis into the World Bank, conceived of fundamentally as an organization in a heterogeneous demand and regulatory environment. Relating to the prior section on Bank reform, this literature deals more heavily with the organizational side of principal-agent problems and culture, providing guidance for certain methodological and theoretical commitments made in this thesis.

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[32] Nielson, Daniel L. and Michael J. Tierney. "Delegation to International Organizations: Agency Theory and World Bank Environmental Reform." 246, 242.

Preeminent in the field of organizational theory, James March argues that due to both time and inadequate information or informational unreliability, decisions may be attributable to "the routine way in which people do what they are supposed to do."[33] Within the context of an organization, decisions become even more convoluted, "involv[ing] an ecology of actors trying to act rationally with limited knowledge and preference coherence; trying to discover and execute proper behavior in ambiguous situations; and trying to discover, construct, and communicate interpretations of a confusing world."[34]

The organizational theory literature presents a final key window into this analysis. Although the World Bank is perhaps not the typical 'firm' frequently conceptualized by organizational theorists, literature regarding ways in which organizations function is nonetheless relevant to the Bank as an organization. Central to the field, Edgar Schein provides a strong baseline definition for organizational culture:

> "culture can be defined as (a) a pattern of basic assumptions, (b) invented, discovered, or developed by a given group, (c) as it learns to cope with its problems of external adaption and internal integration, (d) that has worked well enough to be considered valid and, therefore (e) is to be taught to new members as the (f) correct way to perceive, think, and feel in relation to those problems"[35] (1990, p. 111).

This concept is relevant to my undertaking as it highlights the role of shared assumptions in an organization, as well as behaviors shaped informally that can nonetheless affect organizational practice. Schein argues that reform failure is frequently attributable to a lack of understanding of organizational culture.[36] This thesis will not attempt to rigorously describe all of the ways in which the Bank's culture manifests. However, Schein's embedding mechanisms for culture (such as "what leaders pay attention to, measure, and control" or "operational criteria for the allocation

[33] March, James G. "How Decisions Happen in Organizations." *Human-Computer Interaction* Vol 6 (1991) 105.
[34] March, James G. "How Decisions Happen in Organizations." 111.
[35] Schein, Edgar. "Organizational Culture". *American Psychologist*, 45.2 (1990): 111.
[36] Schein, Edgar. "Organizational Culture". 118.

of rewards and status"[37]) should clearly be relevant to even the more principal-agent style analysis, especially insofar as the Bank deals with issues of credible commitment from members of its leadership. As Gutner and Thompson point out, the World Bank's institutional norms are also affected by environmental factors outside of the Bank's control.[38] Relatedly, Barnett and Finnemore describe cultural processes which normalize bureaucratic 'deviance': "at times...bureaucracies make small, calculated deviations from established rules...explicitly calculating that bending the rules in this instance does not create excessive risk of policy failure. Over time, these exceptions can become the rule."[39] These misbehaviors become culturally embedded as well, as new hires may not even realize that such common practices do not follow official protocol. The need to target these cultural subtleties makes reform very challenging.

Another theory in this field argues that adaptive behavior by organizations requires interpretation of their environmental feedback; that individuals within an organization "come to believe what happened, why it happened, and whether it was good."[40] This interpretation gives rise to organizational "myths, fictions, legends, folklore, and illusion" which weaken the accuracy with which individuals within an organization understand the organization's environment.[41] Relating back to the Bank, the role of culture becomes a veil between the Bank and the political and economic spheres in which it practices, with individual interpretation based on shared culture making the institution overall less responsive to change. As discussed

[37] Schein, Edgar. "Organizational Culture". 115.
[38] Gutner, Tamar and Alexander Thompson. 2010."The politics of IO performance: A framework. "*Review of International Organizations* 5 (2010): 235.
[39]Barnett, Michael N., and Martha Finnemore. "The Politics, Power, and Pathologies of International Organizations." 721-22.
[40] March, James and Johan Olsen. "The Uncertainty of the Past: Organizational Leadership under Ambiguity." *European Journal of Political Research* 3.2 (1975): 148.
[41]March, James and Johan Olsen. "The Uncertainty of the Past: Organizational Leadership under Ambiguity." 160.

throughout, the theories discussed in this section inform this project's orientation, and will be analyzed and applied throughout the thesis.

Keeping these perspectives in mind, this thesis incorporates a basic principal-agent structure, informed by both political and organizational points of view, to explain the intricacies of World Bank reform on governance and corruption issues in project and country strategy. However, this thesis makes a slightly more nuanced hypothesis: that reform and implementation for a multi-stakeholder, hierarchically complex organization such as the World Bank demands a 'critical mass' of principal preference alignment, clear communication, and credible changes in incentives in order to counteract the stagnating effects of culture during periods of institutional reform. Through investigating the Bank's reform efforts and behavioral changes with respect to governance and corruption (GAC) issues in infrastructure projects between 1987 and 2007, as well as pursuing a more in-depth look at the case of Indonesia, this thesis aims to provide an argument for this layers-of-governance theory of World Bank reform, with implications for the Bank as well as other multilaterally governed international actors.

Chapter 2. Theoretical Frameworks, Hypotheses and Methods

This thesis investigates the timeline for reform implementation within World Bank operations as it pertains to the Governance and Corruption (GAC) agenda. As discussed previously, GAC issues with Bank loans are a problem of interest to many stakeholders, and as such an interesting area in which to investigate broader questions of Bank governance. This investigation differs from others literature given the focus on reform *implementation* rather than executive action or reform legislation. The emergence, development, and implementation of the GAC agenda—which does not happen immediately upon formal adoption of GAC policies—allows insight into the governance mechanisms that affect the World Bank's capacity to reform and respond to its environment.

Various frameworks offer diverse predictions for the Bank's organizational change, and would expect different stakeholders or environmental pressures to result in reform implementation. This section first lays out the hypotheses offered from the sociocultural organizational perspective, the perspective of the geopolitical 'realist', and a standard principal-agent approach to IOs. The fourth theoretical perspective outlined in this section, a "layers of governance" principal-agent hypothesis, is this thesis' contribution to current analytical frameworks. Each conceptual sub-section first lays out the background assumptions of such a hypothesis, drawing on previous work, to explain what each framework would predict for the Bank's reform with respect to the GAC agenda. Each sub-section also explains in detail why this framework should apply to the Bank, insofar as there is evidence that the Bank fits the theoretical underpinnings of the framework. Finally, each section presents a hypothesis for the

Bank's behavior drawn from the framework, and explores the means by which this thesis will investigate the hypothesis.

2.1 Four Theoretical Perspectives on World Bank Reform

The Sociocultural Perspective: A Bank Unchanged

The sociocultural view of organizational behavior relies on the notion that international organizations, such as the World Bank, are at essence still organizations subject to the cultural pressures and functional pathologies that affect other bureaucracies. This framework, also referred to as sociological institutionalism, examines the organized dynamics within institutions in order to assess and understand organizational behavior.[42] Although embedded in the political world, international organizations (as an aggregate of individual workers) rely on "impersonal, generalized rules that define bureaucracy"[43] and, within these rules, develop a culture in response to "the basic need for stability, consistency, and meaning" in their work.[44]

This perspective takes IOs to be potentially responsive to their environments in various ways. While the organization as a whole can be shaped by environmental forces, especially with respect to its goals and boundaries,[45] internal dynamics and cultural practices of employees exert influence on organizational behavior. On this view, members of organizations may use the organization to their own ends, potentially warping specifics of the organizational mission in order to make it cohere with personal goals.[46] Due to personal influence and diverse institutional

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[42] Barkin, Samuel J. *International Organization: Theories and Institutions*. New York: Palgrave MacMillan (2006). 34.
[43] Barnett, Michael N., and Martha Finnemore. "The Politics, Power, and Pathologies of International Organizations." *International Organization* 53.04 (1999): 699.
[44] Weaver, Catherine and Stephen Nelson. "The Cultures of International Organizations" from *The Oxford Handbook of International Organizations* ed. Katz Cogan, Jacob, Ian Hurd, and Ian Johnstone. Oxford: Oxford UP, 2014, 3.
[45] Ness, Gayl D. and Stephen R. Brechin. "Bridging the gap: international organizations as organizations." *International Organization* 42.2 (1998), 249.
[46] Ness and Brechin, "Bridging the gap: international organizations as organizations," 246.

incentives, organizations over time develop internal cultures that inform staff behavior, and can create organizational dysfunction.[47] In certain cases, these cultures come to govern behavior, as organizational theory holds that bureaucracy prioritizes its own survival over mission accomplishment,[48] and that bureaucracies will thus alter their missions in order to cohere with current, comfortable institutional rules.[49] The bureaucratic rules framework is further complicated by 'calculated deviations' from institutional rules, routinized over time in organizational practice.[50]

The relationship between culture and organizational pathology consists in the ways that the organizational culture comes to dictate staff behavior, particularly in ways inconsistent with the organization's formal rules and practices. The leeway for this cultural creep into operational behavior arises from ambiguity, of which the Bank has plenty due to a formal but vague mandate of 'poverty alleviation' and a proliferation of informal mandates adopted and dismissed over time in response to pressure inside and outside of the organization.[51] As noted above, cultural dictation of employee behavior can occur in a number of ways. Bureaucracies reinterpret their missions to fit pre existing rules with which they are more comfortable, apply technical knowledge universally (even where inappropriate), and establish cultural conventions regarding ways in which organizational rules can be broken with little accountability.[52] Although in any

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[47] Barnett, Michael N., and Martha Finnemore. "The Politics, Power, and Pathologies of International Organizations." 728.

[48] Abbott, Kenneth and Duncan Snidal. "Why States Act through Formal International Organizations." *Journal of Conflict Resolution* 48.1 (1999): 5.

[49] Barnett, Michael N., and Martha Finnemore. "The Politics, Power, and Pathologies of International Organizations," 720.

[50] Barnett, Michael N., and Martha Finnemore. "The Politics, Power, and Pathologies of International Organizations," 722.

[51] Sarfaty, Galit. *Values in Translation: Human Rights and the Culture of the World Bank*. Palo Alto: Stanford UP (2012). 77.

[52] Barnett, Michael N., and Martha Finnemore. "The Politics, Power, and Pathologies of International Organizations," 720-722.

given instance, culture may act subtly or seem hardly to affect organizational operation, the ‘glacial’ pace of cultural change[53] becomes extremely relevant when an organization attempts reform. Change in rules and formal institutional practices must often combat behaviors and norms entrenched by the institution’s culture. Certain observed elements of the Bank’s institutional culture and bureaucratic practices correspond well with this theoretical perspective, and provide an explanation for the Bank’s reticence to implement the GAC agenda.

Firstly, the Bank’s lending culture is characterized by a pervasive ideology that prioritizes getting money out of the proverbial door as a reliable indicator of individual and team productivity within the Bank. This imperative refers to the organizational fact that individual success relates directly to disbursement of Bank funds via projects, with little oversight or accountability for the projects’ ultimate success.[54] The Bank’s culture notoriously relies on “getting a project to the board” with peer “intellectual brownie points” relying on the stats an individual can claim for project size and efficiency, a norm which becomes quickly evident to new Bank employees.[55] This ‘approval culture’, notably, also functions much more broadly on an institutional level (rather than just employee-to-employee social pressure). A comprehensive, relatively uncensored 1992 report regarding the Bank’s organizational tendencies noted that disbursement pressure resulted in both ‘pervasive appraisal optimism’ and ‘approval culture’ which resulted in pressure throughout the institution on staff to prioritize lending quantity over loan quality.[56] A critic of cultural explanations of the Bank’s behavior might argue that claiming a unified Bank culture would oversimplify the cultural dynamics of the Bank’s notoriously vast bureaucracy (with a staff that fluctuates between nine and eleven thousand employees from a

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[53] Nielson, Tierney, and Weaver. “The Rationalist-Constructivist Divide,” 113.
[54] Barkin, *International Organization: Theories and Institutions*, 35.
[55] Sarfaty. *Values in Translation*, 77.
[56] Sarfaty, *Values in Translation*, 87, and Weaver, *Hypocrisy Trap*, 147.

variety of professional backgrounds). However, although various subcultures have been acknowledged within professions or sectors within the Bank,[57] the Bank's own evaluations (as mentioned above) find certain cultural elements to be *pervasive* and *characteristic* throughout the Bank.[58] This thesis concerns itself primarily with these elements of Bank culture, as operational behavior as a whole institution relates obviously to institutionally prevalent cultural norms.

This lending imperative clearly comes into conflict with the GAC agenda, which demanded more attention to project design, in particular with respect to the client government and institutional strength of the borrowing country. The increased discretion, smaller lending volumes, and more painstaking procurement and disbursement plans necessary to safeguard projects against corruption in implementation would counteract a culture that incentivizes employees to neglect project evaluation and feedback.[59] Moreover, a culture that stresses disbursement provides employees with conflicting incentives in cases where governance concerns might be significant enough that a project ought not to be pursued.

Diffuse accountability throughout the Bank's large bureaucracy, including significant individual discretion on the part of Bank employees, enables individuals to resist changing their practices in response to executive action or shifting institutional rules, as well as more organized resistance to organizational reforms.[60] Bank employees are heavily influenced by their technical frameworks and (often extremely significant) professional training, and may ignore

[57] Phillips, David. *Reforming the World Bank: Twenty Years of Trial and Error*. Cambridge: Cambridge UP (2009): 101-102.
[58] Phillips, David. *Reforming the World Bank*. 98-99.
[59] Nielson, Tierney, and Weaver. "The Rationalist-Constructivist Divide," 116.
[60] Ascher, William. "New Development Approaches and the Adaptability of International Agencies: The case of the World Bank." *International Organization* 37.3 (1983), 420-22.

organizational mandates that contradict lessons or values from their professional perspectives.[61] Individual views of their roles as ‘technical’ can cause aversion towards more ‘political’ acts, such as negotiating with borrowing governments.[62] Bank employees speak to ethically ambiguous and concerning situations, which they avoid altogether when possible by further embracing a technical perspective on lending.[63] The dominance of economics as a discipline further pushes staff from engaging with more nuanced social dynamics with borrowers, as there is pervasive institutional pressure for such claims to be quantifiable and framed in economic terms.[64] Technocratic culture, whether arrived at due to the difficulty of the Bank’s mission or dominant academic ideology, runs counter to the GAC agenda in several ways.

The resulting technocratic, apolitical culture of the Bank further distorts institutional incentives with respect to the GAC agenda. A bank run largely by economists and engineers would likely have trouble implementing GAC reforms, which require a great deal of engagement in political situations, including tough conversations about borrower accountability with the leaders of borrowing states. Moreover, concern with borrower corruption may have difficulty gaining traction within the Bank, as corruption is notoriously difficult to quantify and accurately measure. Although economics as a discipline embraced a concern with institutions in the late twentieth century,[65] the specific ways in which corruption afflicts different borrowers would still be difficult to understand and harness effectively from a perspective of economic abstraction.

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[61] Ascher, “New Development Approaches and the Adaptability of International Agencies: The case of the World Bank,” 437-39.
[62] Ascher, “New Development Approaches and the Adaptability of International Agencies: The case of the World Bank,” 431.
[63] Sarfaty, *Values in Translation*, 78.
[64] Sarfaty, *Values in Translation*, 92.
[65] See “Institutions as a Fundamental Cause of Long Run Growth” by Daron Acemoglu, Simon Johnson, and James A. Robinson for a summary of both the changes in the economics literature and an extremely thorough exploration of the role of institutions in development.

A final cultural facet of the Bank, a focus on client relations and responsiveness, further complicates the relationship between the Bank's culture and GAC implementation. Although emphasized in Wolfensohn's Strategic Compact, the Bank's pressure for easy client relationships was noted in the 1992 Wapenhans report.[66] Client-focus as a cultural norm within the Bank follows easily from the Bank's approval culture and disbursement imperative,[67] and involved increased pressure on Bank staff to focus on responsiveness to country desires. Although debatably a more defensible norm, this cultural pressure also complicates the GAC agenda as anti-corruption measures are obviously difficult to push with a corrupt borrower government.

The strength of such cultural norms within the Bank reinforces the more abstracted perspective that IOs can become "recalcitrant" with "a life of their own, serving interests other than the rational and altruistic ends for which they were originally, at least publically, created."[68] This perspective, applied to the Bank, predicts that organizational dysfunction can undercut operations and render reform efforts mostly "cosmetic", as long as the Bank's culture and internal incentives remain in tacit competition with GAC reforms.[69] The GAC agenda, specifically, will fail as it contradicts the Bank's culture which (throughout the time of GAC reform) prioritized high lending volumes, a technocratic approach to lending, and smooth relationships with client governments.

The sociocultural perspective of organizational dynamics, therefore, argues that reform implementation will be heavily responsive to the nature of the reform, and will encounter challenges particularly when it contradicts prevailing organizational dynamics and salient cultural practices. Signals from top leadership, and even formal commitment to the GAC agenda,

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[66] Nielson, Tierney, and Weaver. "The Rationalist-Constructivist Divide," 116.
[67] Weaver, *Hypocrisy Trap*, 158.
[68] Ness and Brechin, "Bridging the gap: international organizations as organizations," 269-270.
[69] Barkin, *International Organization: Theories and Institutions*, 106.

will be problematic insofar as it demands that individual staff members change their routines, and difficult to insure without significant increases in oversight and accountability mechanisms. Laid out simply, this perspective grants the following hypothesis:

H_1* (Socio-cultural):* Even when formal GAC initiatives are enacted, implementation will remain weak and inconsistent.

In evaluating this framework's predictions, several indicators could be observed. A Bank governed by approval culture would likely not implement the GAC agenda as intended. Organizational behavior will change slowly and gradually, in response to increased oversight and other mechanisms to prevent routinized deviation or co-optation of changed rules, however oversight itself may fail if the culture fails to change towards a greater focus on accountability. Moreover, behavioral changes might merely express formal compliance with organizational function, but function to conceal organized deviance rather than reflect genuine changes: in these cases, the sociocultural perspective predicts that changes in expressed behavior would likely not lead to substantively different results in project outcomes. This thesis tests this hypothesis by ascertaining whether the GAC agenda achieves implementation (through the inclusion of GAC language and procedures in project design). To test the sincerity of project-level implementation, this project also compares perceived implementation to project success with respect to governance.

The Geopolitical Perspective: A Powerless Bank

The geopolitical realist perspective traditionally dismisses IOs, regarding states as the only important set of actors in international politics. The realist, concerned with state military power and global power balance, views IOs broadly as pawns of powerful nations, co-opted by countries in order to push global agendas, although still not terribly important in this respect for national influence. Insofar as IOs act, they act in reflection of the distribution of international power.[70] Even at the organizational level, IOs owe their creation and tailor their rules to the preferences of powerful states,[71] and thus reform is also a function of great power preferences. Likewise, were a reform to initiate from within the institution, it would only succeed insofar as it aligned with these preference structures.[72]

Various investigations have found significant supporting evidence for the politicization of World Bank lending, specifically with regards to American influence and other geopolitical dynamics. As noted in the literature review, an influential study found robust evidence for a dramatic increase in Bank lending to countries in the first year of their term on as non-permanent UNSC members.[73] This result has been explained as powerful creditor countries utilizing the World Bank as leverage to form voting alliances on the UNSC. In terms of more fine-grained organizational practices, the creditor-debtor dynamic can be recast as 'rule-making' and 'rule-taking', with respect to whom is allowed to push an issue agenda through an international organization,[74] as resource dependency makes it clear that creditors hold greater influence. Unsurprisingly, creditor status for international institutions frequently corresponds to national wealth, power, and military spending, cohering with the realist prediction that powerful states will be agenda-setting for IO practice.[75] Country power may also manifest in that poorer, less powerful countries will likely have much lower bargaining power, and therefore be forced to

[70] Mearsheimer, John. "The False Promise of International Institutions," *International Security*. 19.3 (1995), 9.
[71] Mearsheimer, "The False Promise of International Institutions," 13.
[72] Barkin, *International Organization: Theories and Institutions*, 8.
[73] See Dreher, Axel, Jan-Egbert Sturm, and James Raymond Vreeland. "Development aid and international politics: Does membership on the UN Security Council influence World Bank decisions?" Journal of Development Economics 88 (2009), 1-18.
[74] Lombardi, Domenico and Ngaire Woods. "The politics of influence: An analysis of IMF surveillance." *Review of International Political Economy* 15.5 (2008), 730.
[75] See Kundnani, Hans. "The Return of the German Question: Why Conflict between Creditor and Debtor States is now the Defining Feature of European Politics." EUROPP. London School of Economics, 26 Jan. 2015. for analysis of creditor lender dynamics with regards to agenda setting within the EU.

accept conditions for engagement with an IO that more powerful countries might be able to negotiate against.[76]

Viewed from this perspective, the Bank's organizational flexibility can be explained as a useful mechanism to efficiently manifest geopolitical influence. Each step in the Bank's organizational process, from project proposal to design and implementation reflect a balance of power dynamic, and the organization will act with unity to serve the purpose of influential states. Various behaviors, such as rushing a project through design phases to loan status[77], or refusing lending to certain countries, will be determined geopolitically by the preferences of powerful states and major donors. Illuminatingly, William Easterly, an influential economist who spent an early part of his career at the Bank, has been quoted arguing that, if a client country is significantly geostrategically important, the Bank will ignore a history of corruption in order to continue lending.[78]

The case for the Bank as subject to international geopolitical pressures relies on the extent to which American influence is built into the formal and informal features of the organization. The Bank's official history notes U.S. pressures significant enough to "cause the Bank to wage a constant war for its autonomy".[79] The Bank's location in Washington DC,[80] the dominance of American trained staff,[81] and the US's power in appointing the Bank's presidency[82] have all been noted as sources by which American power controls the Bank. American influence, although indirect, can notably influence other shareholders politically, and

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[76] Lombardi and Woods, "The politics of influence: An analysis of IMF surveillance," 730.
[77] Kilby, Christopher. "The political economy of project preparation: An empirical analysis of World Bank projects." *The Journal of Development Economics* 105 (2013), 212.
[78] Weaver, *Hypocrisy Trap*, 126.
[79] Phillips, *Reorganizing the World Bank*, 233. p.233 citing Catherine Gwin
[80] Phillips, *Reorganizing the World Bank*, 234.
[81] Phillips, *Reorganizing the World Bank*, 101.
[82] Phillips, *Reorganizing the World Bank*, 235.

act through the Bank president to select loans for submission to the board.[83] In another reflection of power-politics, individual Executive Board members enjoy 'semi-diplomatic status', in which they act as a liaison for their governments and can be pressured by their governments for strategic regions.[84] The Bank's Executive Board, which acts to designate which projects, strategies, and initiatives proceed within the organization, is therefore a highly politically-embedded body. Greater power dynamics between countries will likely manifest in this group's operations.

These concrete mechanisms of political influence within the Bank, particularly American influence, argues that operations relating to the GAC agenda will necessarily be part of a process controlled by political (particularly American) power. The degree of interconnectivity between American government and the various higher tiers of Bank management will result in reshaped GAC initiatives to satisfy American preferences, and cohere with other findings regarding the role of geopolitics in Bank operations. The GAC agenda will emerge as a result of American pressure on the institution, and organizational implementation will follow directly from the formal changes. Instances of failed implementation, likewise, will reflect a strategic choice to leave out GAC language in order to avoid angering geopolitically important governments.

H_2* (Geopolitical)*: Attention to the GAC agenda will proceed driven by American preferences, but will be implemented selectively dependent on the strategic relevance of the borrowing government.

This framework will be evidenced in a Bank that began to enact the GAC agenda only after it becomes a clear part of powerful state preferences. After this expressed preference, organizational change would be sudden and unified between executive action and staff

[83] Phillips, *Reorganizing the World Bank*, 236.
[84] Phillips, *Reorganizing the World Bank*, 249.

implementation. Insofar as the Bank embraces the GAC agenda, governments of geopolitical interest to the U.S. and other major powers would face diminished scrutiny in the application of GAC reforms, whereas less geopolitically important countries would be met with GAC initiatives. This agenda will persist in organizational behavior until great power preferences align with another Bank initiative. This thesis tests this hypothesis on the macro-level by discerning the relationship between American interests and the creation of the GAC agenda at the level of institutional leadership through engagement with the Bank's history, as well as at the project-level by evaluating whether GAC implementation corresponds with American interests at the project level. In finer detail, this thesis examines the link between geopolitical importance (using the established proxy of UNSC non-permanent membership) and GAC implementation at the project level.

The Principal-Agent Framework: The Role of Executive Power

The principal-agent framework finds a middle ground between sociocultural theory and geopolitical explanations to balance between granting IOs certain amounts of agency while conceiving of them largely as responsive to certain pressures. Wherein sociocultural theory values culture in determining outcomes, and geopolitical realism concerns itself with state power, principal-agent theory looks at the relationship between a principal and an agent who acts on behalf of the principal. Extremely generally, principal agent theory relies on noting the ability of one party (the principal) to influence the other party (the agent) to act on their behalf.[85] These relationships may be fraught with disparate preferences and misaligned incentives, complicating the ability of the principal to coordinate the agent's behavior. Difficulties in coordination and oversight, and transparency issues in either or both party can complicate their relationship, as the

[85] For a brief and straightforward explanation of PA theory, see the Financial Time's "Definition of Principal/Agent Problems" in their online lexicon dictionary at http://lexicon.ft.com/Term?term=principal%2Fagent-problem.

agent may be responsive to incentives that diverge from the principal's desires.[86] As applied to international organizations, legal insulation, high transaction costs for informational interchange, and complex or conflicting incentives,[87] decrease principal control of governing states over international organizations, making coordination difficult. However, such frameworks also grant that international organizations are largely 'permeable', in that stakeholders, such as both borrowing and donor countries, can largely exert influence on international bureaucrats.[88] Although IOs may be far removed from the most basic political principals, voters,[89] they can nonetheless be influenced by the principals that directly interact with them (member states).

A standard principal-agent analysis of World Bank action treats the Bank as an organization as responsive to the demands of member countries. The Bank (the agent) is hired by principals (national governments) in order to provide the good of lending.[90] The Bank serves as an efficient solution to coordinate donor and borrower needs, and acts in response to both. This framework also holds that donor countries will be more influential principals, as the Bank depends more on them than they do on the Bank.[91] Resource dependency plays a role in this relationship, as the Bank relies on member governments for funding, particularly IDA replenishment.[92]

With the principal-agent model applied in this direct way between governing states and the Bank as a unified organization, Bank reform proceeds from governing states formulating a

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86 Vaubel, Roland. "Principal-agent problems in international organizations." *Review of International Organizations* (2006), 131.
87 Vaubel, "Principal-agent problems in international organizations," 131.
88 Urpelainen, Johannes. "Unilateral Influence on International Bureaucrats: An International Delegation Problem." *Journal of Conflict Resolution* 56.4 (2012), 708.
89 Vaubel, "Principal-agent problems in international organizations," 136.
90 Nielson, Daniel L. and Michael J. Tierney. "Delegation to International Organizations: Agency Theory and World Bank Environmental Reform." *International Review of Law and Economics* 16 (1996), 245.
91 Barkin, *International Organization: Theories and Institutions*, 19.
92 See Hillman, Withers, and Collins (2009) "Resource Dependency Theory: A Review" for an excellent pocket version of the resource dependency literature.

preference, and the Bank responding to this preference. In this argument, a formal commitment from top Bank leadership, in the form of a new agenda, a new set of practice guidelines, or another institutional change, that signals to the rest of the organization a new protocol for organizational behavior. Insulated from any sort of direct democratic accountability, due to their role as employees rather than elected officials,[93] Bank staff will decline to respond to incentives other than the 'proximate principal', such as interest groups in member countries, deferring rather to the those directly in charge of their funding and employment.[94] Bank executives are frequently directed by the national governments that govern their appointments,[95] and organizational behavior aligns with principal demands. Several aspects of the Bank as an organization at the time of the GAC agenda's emergence intimate that the Bank should conform to the principal-agent model's predictions, altering institutional practices in response to principal demands on GAC issues.

Given executive action towards GAC reform, the Bank's staff should be motivated toward GAC implementation as an obvious component of their commitment to their professional obligations more generally. The Bank staff's composition of highly educated individuals, combined with the proliferation of research both within and without the Bank linking corruption to poor development outcomes, belies any explanation that staff's inadequate access to information regarding corruption's importance could serve as a genuine impediment. Survey results from the Bank indicate that staff was aware throughout of the implication of corruption

[93] See Woods, Ngaire "Unelected Government: Making the IMF and the World Bank More Accountable"; Brookings Spring 2003.
[94] Nielson and Tierney, "Delegation to International Organizations: Agency Theory and World Bank Environmental Reform," 250.
[95] Vaubel, "Principal-agent problems in international organizations," 133-134.

for business in development in developing countries.[96] Scholarship also emerged from within the Bank regarding how to address corruption in civil service and government[97] as well as regarding dealing with systemic corruption.[98] The salience of these reports among other corruption-related research are corroborated by the Bank's own analysis of the emergence of the GAC agenda, stating that a litany of reviews and analysis pointed towards governance and public sector management as critically related to project success.[99] The "watershed" 1997 report *Assessing Aid*, moreover, framed the importance of governance in "convincing quantitative terms," and is thus considered critical in the GAC agenda as a moment in which the reform became compelling even to the more purely economic-minded Bank staff.[100] These indicators point to a Bank staff well aware of the effects, mechanisms, and issues with corruption in projects and operations. Assuming a sort of baseline desire to do their jobs correctly, the organizational green light to implement this knowledge in projects should lead to substantial GAC implementation shortly following the introduction of formal protocols.

Likewise, the Bank's approach to GAC reform implemented changes frequently associated with strong agent responsiveness: budgetary control over organizational offices, hiring and firing, and means of extracting information.[101] During the Strategic Compact reorganization in 1996 and 1997, the major instance of institutional reform relating to the GAC agenda, the Poverty Reduction and Economic Management (PREM) group was created to bring

[96] Rose-Ackerman, Susan and Andrew Stone. "The Costs of Corruption for Private Business: Evidence from World Bank Surveys." Washington DC: World Bank Group (1996).
[97] Klitgaard, R. "Cleaning Up and Invigorating the Civil Service." Washington DC: World Bank Operations Evaluation Department (1996).
[98] Johnston, Michael. "What Can Be Done about Entrenched Corruption?" Paper presented at the Annual World Bank Conference on Development Economics, Washington, D.C., April 30-May 1, 1997.
[99] Girishankar, Navin. "World Bank Country-Level Engagement on Governance and Anticorruption." Washington DC: *World Bank Group IEG* (2011), 4.
[100] Weaver, *Hypocrisy Trap*, 110-111.
[101] Graham, Erin. "International Organizations as collective agents: Fragmentation and the limits of principal control at the World Health Organization." *European Journal of International Relations* 20.2 (2014), 373.

together individuals within the Bank with an interest in dealing with corruption, and had both analytical and operational responsibilities.[102] This reform also included an expanded legal department, with lawyers now working at the Bank to improve 'rule of law' reforms, as part of the governance agenda.[103] This set of institutional reforms also saw the establishment of a sanctions committee (in 1998).[104] This reorganization created formal institutional pathways for the GAC agenda within the Bank's operations, demonstrating the importance of the GAC agenda through budget allocation and hiring practices.

Through this theoretical lens, the pivotal moment for Bank reform is a clear and credible commitment from Bank executives to pursuing this new agenda, with the accompanying increases in inter-organizational information and mechanisms for employee adoption of the GAC reforms. The Bank's bureaucratic procedures should mostly align with formal rules and objectives-- management commitment to the agenda, demonstrated through institutional change and clear communication, resolves ambiguity and instructs the Bank's staff of the desires of their principals. Attention to the mandates of the PREM group, the increased 'rule of law' focus area for the Bank's legal staff, and the sanctions committee should proceed from the creation of those groups. Any incoherent lending results from incomplete information or confusing principal demands on a macro scale, between the Bank and its creditors. Notably, this perspective recommends that implementation will be most successful when handled by the organization,[105] and that principals should therefore mostly just involve themselves with formal agenda-setting. The principal-agent framework produces a hypothesis along these lines:

[102] Weaver, *Hypocrisy Trap,* 111.
[103] Weaver, *Hypocrisy Trap,* 111.
[104] Weaver, *Hypocrisy Trap,* 109.
[105] Urpelainen, "Unilateral Influence on International Bureaucrats: An International Delegation Problem," 727.

H_3* *(Standard Principal-Agent): GAC implementation will follow from institutional reforms to the Bank's official operating protocol with respect to GAC issues.

This hypothesis should manifest in an obvious, positive relationship between changes to the interpretation of the Bank's mandate to include GAC issues, stated executive preference for GAC engagement, and reform implementation. Concretely, the major strategic changes under Wolfensohn (in 1996-1997) towards naming corruption as an agenda item for the Bank, as well as creating working groups and oversight bodies to enhance the GAC agenda, ought to result in significant improvement of GAC design in projects. Mentions of GAC terms in project design should increase significantly in correspondence with Bank leadership's public and institutional commitment to tackling GAC in operations. The GAC strategy should be broadly applied to borrowing governments, as it has become part of standard Bank practice, and constitutes part of the organization's rule structure. Any shortcomings in implementation will be remedied by increased oversight and accountability within the organization.

An Elaborated Principal-Agent Model: Layers of Governance

Among the principal-agent literature, a variety of more complicated models exist to discuss the various delegation structures in international organizations. Multiple principals with complex demands, in the form of diverse member governments, can complicate the demand environment in which an IO operates, and coordinated demands of member governments can therefore result in more substantive organizational change.[106] IO leadership structures can be treated as *collective principals*, which present a host of problems in such as principal coordination and diverse principal interests, ultimately leading to incoherent and inconsistent

[106]Nielson and Tierney, "Delegation to International Organizations: Agency Theory and World Bank Environmental Reform," 242.

response to principal demands by agents.[107] In such cases, increased oversight and accountability will be necessary to ensure uniform agent responses.[108] Another line of analysis recognizes that the Bank, and its staff, fill both the roles of principal and agent with respect to the stages of the policy process, further confusing accountability and responsibility.[109]

The World Bank bureaucracy, with a staff of over 10,000 employees, certainly constitutes a complex system. The Bank's modern organizational structure comprises both economists stationed at the Bank's ornate DC headquarters,[110] field officers working in borrowing countries, and long, complex chains of command, delegation, and accountability.[111] The Strategic Compact in 1996-1997 even sought to create a "matrix" structure within the Bank involving multiple lines of accountability for each employee and working group was, to mixed results.[112] Also deviating from a standard principal-agent framework, individual Bank staff members have over time demonstrated initiative in agenda-setting, making it clear that initiatives do not always emerge solely from the interests of top executives. Likewise, the strength of existing evidence for the sociocultural perspective demonstrates a likelihood that the Bank's bureaucracy can act in ways other than those demanded by the immediate principals.

Given the dynamic nature of the Bank's accountability structure and the agency demonstrated by Bank staff, this thesis posits a more complex principal-agent model that stresses

[107] Graham, "International Organizations as collective agents: Fragmentation and the limits of principal control at the World Health Organization," 369.
[108] Graham, "International Organizations as collective agents: Fragmentation and the limits of principal control at the World Health Organization," 370.
[109] Gutman, Tamar. "Explaining the Gaps between Mandate and Performance: Agency Theory and World Bank Environmental Reform." *Global Environmental Politics*, 5.2 (2005): 15.
[110] In an informal interview with a longtime Bank manager this past summer, he mischievously remarked to me that "some would say excessive" in reference to the World Bank headquarters' gorgeous atrium, complete with indoor trees and fountains.
[111] See Phillips Ch. 4 "The 1990s Re-Engineering the Organization" of *Reforming the World Bank: Twenty Years of Trial and Error* for a thorough analysis of the Bank's organizational structure and delegation dynamics.
[112] Phillips, *Reforming the World Bank*, 61-64.

the coordination problems between various stakeholders and institutional influences. This thesis holds that thorough reform implementation at the Bank hinges not only on signaled commitment by Bank leadership, but on sustained commitment to an issue agenda by coordinated governing bodies both internal and external to the organization.

This view argues for the necessity of a leadership coalition between donor countries, organizational leadership, and accountability and oversight both in order to demonstrate an issue as serious and demanding the attention of the Bank's busy staff. This approach conceives of several layers of oversight and accountability, a chain of accountability in which member states hold the Bank accountable *for holding its staff accountable*. Member states, from this vantage point, must deal with the Bank as complex actor, and pursue their reform mandates and corresponding oversight in a way that encourages reforms to saturate the organization rather than just inform institutional rhetoric. In this dimension, this hypothesis is consistent with Weaver's analysis in *Hypocrisy Trap* that the World Bank frequently engages in 'organized hypocrisy' given inadequate oversight to ensure that actions and operations match the Bank leadership's public commitments.

In an organization obsessed with its own evolution, and frequently overwhelmed with an overflow of new operational directives,[113] substantive reform will rely on sustained commitment across various leadership influences, coupled with actual accountability for Bank staff in order for individual staff members to be able to distinguish between important reform items and rhetoric intended for an internal audience.[114] Insofar as Bank staff attempt to embrace the

[113] Phillips, *Reforming the World Bank*, 104 notes an internal memo from the early '90s entitled "OD-ing on ODs", reflecting Bank Staff's frustration with the proliferation of new Bank practices.
[114] For an extremely compelling investigation into the Bank's penchant for reform-oriented rhetoric and its disparity from Bank action, see Catherine Weaver's *Hypocrisy Trap*.

organization's agenda,[115] the agreement of leaders in different layers of Bank governance signals that an issue area will remain salient, and that it is therefore an efficient use of employee effort to implement the reforms in question.

This need for sustained multi-stakeholder pressure makes itself evident throughout the GAC agenda. Reports highlight that the end of the Cold War (which involved a significant revision of most donor preferences), provided a political opening for increased focus on institutions in borrower countries.[116] The Bank's own history of its GAC engagement likewise highlights a period of increased democratization in several African governments during the mid 1990s as providing momentum to the GAC agenda through decreased barriers to institutional engagement given existing preference for reform among donor governments.[117] The causal weight given to changing preferences among both donors and borrowers highlights the importance of idea convergence among diverse principals.

More direct member country involvement likewise occurred throughout the GAC reforms. Although the agenda was established as a formal institutional priority during 1996, oversight mechanisms for GAC implementation lagged until the U.S. General Accounting Office investigation (also known as the Meltzer Commission) took place beginning in 1999.[118] Explained in greater detail later, this investigation provided for increased external oversight and review of the Bank's lending practices with respect to country strategies and project design.[119] The Wolfowitz presidency, beginning in 2005, increased the ties between the Bank and the U.S.

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[115] A handful of interviews with former and current Bank employees and contractors were consistent in saying that Bank employees were generally doing their best to handle operational directives and new initiatives as well as they could, albeit in a somewhat confusing and occasionally hostile operational environment.
[116] Girishankar, Navin. "World Bank Country-Level Engagement on Governance and Anticorruption," 3.
[117] Girishankar, Navin. "World Bank Country-Level Engagement on Governance and Anticorruption," 3.
[118] Weaver, *Hypocrisy Trap,* 111.
[119] Weaver, *Hypocrisy Trap,* 110-112.

government[120] in an era in which the Bank's lending was of political interest to the U.S. This closer relationship between the U.S. and the Bank manifested in a presidency in which Wolfowitz unilaterally cancelled loans and confronted borrowing governments.[121]

As applied to the GAC agenda, this thesis posits the following amended principal-agent hypothesis:

H_4 (Principal-Agent with Layers of Governance): Given the Bank's diverse stakeholders, GAC implementation will follow eventually from a confluence of principal interests and sustained commitment to reform.

This framework predicts a situation in which the GAC agenda emerges as a formal signal from Bank leadership, with lagging but eventually significant implementation in projects. Implementation comes about as GAC issues receives greater stakeholder attention, and improve with increases in oversight and other increased commitment mechanisms such as punitive action or lack of promotion for lagging project design teams. GAC mentions in project design will increase as staff judges that the GAC agenda will stay relevant and important both to Bank operations and their own individual or departmental success. Granting staff greater power over borrowing governments that oppose GAC enforcement will result in greater implementation, but only after GAC engagement has become routinized and accepted as a lasting organizational priority. Implementation, once achieved, will be effective to the best of staff ability, and applied appropriately to borrowing governments. If commitment to the GAC agenda from leaders and stakeholders wanes or lessens, we will likely observe decreased implementation, due to pressure from borrowing governments or shifted focus towards other issue areas in lending.

2.2 Methods and Research Design

[120] Weaver, *Hypocrisy Trap,* 133.
[121] Weaver, *Hypocrisy Trap,* 133.

To test these hypotheses, this thesis analyzes a sample of mid-sized infrastructure projects from between 1987-2007, the period in which the bulk of GAC oriented reforms took place.[122] This thesis focuses on roads and transportation projects between $100M and $200M due to the sector's stability, and relevance to the question at hand. Roads and transportation initiatives, as a sector, provide continuity to the study, as it has changed little over the sample period, allowing the projects to be more uniform across time than a more technology-dependent or norm-bound sectors, such as healthcare or gender equality initiatives. These qualities make variation between projects attributable to causes other than evolution within the sector. Finally, roads and transportation projects provides a highly relevant sector to questions of addressing corruption and governance. As these contracts are generally carried out by governments, demand significant procurement and involve substantial contracts, and therefore involve a number of opportunities for corrupt behavior throughout loan administration. A considerable number of studies have demonstrated that corrupt government correlates with higher spending on such projects, establishing this sector as a likely area to suffer from government abuse of power such as inefficiency, cronyism, embezzlement, and other pathologies.[123] Several economists also note the roads and transportation sector as a salient way for politicians to distribute goods and favors to constituency groups.[124] The upper and lower bounds for loan size ($100M and $200M) were chosen as they contain the bulk of transportation lending, based on data from the Bank's

[122] Nielson and Tierney (2003) also "expand the *n* by looking across time. By examining institutional and behavioral outcomes at the Bank over a twenty-year period, we increase the number of observable implications for our theory" (253); in essence, they hold that extending the time frame for evaluating institutional change yields greater insight for their analysis.

[123]Elliot, Nicholas. "Russian, Chinese Companies Most Bribe-Prone, As Is Construction." *The Wall Street Journal*. November 2, 2011.

[124] See Coate, Stephen and Stephen Morris "On the Form of Transfers to Special Interests." *The Journal of Political Economy* 103.6 (1995): 1210-1235.

operations website.[125] These bounds exclude long tails of $.5M micro-credits and $900M major infrastructure initiatives, which may perhaps be interesting but are likely not comparable to each other either within or outside of the Bank.

The main quantitative analysis of these projects employs content analysis on frequency counts for a cluster of words relating to corruption initiatives, drawn mainly from the Internal Evaluation Group's report "World Bank Country-Level Engagement on Governance and Anticorruption." This thorough report details the previous 20 years of Bank engagement with GAC issues (from 1987-2007), providing useful insight into the terminology used by the Bank to address these issues.[126] [127] The corpus of texts for analysis comprises the Project Appraisal Documents (PADs) for the roads and transportation projects in the universe of cases (*n=212*), sourced as text files from the World Bank Projects and Operations website.[128] The Project Appraisal Documents range from around 40 to 200 pages in length, and each include a comprehensive assessment and analysis of the complete Bank project to which they correspond. These documents are internal to the Bank: they go from the country team who has designed the project to the executive board, and are designed to tell the executive board everything that they need to know about the project and operating environment.[129] Examining the frequency of words and phrases that address corruption in projects, compared to a historical timeline of Bank

[125] "Projects," Last modified March 5, 2016. http://www.worldbank.org/projects.
[126] For a complete list of counted words and phrases, see Appendix 1.
[127] A concern with drawing terms from 2007 raises a concern regarding merely selecting for terminology that was in vogue at the time of this publication. For this, two observations are helpful: firstly, the indexical approach to content analysis employed in this thesis should help trace concepts rather than just specific diction, avoiding making the analysis entirely contingent on linguistic fads within the Bank. Secondly, although written in 2007, the report from which terminology was largely drawn *itself* surveys the exact time period investigated in this paper, and thus should reflect the various phases of Bank activity throughout this time period.
[128] For a full list of projects, see Appendix 2.
[129]Phillips, *Reforming the World Bank*, 243.

reforms, helps identify critical moments of reform implementation during the progress of the GAC agenda.

Although content analysis and quantitative text analysis are ubiquitous within sociology, political science has only recently appreciated increased attention to these methods. Most relevantly, Weber and Dacin investigate organizational behavior, relying on "simple frequency counts of concept words" as "crude ways to represent the intellectual terrain covered by these papers."[130] This representative method strives to "characterize texts in ways that their sources intended them to be understood," an intention made within this thesis in conducting the investigation.[131] The comparative method of this thesis, looking at word and concept frequencies as time-series data in comparison with a historical timeline, follow an acknowledged approach that uses metadata as "what links text to interesting substantive questions...as in the common analysis of plotting a word's frequency over time."[132] To provide framing for the text data, this thesis presents an analysis of the history relating to the GAC reforms, explaining the existence of four qualitatively different epochs in this reform timeline.

On a final linguistic note, this thesis utilizes indices to group like terms with respect to corruption, in order to accomplish a few things. Firstly, individual words (such as 'fraud' or 'debarment') appear sufficiently infrequently so as to necessitate grouping similar terms in order to conduct meaningful analysis. Investigating single-term data from project documents has demonstrated, moreover, that grouping synonyms and like terms helps standardize the analysis

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[130] Weber, Klaus and M. Tina Dacin. "The Cultural Construction of Organizational Life: Introduction to the Special Issue." *Organization Science*: 22.2 (2011), 288.

[131] Roberts, Carl. "A Conceptual Framework for Quantitative Text Analysis". *Quality and Quantity*. Vol 34 (2000), 262.

[132] O'Connor, Brennan, David Bamman, and Noah A. Smith. "Computational Text Analysis for Social Science: Model Assumptions and Complexity." Paper presented at the NIPS Workshop on Computational Social Science and the Wisdom of Crowds, Sierra Nevada, Spain, 2011, 2.

and control for word preferences or over- and underused terms by different country teams. Similarly, combining similar terms into indices helps avoid concerns that language used merely echoed that which was popular within the Bank at the time: these indices attempt to track terms with a static reference, or terms that are necessary to target the issues conceived of by the GAC agenda. Grouping like terms provides for greater comparability between documents, and gets closer to the heart of the question at hand: namely, how, when, and why the World Bank addresses corruption in project design. The concept-clusters utilized for regression analysis are as follows:

GAC Mentions: Drawn directly from the parallel foci on governance and corruption in Bank projects, this set of words serves as an extremely basic indicator by noting the number of mentions of ‘governance’ or ‘corrupt-’ in each document.

Bank Oversight Index: This concept-cluster represents language related to positive accountability mechanisms between the Bank, the project, and the borrower. This index comprises the terms ‘assessment(s)’, ‘audit(root)’, ‘disbursement(s)’, ‘disclose(root)’, ‘report(s)’, ‘review(s)’, and ‘supervis(root)’. These terms are taken to refer similarly to non-punitive mechanisms for Bank oversight in projects.

Institutional Focus Index: This index groups language denoting the prevalence of institution-oriented language in the projects, tracking concern with the quality of institutions in the borrowing country. This index combines the frequencies of the terms ‘government(s)’ and ‘institut(root)’.

Doubt Language Index: This index groups terms that relate to acknowledgement of uncertainty or concerns on the part of the Bank staff, as a window into the dynamic of overly optimistic staff. This index comprises terms ‘contingenc(ies)’, ‘risk(s)’, ‘signal(s)’, and ‘warning(s)’. This group of terms in particular is made up largely of Bank euphemisms illuminated by the IEG’s 2007 GAC review.

Corrupt Behaviors Notation Index: This group of terms refers to varieties of corrupt behavior, as noted in typical GAC writing. This group includes ‘clientelism’, ‘corrupt(root)’, ‘embezzlement’, ‘fraud(root)’, ‘graft’, ‘kleptocrat(root)’, ‘patronage’, and ‘rentseeking,’ as the terms used by the Bank to refer to corruption in projects.

Punitive Mechanisms Index: This final concept-cluster comprises the terms ‘debarment(s)’ and ‘sanction(s)’ as ways in which the Bank penalizes noncompliant borrowers. These terms serve as a more severe side of Bank Oversight mechanisms, and are taken to as more serious consequences for improper borrower behavior.

The history of the GAC agenda within this thesis shows up both as qualitatively (for an accessible understanding of the GAC agenda) and quantitatively (within a coding scheme created to perform statistical tests comparing term frequencies in PADs to historical events). The history in this thesis relies heavily on Catherine Weaver’s *Hypocrisy Trap* for its in depth account of the Bank’s engagement with GAC issues on an institutional level. In addition to Weaver’s comprehensive coverage, this thesis employs the Bank’s own publications (from the affiliated Independent Evaluation Group), to understand how the Bank narrates the emergence of the GAC agenda. This thesis relies on the three most prominent reviews of Bank GAC initiatives performed by the Bank’s Independent Evaluation Group: “World Bank Country-Level Engagement on Governance and Anticorruption: An Evaluation of the 2007 Strategy and Implementation Plan”, “Governance and Anti-Corruption: Ways to Enhance the World Bank’s Impact”, and “Evaluation of World Bank Support for Public Sector Reform”, all of which are available on the IEG's Anticorruption landing page.[133] A *LexisNexis Academic* search on the terms "World Bank Corruption" provides a final check for the comprehensiveness of these combined sources.

The stakeholders selected for this analysis comprise a set of internal and external actors, including the World Bank President, the Executive Board (comprising the representation of a number of member states), High-Level Bureaucrats (Bank Vice Presidents, Country Managers, etc.), U.S. Executives and Congress, and the Bank's Legal Counsel. In addition to these actors, this thesis includes influential internal reports, memos, or other crucial inter-institutional information as noteworthy, and treats it as another set of data revealing actor's intentions, beliefs, preferences, or strategic communications. These publications often signal organizational dynamics in ways not directly attributable to an individual employee but nonetheless extremely relevant, such as shaping culture by altering common knowledge throughout the organization. Likewise, these publications influence the information available to Bank employees, and should be taken as relevant to lending behavior. Initially, this analysis sought to include a much broader set of stakeholders, but found little to no attention paid to them among either press coverage from during the GAC agenda nor in academic analysis after the fact. These stakeholders included the Bank's Independent Evaluation Group, Bank-accountability focused NGOs, and such groups with relevant interest but external to the Bank's bureaucracy. Although these actors obviously exist within the Bank's operating environment, they have little direct influence and no material mechanisms of shaping Bank behavior, and thus were generally not engaged by existing research. This investigation likewise found little evidence that they served as more than an occasional source of nebulous 'public pressure' on the institution. In order to quantify the GAC

[133] "Anticorruption." Last Modified 2016. http://ieg.worldbank.org/topic/anticorruption.

agenda's history, this thesis relies on a set of dummy variables relating to actions taken by a relevant stakeholder in a given year. Although individual regressions or analysis for single actors do not show up in any final regressions, this historical coding serves to inform the start points and endpoints for four major periods of Bank GAC reform identified in this thesis.[134] These periods are drawn from instances in which multiple sources noted significant activity regarding the GAC agenda by multiple stakeholders.

This temporal coding scheme is slightly rough, but serves functionally to define relevant periods of Bank reforms. The sources from which it was drawn provide a diverse sample across perspectives, including of critical of the Bank (Weaver), the Bank's own narrative (from the Bank's self-evaluation arm, the Independent Evaluation Group, or IEG), and popular perceptions of the Bank at the time (*LexisNexis Academic* press database). These indicators give an idea of the direction in which institutional pressures work at the World Bank. However, these indicators and associated historical periods can provide evidence for *when* implementation occurs, but does not confirm a causal mechanism. In order to triangulate in on the mechanisms by which GAC reform implementation occurred at the Bank, this thesis will also pursue a case study of the GAC agenda in Indonesia as its final methodological component.

Finally, as a significant recipient of World Bank lending, and a notoriously corrupt country, Indonesia as a case study provides an interesting qualitative study of some of the issues surrounding the GAC agenda. In-depth look at this case helps fill in potential causal mechanisms that may not be immediately obvious from the project data. Indonesia, as a case, presents an almost caricatured exaggeration of the factors that confuse the GAC agenda: an extreme setting

[134] This thesis notes the four periods of institutional reform as a Minor Institutional Opening (1991-1992), a Major Institutional Opening (1996-1997), the U.S. General Accounting Office's Investigation of the Bank (and immediate aftermath; 1999-2001), and the Wolfowitz Presidency (2005-2007), to be explained in Chapter 3.

in terms of domestic governance challenges,[135] a close borrowing relationship enmeshed in questions of the Bank's legitimacy and public image,[136] exacerbated by Indonesia's size, global prominence, geopolitical relevance.[137] Before and throughout the GAC agenda, these traits made Indonesia a very popular recipient for Bank projects.[138]

The Bank's GAC behavior in Indonesia is intimately linked with key events in the overall emergence of the GAC agenda, often being central to crucial moments of the broader GAC agenda. These traits make a case study of Indonesia, while perhaps not representative, extremely relevant to understanding the Bank's engagement with GAC issues on different organizational levels. As arguably the seminally important case for GAC problems with the Bank, an explanation of the Bank's implementation agenda *must* cohere with the Indonesian case in order to be taken as truly explanatory of Bank behavior during this time. This case study will cover essentially the same time period as the quantitative analysis, and explore the finer details and organizational dynamics surrounding the politics of GAC implementation. This thesis notes that the case study does not look specifically at the roads and transportation sector within Indonesia, but rather at lending to the country as a whole. Given the economic turbulence throughout southeast Asia during the time of the case study, as well as Indonesia's complex and unique development history and experience with the Bank, a more holistic look at the Bank's involvement in Indonesia provides for greater insight.

Through the combination of historical analysis with word-counts and content analysis, complemented by a case study component, this project aims to identify the various forces acting

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[135] Weaver, *Hypocrisy Trap*, 127.
[136] Mallaby, *The World's Banker*, 177.
[137] Woods, *The Globalizers*, 33, 75.
[138] Indonesia has received $15.44 billion in IBRD loans and $2.5 billion in IDA grants since the World Bank's founding, according to "Indonesia," http://data.worldbank.org/country/indonesia. Indonesia trails only China, India, Mexico, and Brazil for IBRD lending.

on the Bank, assess their relative power, and identify ways in which various political agendas have shaped the Bank’s organizational behavior and capacity to implement GAC reforms.

Chapter 3. Historical Analysis and Project Text Data

3.1 The Historical Context for GAC Reform and Implementation

This section provides combines existing academic work with the Bank's own documents to provide a succinct history of the governance and corruption (GAC) agenda at the Bank, and fill in crucial context for understanding the politics of GAC reform and implementation. Throughout, this section relates findings from the Project Appraisal Data analysis to the relevant history, examining the political contexts in which substantial changes in project-level implementation of the GAC reforms occurred.

Governance issues, including corruption, clientelism, patronage, and other abuses of power, have historically been endemic in many settings, including initial phases of infrastructure development in nascent democracies and under authoritarian regimes.[139] However, Bank engagement with these issues remained limited for the first 50 or so years after its founding due to the Bank's mandate to remain apolitical.[140] Various writers likewise cite geopolitical concerns with country alignment during the Cold War for limiting the Bank's political engagement in countries.[141]

Throughout the 1990s, the Bank's institutional behavior towards corruption and governance as issue areas evolved several times. The emergence of the corruption and governance agenda at the Bank divides naturally into four qualitatively different epochs: a minor institutional opening between 1989 and 1991, a major institutional opening in 1996-1997, a

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[139] For an investigation into the sorts of states in which corruption may be more or less likely to occur, see Daniel Treisman's "The Causes of Corruption: A Cross-national Study" (2000).
[140] Weaver, *Hypocrisy Trap,* 106.
[141] Weaver, *Hypocrisy Trap,* 92, and Miller-Adams, *The World Bank: New Agendas in a Changing World*, 101.

period of dramatically increased American and public pressure for greater attention to corruption in the early 2000s, and the Wolfowitz presidency beginning in 2005. This section details the relevant history, stating reasons for understanding these divisions in the Bank's history of dealing with corruption. Understanding the stakeholder pressures exerted during these four times helps explain the uptick in dealing with corruption in project appraisals in the early 2000s, and provides insight into dysfunctional within the Bank's layers of governance and the implications for mainstreaming institutional reforms.

The first period of Bank engagement with governance broadly defined began in the late 1980s. The Bank, during its first 45 years of practice, has been characterized as a "technically competent institution that conducts its business without regard for politics."[142] A 1992 Bank Task Force report noted the Bank's consistent tendency to "focus narrowly on its own intervention rather than the country context," especially with respect to political issues.[143] Previously taboo among development agencies, 'corruption' as a development concern first appears in a 1989 Bank paper dealing attempting to explain the lackluster growth in sub-Saharan Africa throughout the Bank's lifetime. An internally circulated document, it broke the Bank's implicit rule of avoiding any political criticisms by arguing that "the region's difficulties were due to an entrenchment of kleptocratic elites who enriched themselves and their clans by looting public funds."[144] Given the Bank's prior norm of apoliticism, this criticism ruffled feathers within the institution, and was eventually weakened to a stated concern with country "governance" in the final draft of the report.[145] However, modern World Bank experts seem to

[142] Miller-Adams, *The World Bank: New Agendas in a Changing World*, 100.
[143] World Bank. 1992. *Governance and development*. Washington, DC : The World Bank. http://documents.worldbank.org/curated/en/1992/04/440582/governance-development. p. 48
[144] Weaver, *Hypocrisy Trap,* 103.
[145] Weaver, *Hypocrisy Trap,* 104.

agree that this was an important moment in turning institutional attention towards an understanding of economic development that included the political realities in borrower countries. This project begins its investigation in 1987, in order to include a brief period of 'business as usual' Bank operations prior to the emergence of GAC issues in general institutional focus.

The following three years, from 1990 to 1992, were characterized by a number of significant but informal or noncommittal actions within the Bank towards greater political thinking. Weaver notes an emergence of "internal debate over governance work" with respect to the Bank's mandate.[146] This debate, which fostered institutional sympathy towards the governance agenda, resulted in select senior management pressuring the Bank's legal counsel to produce an opinion that could extend the Bank's mandate to include governance initiatives.[147] This reinterpretation "permitted governance reforms to be funded by the Bank to the extent that they remained essentially apolitical, neutral, and fundamentally driven by economic (rather than partisan) motives."[148] In addition, Miller-Adams notes that within the same few years "discussions began between Bank staff members and Peter Eigen,[149] leading to formal cooperation between the Bank and Transparency International," highlighting that the burgeoning institutional interest in GAC initiatives could be gaged by the "overflow crowds" drawn to informal 'brown bag' corruption discussions.[150] Given this confluence of events, governance and corruption had begun to emerge as issues with which the Bank engaged.

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[146]Weaver, *Hypocrisy Trap,* 105.
[147] Weaver, *Hypocrisy Trap,* 106.
[148] Weaver, *Hypocrisy Trap,* 106.
[149] Peter Eigen served as the World Bank director for projects throughout Africa for 25 years prior to leaving the Bank in 1991 to found Transparency International, an NGO which works to address corruption in development. More information can be found at www.transparency.org.
[150] Miller-Adams, *The World Bank: New Agendas in a Changing World*, 111.

This period constitutes a soft institutional opening due to a lack of clear commitment to governance initiatives from leadership, as well as pervasive institutional ambiguity with respect to appropriate practices for dealing with corruption in projects. Although Bank staff had begun to discuss governance, and to a certain extent received permission to pursue this agenda from the Bank's counsel, various histories confirm that senior management remained very cautious with the governance agenda.[151] As evident, the bulk of activity surrounding governance at the Bank at this time was new to the institution and staff lacked formal operational directives for translating these ideas into practice.

The major institutional opening for corruption and governance as viable Bank issue areas transpired in 1996-1997 with Wolfensohn's ascent to the presidency, and the growing institutional direction for how the Bank ought to deal with political issues in borrowing countries. Various historians and Bank documents cite Wolfensohn's "Cancer of Corruption" speech at the Bank's 1996 Annual Shareholders Meeting as pivotal for thrusting the governance agenda to the forefront of the Bank's focus and public dialogue.[152] This speech coincided with internal pressure in the form of a Bank directive stating an institutional zero-tolerance policy for corruption in projects, and was followed shortly after by the 1997 *World Development Report*, which laid out a rationale for exactly how corruption was problematic for development, and officially stated a need for increased Bank commitment preventing corruption in projects.[153] The appointment of Joseph Stiglitz (renowned for his work in institutional economics) as Chief Economist and the creation of the Poverty Reduction and Economic Management (PREM)

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[151] Weaver, *Hypocrisy Trap,* 105, and Mallaby, *The World's Banker,* 170-174.

[152] Weaver, *Hypocrisy Trap,* 109-109, Mallaby, *The World's Banker,* 176, and Girishankar, "World Bank Country-Level Engagement on Governance and Anticorruption," 4.

[153] Girishankar "World Bank Country-Level Engagement on Governance and Anticorruption." 4, and IEG 2008 p. 15

working group within the Bank also signaled institutional commitment to the governance agenda.[154]

The period from 1996-1997 distinguishes itself from the prior period of Bank engagement with corruption as an issue area by the creation of formal, institutional mechanisms oriented towards preventing corruption and clear-cut commitment by top executives and Bank publications to the governance agenda. Although the World Bank as an organization underwent a dramatic change with the 1997 Strategic Compact, the greater institutional energy devoted to the governance agenda "resonated strongly at a time of strong external critiques of aid effectiveness."[155] Throughout this period, the Bank's rhetoric and publications signaled to staff a much less ambiguous commitment to this agenda than had previously been the case.

The reform period in the Bank's governance agenda began in 1999 and lasted through the early 2000s in a period characterized by a confluence of external pressures on the organization to improve performance and effectiveness regarding GAC issues. In the last years of the Clinton Administration, the United States government became increasingly concerned with the effectiveness of its development aid, resulting in Congress directing the U.S. General Accounting Office to investigate implementation of anti-corruption measures installed by the Bank in 1997.[156] The GAO report examined the gap between the Bank's policies for the GAC agenda and the actual manifestation of these issues in project design and appraisal, with troubling and public results.

The GAO investigation represented a departure with the Bank's own institutional reworking in a number of ways. Until this point, Bank reorganization and reform attempts to deal

[154] Weaver, *Hypocrisy Trap,* 110, 123.
[155] Weaver, *Hypocrisy Trap,*111.
[156] Weaver, *Hypocrisy Trap,* 126.

with corruption had been largely positive, pursued through new institutional pathways such as the creation of the PREM group in the 1997 Strategic Compact,[157] rather than increased oversight or accountability. The GAO initiative was the first substantial investigation into the implementation of GAC initiatives at the project level in country offices as well as examination of practices at the World Bank's headquarters in Washington. The report offered concrete recommendations and cut-and-dried critiques about implementation as public domain, stating obvious implementation failures such as an instance in which six of eight projects in which Bank staff flagged corruption or political interference concerns but later failed to mention in the Project Appraisal, that Project Appraisals, more generally, were "unduly optimistic", or that an unrealistically low proportion (one fourth) of 1999 country assistance strategies included any discussion of corruption risk as relevant to lending decisions.[158] Similarly, advice to incorporate "more complete information into project appraisals" and other such comments read, perhaps intentionally, as the commission in effect telling Bank officials to do their jobs.[159]

This investigation heightened public scrutiny on the Bank, and similarly represented diminished US trust, problematic for the Bank both in terms of resources and perceived legitimacy. The GAO investigation coincided with surging public attention regarding loan effectiveness and the Bank's track record in various countries. Public mobilization to protest globalization, focusing on institutions such as the IMF, the WTO, and the World Bank rose to an apex with huge protests in Seattle and Washington DC in 1999 and 2000, respectively.[160]

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[157] Weaver, *Hypocrisy Trap,*111.
[158] U.S. General Accounting Office. *World Bank: Management Controls Stronger, but Challenges in Fighting Corruption Remain*. US GAO (2000), 18-20.
[159] U.S. General Accounting Office. *World Bank: Management Controls Stronger, but Challenges in Fighting Corruption Remain*, 21.
[160] Mallaby, *The World's Banker,* 260-261.

Given attitudes at the time, the symbolic pressure of the US launching this investigation, described by historian David Phillips as "embodying the U.S. campaign to cast adrift its unwanted offspring."[161] Diminished U.S. confidence in the Bank, signaled publically through commissioning the investigation, would arguably harm any conferred legitimacy the World Bank had enjoyed in its history of approval by the U.S. Government. Moreover, the external nature of the report and investigation creates a different sort of accountability mechanism for Bank practice. The political climate in the US combined with the GAO Investigation threatened the Bank's legitimacy, linking the Bank's reputation and existential security with the project-level implementation of the governance agenda.

A final distinguishable period in the Bank's GAC reform revolves around Wolfowitz's turbulent presidency, whose management style radically altered institutional expectations with regard to loan approval and disbursement. Phillip's history of the World Bank notes that over time the Board of Directors has viewed between 50 and 100 documents per week, and generally therefore approves loans quickly without thorough fact-checking or investigation.[162] This pattern of indiscriminate approval supports critiques of a clientelistic Bank, where Bank officials failed to implement tough reforms for fear of straining relationships with borrower countries.[163] Paul Wolfowitz, who served as World Bank president from 2005-2007, attempted to change this dynamic. Throughout his presidency, Wolfowitz's anti-clientelism strategies involved unilaterally cancelling loans with perceived risk of corruption, the direct accusation of the Indonesian government of corruption, and renewed rhetorical emphasis on the Bank taking a

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[161] Phillips, *Reforming the World Bank*, 237.
[162] Phillips, *Reforming the World Bank*, 236, 243.
[163] Mallaby, *The World's Banker*,180.

harder line with client countries.[164] Wolfowitz also pushed for the elimination of "disbursement culture" within the Bank, a traditional aspect of Bank internal culture that values getting loans out the door over the quality or returns on loans made.[165] Although his legacy as Bank president was later sullied by his own questionable practices in staff appointments, Wolfowitz's management choices provided a clear signal that failure to address corruption in projects would not be tolerated insofar as he could control. Likewise, his loan cancellation and confrontation with Indonesia demonstrated a willingness to strain relationships with member governments in order to achieve long-term Bank practice objectives with the governance agenda.

As delineated throughout this section, the history of the Bank's engagement with governance went through distinct phases with regards to stakeholder pressure on the institution to engage (or not) with these issues. This thesis draws from compiled from work by current Bank scholars to explain the corruption reform timeline as within four sections: grassroots organizational engagement (1990-1992), President Wolfensohn's formal commitment (1996-1997), U.S. government and political pressure (1999-2002), and President Wolfowitz's attack on institutional incentives (2005-2007). Contrasting this historically documented engagement and disengagement of various Bank stakeholders provides insight into which voices prove relevant when it comes to affecting institutional behavior and 'mainstreaming' Bank reforms.

3.2: Results from Project Appraisal Document Text

As described in the methodology, this analysis utilizes extracted text data from the 212 Project Appraisal Documents for that met the selection criteria of being between $100 million

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[164] Weaver, *Hypocrisy Trap,* 133-134.
[165] Weaver, *Hypocrisy Trap,* 134.

and $200 million, classified by the World Bank as "Roads and Transportation" sector, and operationalized between 1987 and 2007.[166]

Table 1. Descriptive Statistics from PAD Text Data

Table 1. Descriptive Statistics for GAC Term Indices (n=212)

Index	*Mean*	*Standard Deviation*	*Range*
GAC Mentions	2.019	5.536	0-51
Bank Oversight Index	153.886	68.349	40-513
Institutional Focus	105.607	72.362	8-493
Corrupt Behaviors Notation Index	1.077	4.073	0-31
Language of Doubt Index	27.896	17.177	4-108
Punitive Mechanisms Index	0.483	1.942	0-20

As evident in Table 1, the text data yielded extremely variable results across projects. Three of six indicators (GAC Mentions, Corrupt Behaviors Notation, and Punitive Mechanisms) present with standard deviations higher than their means, which demonstrates significant variation between projects. A time-series graphical representation of these indicators can provide for an introduction to the evolution of the GAC agenda over time, displaying the annual average mentions of the relevant indicator on the vertical axis.

[166] For clarification of the indices, selection criteria, or other methodological questions, please refer back to the latter half of the previous chapter.

Figure 1. GAC Index over time

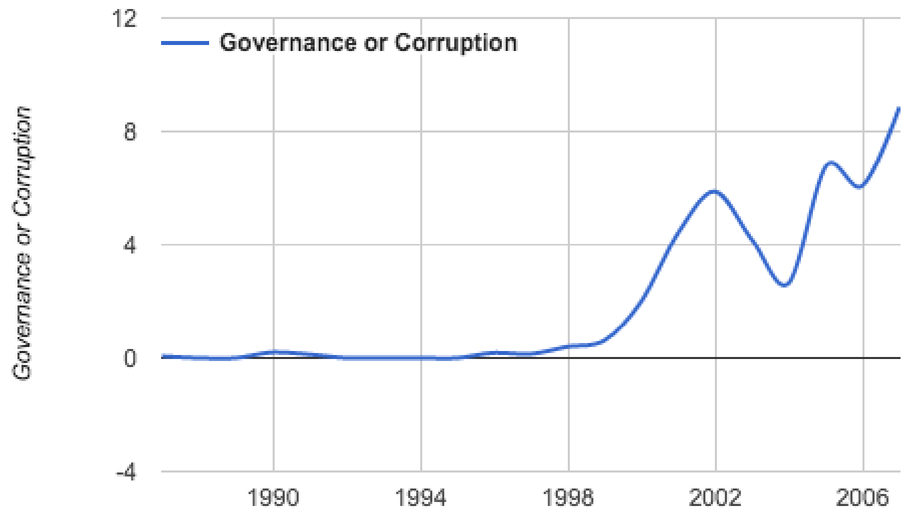
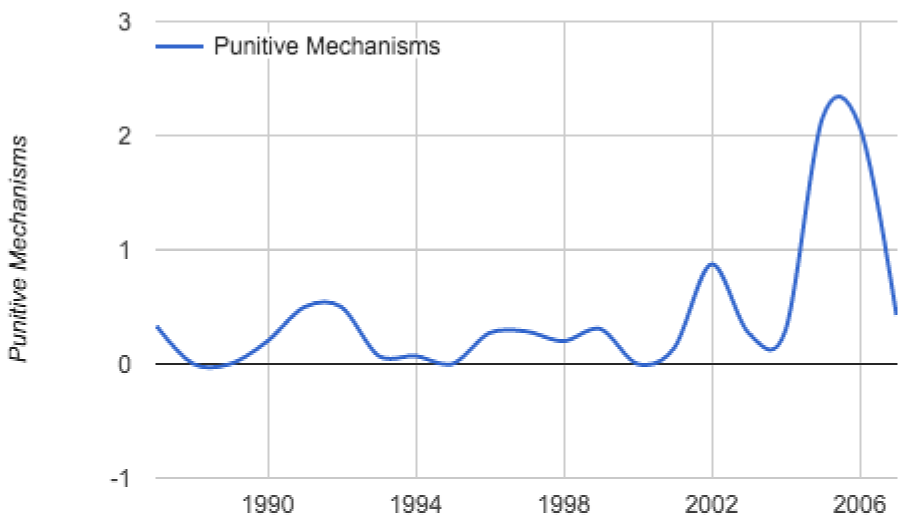


Figure 2. Punitive Mechanisms over time



As displayed in these tables, the PADs present with low mentions throughout the bulk of the investigation period, with stark increases over time in the employment of GAC terminology or punitive measures (as displayed above). The other indices follow roughly the same pattern, with these graphs helping to orient this analysis of the rough trends in language usage. The low values across the bulk of the sample period helps explain the extremely low means of overall GAC mentions and Punitive Mechanisms mentions, with the same holding true for Corrupt Behaviors Notations. The extremely low means of these same three indicators reflect the fact that this language was not utilized in Bank documents for at least the first half of the sample period, and was used only inconsistently in later years once GAC reforms became more entrenched.

In order to compare GAC implementation with the historical timeline for Bank reforms, this thesis subdivides the Bank's engagement with the GAC agenda into four qualitatively different periods.[167] These periods are as follows: a minor institutional opening in 1991-1992, characterized by a move within the Bank to discuss the political elements of development; a major institutional opening in 1996-1997, in which President Wolfensohn formally directed the Bank to deal with corruption in projects; a period of increased external oversight in 1999-2001, during and immediately after a U.S. GAO investigation into the World Bank for their corruption management; and the Wolfowitz presidency in 2005-2007, characterized by his dramatically different leadership style.

Table 2 displays the results from a negative binomial model regressing the word count indices over dummy variables for each time period, as well as a dummy variable for UNSC Non-

[167] These periods are explained in the historical narrative of the prior section. The remainder of the years have data as well, and are treated as part of the reference category in the regression.

Permanent Membership,[168] used to control for a country's strategic relevance.[169] This regression also uses country-level fixed effects, which account for variability between countries that might affect concerns of strategic relevance, and account for features of countries that might be related to more or less need for GAC inclusion in project design. The negative binomial regression fits the data well, due to the over-dispersion of indicators and a lower bound at zero for the value of each indexed term.[170]

Table 2. Main Regression Results

Table 2. World Bank Language Usage in PADs: Negative Binomial Model with Country Fixed Effects

	GAC Mentions	*Bank Oversight Index*	*Institutional Focus Index*	*Corrupt Behaviors Index*	*Language of Doubt Index*	*Punitive Mechanisms Index*
Minor Institutional Opening (1991-1992)	**-0.977**	**-0.037**	**0.278***	**-1.086**	**-0.076**	**-0.141**
	(-1.32)	(0.28)	(2.00)	(-1.03)	(-0.46)	(-0.20)
Major Institutional Opening (1996-1997)	**-1.004**	**0.102**	**0.194**	**-1.48**	**0.117**	**0.085**
	(-1.61)	(0.93)	(1.51)	(-1.41)	(0.84)	(0.13)
GAO Investigation (1999-2001)	**0.838****	**0.332*****	**0.4038*****	**-0.503**	**0.344****	**-0.201**
	(2.51)	(3.95)	(4.08)	(-0.77)	(3.22)	(-0.30)
Wolfowitz Presidency (2005-2007)	**1.638*****	**0.275****	**0.201***	**1.055****	**0.213***	**1.905****
	(5.16)	(3.25)	(1.94)	(2.41)	(1.95)	(3.25)
UNSC Membership	**0.058**	**-0.073**	**-0.078**	**-1.048**	**0.203**	**1.009***
	(0.11)	(-0.61)	(-0.56)	(-0.96)	(1.43)	(1.92)
Intercept	**-1.310****	**1.813*****	**1.41*****	**-1.982**	**1.403*****	**-1.155****
	(-4.59)	(15.70)	(12.20)	(-5.52)	(10.86)	(-2.25)
Observations	176	195	195	169	195	127
Country Groups	22	28	29	21	28	12
	Note: Variation in the number of observations due to dropped observations for all-zero outcomes.					
	*Note: * p < .1; ** p <.05; *** p <.001*					

[168] Dreher, Sturm, and Vreeland. "Development aid and international politics: Does membership on the UN Security Council influence World Bank decisions?"

[169] Several other indicators could also have been utilized, however the end of the Cold War and rapidly shifting geopolitical global structure during the 1990s left the UNSC Non-permanent Membership indicator as the most viable balance of informative while not being entirely unwieldy. The robustness of UNSC Non-Permanent Membership in terms of affecting World Bank lending in the literature further justifies this choice.

[170] King, Gary. *Unifying Political Methodology.* Ann Arbor: University of Michigan University Press (1998), 127.

These regression results detail the deviations in GAC language use for the periods listed as contrasted with the remainder of the sample period as the reference category.[171] The coefficients denote the increase in the log of expected counts of the response variable in instances in which the binary regressors carry a value of 1.[172] Due to the imprecise nature of word counts and the variability between terms, the actual logarithmic value of the coefficient is less critical than its sign and statistical significance.

A few things are immediately evident from these regression results. Firstly, the variable accounting for UNSC Non-Permanent Membership showed little significance across indicators, providing evidence that the politicization of lending may not translate directly to the specifics of project design with respect to GAC issues, at least as investigated by this study. There was little observed deviation from standard project design during either the Minor Institutional Opening (1991-1992) nor the Major Institutional Opening (1996-1997), an interesting finding given the Bank's public commitment to the agenda during and after 1996. The GAO Investigation (1999-2001) brought a statistically significant increase in three of six indicators (GAC Mentions, Bank Oversight, and Doubt Language). Although significantly trailing the first institutional changes, these increase note the beginning of GAC implementation. The Wolfowitz Presidency likewise brought statistically significant changes across all indicators, indicating a further change in organizational practices related to GAC during that time period.

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[171] The dropped cases due to all-zero outcomes denote that STATA has dropped cases in which it cannot apply fixed-effects due to outcomes of 0 on the dependent variable across all cases. An example might involve a scenario in which no document for a project in a given country *ever* made mention of a punitive mechanism. In such cases, STATA drops the observations as it cannot apply fixed-effects in the absence of any change over time. This bears on the overall results of the regression by noting that the more cases dropped, the more this regression result serves for a *best case scenario* look at the efficacy of GAC reform implementation, as countries in which implementation is a complete failure over time are omitted from the dataset.

[172] For a thorough explanation of interpreting negative binomial results, STATA has a guide available at http://www.ats.ucla.edu/stat/stata/output/stata_nbreg_output.htm.

These statistical findings can provide some rough insight into the viability of the theoretical hypotheses in the prior chapter. Firstly, the geopolitical argument that reform implementation should vary significantly for countries of strategic interest and less strategically interesting countries (*H_4*) is not supported by these regression results, given the uniformly weak coefficients and significance levels found for states with UNSC Non-Permanent Membership. This is not to argue that the Bank is immune to geopolitical influence, as a wealth of academic work demonstrates otherwise,[173] but that these findings do not support an argument that the specifics of project design depend on a country's geopolitical significance at the time of project design. This study does not test whether total lending, or proportion of grant to loan aid, are politically dependent. These regression results also point away from a standard Principal-Agent Model (*H_3*), as the 'major institutional opening' within the Wolfensohn presidency corresponds to no statistically significant increases in governance-oriented language in project appraisals; however there is a question of consistency here due to the significant improvements observed throughout the Wolfowitz presidency. This inconsistency anchors an argument that certain differences in institutional management and methods can affect lending behavior and project design.[174] These regression results potentially provide support for a sociocultural interpretation (*H_1*), insofar as reform implementation lags significantly behind formal institutional changes. Likewise, this table supports an interpretation of a more complex Principal-Agent model (*H_4*) that requires both a sustained institutional commitment to a reform agenda, and would view the GAO investigation as demonstrating the U.S. Government's expressed interest in GAC reforms, as another major Bank principal.

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[173] See Vreeland and Dreher, cited throughout, as well as *The United States and the World Bank: Issues of International Law and Policy* by Bartram S. Brown (1992) for research on loan and agenda politicization at the World Bank.

[174] This point will be explored qualitatively in the case-study section.

Structural breakpoints testing for the indices provides a bit of a robustness check on the negative binomial model. Structural breakpoints testing identifies places in which the data break from what prior years and annual trends predict.[175] In this instance, structural breakpoints testing of annual averages for each index illuminates the moments at which language usage deviated significantly from the prior trends for those words.

Data Table 3. Structural Breaks Testing

Concept Index	Primary Structural Break
GAC Mentions	2000
Bank Oversight Language	1999
Institutional Focus	1989
Corrupt Behaviors Notation	2000
Language of Doubt	1996
Punitive Mechanisms	2004

Statistics from the term annual averages computed using R package "strucchange"; see Appendix 3 for further details.

The structural breakpoints found largely correspond with the findings in regression analysis. The cluster of breakpoints surrounding the year 2000 (GAC Mentions, Bank Oversight Language, and Corrupt Behaviors Notation in 2000, and Bank Oversight Language in 1999) support the importance of US involvement as a relevant stakeholder in GAC reform implementation. These findings likewise reinforce a greater change in reform implementation during the increased oversight of the GAC investigation than in prior instances of institutional reform. Moreover, the correspondence of a breakpoint in 'Punitive Mechanisms' during the Wolfowitz presidency could be attributable to his managerial style, which proved more confrontational with regards to

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[175] For a more formal exploration of structural breakpoints testing, see Western, Bruce and Meredith Kleykamp. "A Bayesian Change Point Model for Historical Time Series Analysis." *Political Analysis*, 12.4 (2010): 354-374.

borrower-country relations than prior Bank leadership.[176] This finding reinforces the notion of the relevance of institutional management, and strengthens the case that the different methods employed in each presidency impacted the specifics of implementation behavior. The next section analyzes these results as embedded in a more detailed history of the GAC agenda through the case of Indonesia, in order to examine the political causal mechanisms of implementation.

[176] Weaver, *Hypocrisy Trap,* 133, and Phillips, *Reforming the World Bank*, 246-247.

Chapter 4. The Bank in Indonesia

A closer look at this case complements the quantitative investigation of the GAC reform timelines presented in the prior sections by filling in the mechanisms by which reform and implementation occurred at the Bank during the 1990s-2000s, illuminating mitigating dynamics involving both the Bank and borrowing governments. Regarding its selection, Indonesia is clearly more a paramount case than a paradigm case; a case of great consequence although not the typical World Bank borrower. Indonesia presents almost a caricature of GAC problems, combining being both a notoriously corrupt country and also one of the Bank's largest borrowers, rather than a country with average corruption or moderate Bank borrowing. As a prominent borrower, the experience of Indonesia as a country relates heavily to the Bank's own GAC reforms, and the extreme features of the case serve to draw out otherwise subtle organizational dynamics. This case, although not necessarily representative, is therefore useful and important for teasing out institutional and relational intricacies that play into GAC reform implementation. The Bank's involvement in Indonesia, specifically with regards to GAC issues, fits tightly to the broader GAC reform timeline, making this case indispensable for understanding the emergence of the GAC agenda. As the recipient of $15.32 billion in IBRD loans and $2.51 billion in IDA credits throughout its history[177] and Transparency International's most corrupt country in the world in 1995,[178] Indonesia's status as a premier World Bank borrower made it both an incubator and a catalyst for much of the Bank's GAC involvement at a global level.

I. The Early Years of the GAC Agenda: pre-1996

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[177] "Indonesia." Last modified March 4, 2016, http://data.worldbank.org/country/indonesia.
[178] Transparency International. "1995 TI Corruption Index." July 15, 1995. http://www.transparency.org/files/content/tool/1995_CPI_EN.pdf

Near the beginning of the GAC agenda in the late 1980s, Indonesia was globally regarded as having miraculous levels of economic growth, generally attributed to having sustained stability and intelligent macroeconomic management.[179] Indonesia's president at the time, former military general Suharto, in power since 1966, nurtured a "special relationship" in which the Bank loaned money and legitimacy to the Suharto government, which likewise leant the World Bank bragging rights over Indonesia's perceived successful development.[180] In many ways, his regime involved pro-growth economic policy standard to the Asian model at the time, characterized by export orientation, evenhanded macroeconomic policy and investments in infrastructure and social goods such as literacy and health care.[181] [182]

However, President Suharto also sustained his power through rigged elections, a vast patronage network,[183] and weak civil liberties which involved extremely limited freedom of the press and a military reliant on murder, torture, and sexual assault to subdue protest and political contestation.[184] Nonetheless, a number of World Bank scholars speak to Indonesia's impressive growth record, which included cutting the poverty rate from 60 to 11 percent from 1966 to 1996, as a public image asset to the Bank which defended their close involvement with an otherwise

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[179] Ahmed, Sadiq. 1993. *Appropriate macroeconomic management in Indonesia's open economy*. World Bank discussion papers ; no. WDP 191. Washington, DC : The World Bank. http://documents.worldbank.org/curated/en/1993/02/699108/appropriate-macroeconomic-management-indonesias-open-economy
[180] Woods, *The Globalizers*, 33.
[181] Mallaby, *The World's Banker*, 177.
[182] These investments, notably, were often of weak quality, with such contracts tied to corrupt government officials. *Oligarchy*, by Jeffrey Winters, characterizes the majority of such investments (as well as other instances of ostensibly development-oriented state spending as "skim operations" that failed to achieve useful outcomes due to their being engineered as such (142-143). The failure of these investments to actually provide Indonesia with resilient infrastructure surely played into Indonesia's later crisis.
[183] Mallaby, *The World's Banker*, 177.
[184] Cochrane, Joe. "Suharto's Indonesian Legacy: 15 Years Later." *The New York Times*. May 19, 2013. http://www.nytimes.com/2013/05/20/world/asia/suhartos-indonesian-legacy-15-years-later.html?_r=0.

controversial government.[185] Woods' study of the World Bank in *The Globalizers* likewise acknowledges U.S. strategic concerns regarding the potential for communism in Southeast Asia as driving the Bank's failure to hold Indonesia accountable for a dismal record regarding corruption and human rights abuses throughout the 1980s.[186] Suharto's regime also reliably repressed Indonesia's communist party (the PKI), providing further evidence for a geopolitical bent to the Bank's generous lending of both money and legitimacy to the Indonesian government.[187] Indonesia's lustrous development story, backed by with American geopolitical desire to support capitalist governments in the region, sustained the World Bank's close relationship with Indonesia during the first 25 years of Suharto's presidency.

Although the Suharto government was regarded as characterized by entrenched systemic corruption in the global press, the World Bank made no mention of it and did little to address it in their projects.[188] The Bank's behavior during this period fits both with expectations of the Bank's responsiveness to donor preferences, and the oft-discussed 'clientelistic'[189] desire to maintain easy relationships with major borrowers. This willful ignorance on the part of the Bank continued through the late 1990s, with the US Executive Director openly asking at a board meeting why the Bank failed to talk about corruption, although everyone else, apparently, was.[190]

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[185] Mallaby, *The World's Banker*, 177, Woods, *The Globalizers,* 33, 75.
[186] Woods, *The Globalizers*, 33.
[187] Winters, Jeffrey. *Oligarchy*. New York: Cambridge UP (2011): 146.
[188] Mallaby 177-179
[189] Nielson, Tierney, and Weaver, "The Rationalist-Constructivist Divide," 116.
[190] Piercy, Jan. 1997. *Statement by Jan Piercy at the Board meeting of July 10, 1997*. Washington DC : World Bank Group. http://documents.worldbank.org/curated/en/1997/07/19477488/statement-jan-piercy-board-meeting-july-10-1997.

As with the broader GAC agenda, the end of the Cold War in the early 1990s allowed for increasing discretion in lending and aid for the World Bank among other political actors.[191] This global increase in aid selectivity began to manifest for Indonesia in 1992 with the Netherland's public condemnation of the Indonesian government for shooting demonstrators in East Timor in 1991.[192] As the chair of the IMF's committee Inter-Governmental Group on Indonesia (IGGI), the Netherland's condemnation carried significant political weight; IGGI was disbanded in 1992.[193] Several months later, as the result of grassroots political pressure over the same shootings, the U.S. Congress cut off the International Military Education and Training program that U.S. had previously managed with Indonesia.[194] This military withdrawal begun a sequence of changes in American policy that also involved several bans on weapon sales to Indonesia.[195] Both of these actions, by the Netherlands but even more so the US (which is famously influential with the World Bank), marked an opening for the Bank to begin to address corruption in Indonesia. These changes in state policy by the US and Netherlands signaled a preference on the part of both states for greater accountability for the Suharto government. However, World Bank lending to Indonesia stayed extremely consistent throughout the early 1990s, between $1.5 billion and $1.6 billion annually for the 1990-1992 period.[196] Overall lending volume fell significantly in 1993, to $880 million, but climbed again to $1.4 billion in 1994,[197] weakening

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[191] Dollar and Levin, "The Increasing Selectivity of Foreign Aid," 2044.
[192] "*Netherlands stops aid to Indonesia," 24.*
[193] Frederick, William. *Indonesia: A Country Study*. (Washington DC: Federal Research Division, Library of Congress, 2011), xxvi.
[194] Berrigan, Frida. "Indonesia at the Crossroads: US Weapons Sales and Military Training." *World Policy Institute* Oct. 2001. http://www.worldpolicy.org/projects/arms/reports/indo101001.htm.
[195] Berrigan, "Indonesia at the Crossroads: US Weapons Sales and Military Training."
[196] "Indonesia." Last modified March 2016, http://data.worldbank.org/country/indonesia.
[197] "Indonesia."

any argument that the 1993 decrease implied any credible action towards enhanced borrower accountability.

Indonesia's notoriously corrupt banking system, largely controlled by President Suharto's cronies and family members,[198] began to show cracks in 1994, when a data leak from analysts in Jakarta revealed the Indonesian banks to be carrying up to $12 billion dollars in bad or non-performing debts.[199] As with the minor institutional opening in the early 1990s, an opportunistic Bank could have seized the combination of increased global attention to regime quality and emerging evidence of economic trouble brewing in Indonesia as a legitimate mandate to alter their strategy in Indonesia. Annual lending around $1.4 billion in both 1994 and 1995, consistent with that of the early 1990s, provides counterevidence to increased Bank selectivity in lending to Indonesia. Regrettably, the 1993 Country Assistance Strategy for Indonesia is not available on the Bank's website, so insight into the Bank's official strategy for Indonesia at the time is limited.

The 1995 Country Assistance Strategy for Indonesia, the document set by the country team to guide the next two years of Bank lending activity, demonstrates the Bank's aversion to confrontation with Indonesia. The forty-four page document, intended to tell the Executive Board all necessary information regarding the Bank's involvement in Indonesia, details Indonesian trade capacity and economic fundamentals in excruciating detail. When read carefully, 'bank speak'[200] potentially acknowledging corruption and poor governance hides behind language of "reducing the cost of intermediation" with respect to the state banks, or

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[198] Shenon, Philip. "The Suharto Billions-- A Special Report." *The New York Times*. January 16, 1998. http://www.nytimes.com/1998/01/16/business/suharto-billions-special-report-for-asian-nation-s-first-family-financial-empire.html?pagewanted=all.

[199] Cumming-Bruce, Nick. "Indonesian banking scandal." *The Guardian Weekly*. May 1, 1994.

[200] See Moretti F. and D. Pestri "Bankspeak: The language of World Bank reports", New Left Review, 92 (2015), 75-99, for a fascinating look into the increased jargon relied on by the Bank in recent years.

"making fuller use of local user charges" with respect to tax collection.[201] The document, consistent with the Bank's continued technocratic avoidance of political involvement, makes no mention of corruption and hardly acknowledges the Suharto government. This omission reflects the Bank's continued hesitance to engage with the challenges posed to the Indonesian economy by the embeddedness of Suharto's network in the country's economic governance and the extent to which his cronies constituted Indonesia's entire class of political and economic elites.[202] However, such vague language also reflects the Bank's desire to maintain the 'special relationship' with Indonesia at the expense of providing appropriate development assistance and confronting the problems in economic fundamentals that would haunt Indonesia throughout the rest of the decade. As with the minor institutional opening in the early 1990s, the Bank failed to be at the forefront of addressing corruption in Indonesia, even as other global actors were beginning to capitalize on the end of the Cold War to improve lending and advocate for reform.

This episode of Bank behavior reflects sociocultural and institutional factors governing the Bank, as well more generalized ambiguity at the time around the role of the Bank regarding borrower accountability. As explored in detail earlier in this thesis, the Bank throughout the 1990s was engaged in internal negotiation regarding the degree to which its mandate could enable political engagement with borrower countries. The Bank's mandate, as reinterpreted by the Bank's legal counsel Shihata in 1992, provided for increased engagement in politics on behalf of the Bank, but only insofar as institutional factors were known to be economically relevant to development and lending in a specific country.[203] Both this change, as well as the

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[201] World Bank. *Indonesia - Country assistance strategy*. Washington, DC: World Bank (1995). http://documents.worldbank.org/curated/en/1995/02/727376/indonesia-country-assistance-strategy.

[202] Shenon, Philip. "The Suharto Billions-- A Special Report."

[203] See Ch. 9 of Ibrahim Shihata's *The World Bank Legal Papers* for an interesting first-hand account of the case for the Bank's political neutrality.

post-Cold War changes in international lending discretion can be regarded as permissive changes in the Bank's internal and external environment, but do not constitute political or institutional pressure for mandatory changes in Bank behavior in Indonesia. As argued by both principal-agent and sociocultural institutionalist theorists, periods characterized by ambiguous incentives and unclear changes allow for cultural norms and ingrained institutional practices to govern behavior, generally resulting in a maintenance of the prior status-quo. Such status-quo behavior can be attributed to the Bank with Indonesia during this period.

II. Wolfensohn's Agenda and the East Asian Financial Crisis: 1996-1999

The late 1990s in Indonesia, and particularly the Bank's management of the East Asian Financial Crisis reveals a Bank disassociated from reality, eventually driven to action by a crisis of its own image long after the window had closed for proactive intervention. Originating with currency speculator attacks on the Thai baht in 1996 and 1997,[204] the East Asian Financial Crisis of the late 1990s hit the rest of southeast Asia throughout May, June, and July of 1997. The crisis caused Malaysia, the Philippines, and Singapore to face significant currency devaluations and subsequent economic panic as part of contagion from Thailand's collapse.[205] By August 1997, Thailand had signed a rigidly conditional bailout package with the IMF.[206] This crisis hit Indonesia shortly thereafter.

In the midst of the financial crisis crippling Southeast Asian economies, the World Bank Executive Board met, on July 10, 1997, to discuss the country strategy for the next two years of work in Indonesia. This meeting centered around a country strategy that made little mention of the financial crisis, other than noting an Indonesia in which "individual bank failures are unlikely

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[204] "The Timeline of the Panic," last modified 2000, http://www.pbs.org/wgbh/pages/frontline/shows/crash/etc/cron.html.
[205] "The Timeline of the Panic."
[206] "The Timeline of the Panic."

to lead to a systemic crisis at this time."[207] This document, likewise, identifies potential risks to Indonesia as "(a) elections and political succession; (b) growing social concerns; and (c) the ability of the banking system to withstand shocks" but notes Indonesia's "strong record of macroeconomic management" before briefly noting political corruption as a minor impediment to future growth.[208] In the single paragraph commenting on Indonesia's vulnerability to the regional crisis, the Bank document generally downplays any serious threat behind language of Indonesia being "relatively well-equipped"[209] to deal with such a situation. This report likewise contains no mention of concerns regarding the stability of Indonesia's banking system in the earlier 1990s. Although the modern scholar benefits from hindsight in order to understand the severity of corruption in undermining Indonesia's economic performance as well as the effectiveness of crisis response lending, this Bank's overt optimism and lack of a serious contingency plan speaks to their hesitance to deal with this threat to their "model of successful development."[210] This characterization of the Bank as overly optimistic and willfully risk-ignorant in the case of Indonesia has since been stated by the Bank's own Independent Evaluation Group in a 2008 report on the Bank's role in financial crises.[211] [212]

The Board of Directors meeting to approve this document included statements of untempered support by each Board member, with the notable exception of the American

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207 World Bank Group. *Indonesia - Country Assistance Strategy*. Washington, DC: World Bank (1997). http://documents.worldbank.org/curated/en/1997/06/727765/indonesia-country-assistance-strategy, 12.
208 World Bank Group. *Indonesia - Country Assistance Strategy (1997)*, 11.
209 World Bank Group. *Indonesia - Country Assistance Strategy (1997)*, 13.
210 Hubloue, Luc. *Statement by Luc Hubloue at the Board meeting of July 10, 1997*. Washington DC: World Bank Group (1997). http://documents.worldbank.org/curated/en/1997/07/19477481/statement-luc-hubloue-board-meeting-july-10-1997.
211 IEG. *Lessons from World Bank Group Responses to Past Financial Crises*. Washington DC: World Bank Group (2008). http://siteresources.worldbank.org/EXTOED/Resources/IEG_fin_crisis_note.pdf.
212 The Bank's optimism could hardly have been more misplaced: the fallout from the crisis included not only a dramatic devaluation of the Indonesian currency, but also launched the country's domestic stability into a tailspin characterized by riots and pogroms throughout major cities, resulting in the further devastation of urban peoples, spaces, and economies in Indonesia (Winters 2011, 175).

government representative at the time, Jan Piercy. These statements, which accompany the Board member's approving votes on this strategy, describe the Country Assistance Strategy as "comprehensive, frank, and innovative,"[213] and speak to "a hope...of further strengthening the long-standing good partnership between the Bank and Indonesia."[214] Even in the case that these statements are mostly political niceties in the presence of the Indonesian board member, Jannes Hutagalung, the Board's almost-unanimous approval of this strategy was intended to shape the Bank's standard of behavior in Indonesia for the next two years. Unwarranted optimism on the part of Bank management committed the Bank to a plan for the next two years of engagement in Indonesia that lacked relevance to the reality of Indonesia's economic and political situation. This situation also alludes to a further point regarding the structure of the Bank's Executive Board, as one might wonder whether the quasi-diplomatic relationships between board representatives provides an environment at all conducive to frank, honest evaluation of project and strategy limitations.

The behavior of U.S. representative Jan Piercy provides interesting insight into the growing American interest in dealing with the GAC agenda as a dimension of the political dynamics within the Bank at this time. Piercy's statement, in stark contrast to those of other Board members, referred to the country strategy as "a disappointment," which lacked candid discussion of such concerns as "the economic distortions created by the government's role in certain sectors of the economy and the problems of corruption," highlighting the Bank's willful

[213] Amatong, Juanita D. *Statement by Juanita D. Amatong at the Board meeting of January 30, 1997*. Washington DC: World Bank Group (1997). http://documents.worldbank.org/curated/en/1997/01/19354990/statement-juanita-d-amatong-board-meeting-january-30-1997.
[214] Miagkov, Eugene. 1997. *Statement by Eugene Miagkov at the Board meeting of July 10, 1997*. Washington DC: World Bank Group. http://documents.worldbank.org/curated/en/1997/07/19476993/statement-eugene-miagkov-board-meeting-july-10-1997.

ignorance by noting that these problems are “openly discussed in the global press.”[215] This statement echoes a number of other disclosed statements by Jan Piercy during her tenure at the Bank, beginning in 1997 and continuing through her leaving the Bank in 2001,[216] that push for greater clarity and honesty on behalf of the Bank in dealing with GAC issues in articulated country strategy. As the highest ranking U.S. representative at the World Bank, this position can be taken as representative of U.S. interests in the institution at the time. From a theoretical perspective, Piercy’s relative powerlessness demonstrates a limitation on American influence at the Bank: although she could clearly voice criticism of the Bank’s engagement with GAC in projects, her statements had no direct impact on project approval and structure.

This moment in Bank history provides interesting tension for the geopolitical viewpoint on Bank behavior. The U.S.’s role as the single largest voting power at the World Bank clearly failed to provide Piercy with the authority to achieve more honest and straightforward country assessment and strategic choices. Such behavior seems unlikely for a Bank governed exclusively by resource dependence or entirely captive to great power interests. Rather, the Bank’s strategy of acting in order to sustain positive borrower reactions highlights the Bank’s critical need not only for donors but for borrowers as well in order to maintain its *raison d’etre* as an institution, and the uncomfortable role of the GAC agenda within this tension. Barring any credible threat or incentive from the U.S., the Bank chose to avoid risking borrower relations, ignoring Piercy’s ubiquitous requests for realistic assessment even when in contrast with borrower preferences. This dynamic reasserts the complexity of the multiple principal-agent structures within the

[215]Piercy, *Statement by Jan Piercy at the Board meeting of July 10, 1997*.
[216]See the World Bank archive’s collection of statements by Jan Piercy for a remarkably consistent group of (seemingly ignored) critiques of Bank inaction on governance problems.

Bank's governance structures, including the layers of accountability that make the Bank subject to both creditor and borrower preferences.

Two weeks after this meeting, on July 27th, 1997, Northwestern political scientist Jeffrey Winters, a previous Bank employee and outspoken critic of the Bank's performance with the GAC agenda, spoke at a conference hosted by the International NGO Forum on Indonesian Development (INFID).[217] This speech, echoing Jan Piercy's, concerned the Bank's failure to implement the GAC strategy into country documents, and elaborated at length a divide between the "Rhetorical Bank" and the "Real Bank."[218] Winters' "Rhetorical Bank criticizes corruption" while his "Real Bank colludes with its clients to ignore rampant corruption of the Bank's own funds (which come primarily from taxes in industrialized countries)."[219] In the country-specific critique offered of Indonesia, Winters' statement alleged estimates that 30-33% of Bank lending in Indonesia was lost to graft and theft by the Indonesian government.[220] Sebastian Mallaby's *The World's Banker* describes the fallout from this press conference as a crisis of credibility for the World Bank, which responded within twelve hours with categorical statements regarding the Bank's capacity for oversight and intolerance for corruption in projects.[221] This thesis notes that, rhetoric notwithstanding, in the year since the Bank's formal commitment to the GAC agenda (1996-1997), the Bank had initiated exactly one auditing or financial-responsibility related project in Indonesia, which eventually received a Project Outcome rating of "unsatisfactory"

[217]Winters, Jeffrey. Email message to John MacDougall, August 2, 1997. Accessed Feb 2016 through the "Apakabar" Database at The University of Ohio).
[218] Aliyah, Siti D. to John MacDougall, July 29, 1997. Accessed Feb 2016 through the "Apakabar" Database at The University of Ohio).
[219] Aliyah to MacDougall, 1997.
[220] Aliyah to MacDougall, 1997.
[221] Mallaby, *The World's Banker,* 185.

upon closing in 2005.[222] In the wake of the praise the Bank had received for Wolfensohn's pioneering the GAC agenda in the development world, Winters' statements and surrounding publicity constituted a serious PR disaster, and drew global attention to the Bank's role in Indonesia on the eve of its financial crisis.

The financial crisis hit Indonesia on August 14, 1997, when Indonesia abandoned their previous bounded currency, allowing the rupiah to float on international currency markets and instigating a 30% devaluation in Indonesia's currency.[223] The World Bank responded with a contribution to the IMF's October 31 rescue package of $23 billion.[224] The document for this IMF package, notably, makes no mention of Indonesia's corruption problem, nor of President Suharto's robust patronage network in setting their crisis management strategy.[225] Various sources note that failing to deal with these issues rendered this first IMF package significantly less effective than it might have been given more rigid controls or monitoring of the use of the IMF's $23 billion transfer to the Indonesian government.[226] [227]

These first responses to the crisis fit with the overarching narrative that reflects the Bank's hesitance to implement the GAC agenda at the expense of relations with the Indonesian government. Under a standard principal-agent framework, President Wolfensohn's commitment to GAC issues in 1996, combined with the Bank's resolutely maintained opinion that Indonesia was likely to fare well even with the financial crisis, should have led to serious work on

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[222] World Bank. *Indonesia - Bepeka Audit Modernization Project*. Washington, DC: World Bank (2005). http://documents.worldbank.org/curated/en/2005/03/5819532/indonesia-bepeka-audit-modernization-project.

[223] "The Timeline of the Panic."

[224] Sherlock, Stephen. "Crisis in Indonesia: Economy, Society and Politics." *Australian Parliament: Current Issue Briefs*. April 1998.

[225] Muhammed, Mar'ie, and J. Soedradjad Djiwandono. "Letter of Intent to Mr. Michel Camdessus." *IMF.org.* Oct. 31, 1997. https://www.imf.org/external/np/loi/103197.htm.

[226] Mallaby, *The World's Banker*, 186.

[227] "Asian Financial Crisis in Indonesia," last modified January 2016. http://www.indonesia-investments.com/culture/economy/asian-financial-crisis/item246.

Indonesia's corruption problem as one of few impediments to further growth and modernization. Rather, the Bank failed to implement GAC policies in the country, leaving themselves in the uncomfortable position of dealing with the fallout from a crisis they failed to anticipate, or hoped (against the evidence) to avoid.

As noted throughout, Indonesia's role as an influential borrower country due to its size, geopolitical role, and the legitimacy conferred to the Bank through its 'growth miracle' rendered the Bank unwilling to pursue difficult but realistic strategies. The 'layers of governance' approach highlights the political difficulty of GAC implementation in this instance. Independent coverage of the Bank's relationship with Indonesia speak to a Bank that "feared to confront the [Indonesian] government" and a senior bank officer from the Jakarta office who noted that "Indonesia's economic and political weight make it hard to muscle...We can kick Kenya around, or Costa Rica...You can't kick Indonesia around."[228] This statement speaks to a Bank torn between multiple (and conflicting) principals: an executive management team that wants country teams to tackle GAC in countries, pressure from the Indonesian government, and an incapacitating expectation to maintain the Bank's 'special relationship' with Indonesia for the shared legitimacy from Indonesia's growth miracle.[229] Diametrically opposed interests from the Bank's leadership and an influential borrower country placed the country team in the position of having to accommodate these obviously incompatible lending mandates. As a result, the pressure to implement GAC measures manifested in occasional vague mentions of "public sector management"[230] while President Suharto's government continued to steal over $8 million, as

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[228] Brauchli, Marcus W. "World Bank is Hurt by its Failure to Anticipate the Indonesia Crisis" *The Wall Street Journal*. July 14, 1998.
[229] Woods, *The Globalizers,* 75.
[230] World Bank, *Indonesia - Bepeka Audit Modernization Project*, 2.

well as an estimated 30-40% of World Bank structural adjustment lending.[231] This dynamic is noted in *Hypocrisy Trap*, in which "political opposition from client governments, cultural fissures within the Bank, and real pragmatic concerns"[232] prevented staff from implementing the GAC agenda in Indonesia. The institutionalized hypocrisy[233] that follows from these disparate pressures on country teams points to the need for a relevant coalition of Bank stakeholders which embrace reforms in order for the reforms to progress from agenda to implementation and enforcement.

Throughout the rest of Indonesia's financial crisis, the Bank proceeded both to collaborate with the IMF and to implement its own policy reform programs in order to help revive Indonesia after the crash. Between August of 1997 and the end of 1999, the Bank put in place three policy reform projects in Indonesia: the Banking Reform Assistance Project (BRAP) in December 1997, the first Policy Reform Support Loan Project in July 1998, and the second Policy Reform Support Loan Project in May 1999.[234] The first of these projects, BRAP, involved components for strengthening the capacity of Indonesia's state banks,[235] and noted the project as of overall 'high risk,'[236] but continued with the Bank's modus operandi of cloaking corruption and other maligned banking activity under such quasi-euphemistic language of "liberal-intragroup lending practices" and "political interference."[237] This project was ultimately rated as largely unsuccessful, with a project closing review in 2003 noting that "Indonesia's

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[231] Weaver, *Hypocrisy Trap*, 127.
[232] Weaver, *Hypocrisy Trap*, 122.
[233] Weaver, *Hypocrisy Trap*, throughout.
[234] "Projects." Last modified March 4, 2016, http://www.worldbank.org/en/country/indonesia/projects/.
[235] World Bank. *Indonesia - Banking Reform Assistance Project*. World Development Sources, WDS 1998-1. Washington, DC: World Bank (1997). http://documents.worldbank.org/curated/en/1997/11/693893/indonesia-banking-reform-assistance-project, 20.
[236] World Bank. *Indonesia - Banking Reform Assistance Project*, 12.
[237] World Bank. *Indonesia - Banking Reform Assistance Project*, 2.

financial sector problems remain substantially unresolved, more than five years after the crisis began."[238] This same report discusses the effectiveness of both Policy Reform Support Loan Projects, both of which were eventually rated as 'moderately unsatisfactory.'[239] The evaluation noted that "problems of corruption and cronyism in the corporate sector and weak governance, poor portfolio quality, and weak supervision in the financial sector proved too deep-seated to be resolved by quick reforms."[240] Again, the Bank's hindsight on reform work towards corruption notes that these projects were perhaps overly optimistic given the severity of Indonesia's political problems, and failed to conduct project design with pragmatically necessary frankness.

The fallout from these decisions proved significant for the Bank, as the crisis likewise proved significant for Indonesia. In May 1998, the World Bank suspended $1.225 billion in previously made loans towards Indonesia, and the U.S. government threatened to withdraw all non-humanitarian aid.[241] The following day, President Suharto stepped down from power and installed his Vice President B. J. Habibie as his successor.[242] It would be inaccurate to claim that the abrupt change in aid policy was the only factor which destabilized Suharto's government. However, the diminished availability of Western grants and loans as funds for distribution throughout Suharto's crony network contributed to growing elite opinion of Suharto as an economic and political liability.[243] Six weeks later, the Bank "nervously" resumed aid to

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[238] World Bank. 2003. *Indonesia - First and Second Policy Reform Support Loans, and Banking Reform Assistance Projects*. Washington, DC: World Bank. http://documents.worldbank.org/curated/en/2003/11/2764642/indonesia-first-second-policy-reform-support-loans-banking-reform-assistance-projects,18.

[239] World Bank. *Indonesia- First and Second Policy Reform Support Loans, and Banking Reform Assistance Projects*, V.

[240] World Bank. *Indonesia- First and Second Policy Reform Support Loans, and Banking Reform Assistance Projects*, 7.

[241] Ryan, Colleen. "US may halt non-humanitarian aid." *Australian Financial Review*. May 20, 1998, 14.

[242] Mydans, Seth. "The Fall of Suharto: The Overview." *The New York Times*. May 21, 1998. http://www.nytimes.com/1998/05/21/world/fall-suharto-overview-suharto-besieged-steps-down-after-32-year-rule-indonesia.html.

[243] Winters, *Oligarchy*, 177-178.

Indonesia, making $600 million available immediately and the rest dependent on economic commitments made by the new Habibie government.[244] A Wall Street Journal Article running in the summer of 1998 noted that much of the Bank's substantial aid to replenish state run banks in Indonesia had been funneled to President Suharto's cronies.[245] In 1999, under mounting political pressure from Congress and the Clinton Administration, the United States General Accounting Office (GAO) began investigating the World Bank's mechanisms for dealing with corruption in World Bank projects and operations.[246]

The image of Bank behavior illuminated by this crisis does not flatter the Bank as a functionally adept, responsible lender, and speaks further to the Bank's difficult position between disparate and often unclear incentives. In failing to predict the severity of the financial crisis' impact in Indonesia, the Bank undercut its own ability to begin Indonesia's GAC reforms during a period of relative stability. This failure is attributable both to the Bank's pervasive culture of unwarranted optimism in loans and country strategy,[247] as well as the notably sluggish overall pace of GAC implementation. Instead, the Bank left Indonesia vulnerable to the crisis and poorly-equipped to effectively utilize bailout funds due to persistent corruption. The Indonesia country team perpetuated such irresponsibility by prioritizing an easy relationship with the Indonesian government over an honest assessment of economic fundamentals and institutional failures. The lack of hard institutional and environmental incentives to act proactively resulted in wasted international funds and a failure to help prevent the suffering of millions of Indonesians. Although it would be unreasonable to attribute to the Bank responsibility for Indonesia's

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[244] Sanger, David. "World Bank, a Bit Nervous, Resumes Aid To Indonesia." *The New York Times*. July 3, 1998, 7.
[245] Brauchli, "World Bank is Hurt by its Failure to Anticipate the Indonesia Crisis."
[246] U.S. General Accounting Office. *World Bank: Management Controls Stronger, but Challenges in Fighting Corruption Remain*.
[247] IEG. *Lessons from World Bank Group Responses to Past Financial Crises*.

corruption problems, a statement from former Bank President Barber Conable about the Bank's work with the environmental agenda prior to environmental reforms applies here as well: the Bank, it seems, was at least "part of the problem."[248]

From a theoretical perspective, this episode of Bank behavior reinforces the idea that the Bank's institutional failure results from problematically disparate principal interests, and the cultural inertia permitted when conflicted incentives govern the behavior of the Bank's bureaucracy.

III. The GAO Investigation and Aftermath: 1999-2002

This period Bank lending coincided with the beginning of a handful of important corruption-oriented reforms in Indonesia. 1999 marked Indonesia's transition to an electoral democracy, a transition maintained by holding peaceful, competitive, and timely elections in both 2004 and 2009 on a five-yearly schedule.[249] The effect of democratization on corruption has been mixed. Unfortunately, electoral democracy proliferated some corruption-friendly dynamics in Indonesia, allowing economic elites to exploit public offices, and to dismiss allegations of corruption as politically motivated.[250] More promisingly, in 2002 Indonesia's House of Representatives (domestically known as Dewan Perwakilan Rakyat), created in the Corruption Eradication Commission (KPK) a reasonably strong anti-corruption agency.[251] Commencing operations in 2004, and throughout its tenure since, the KPK has indicted members of both ruling governments and opposition parties, including executive, legislative, and occasionally judiciary

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248 Gutman, Tamar. "Explaining the Gaps between Mandate and Performance: Agency Theory and World Bank Environmental Reform" Global Environmental Politics, 5.2 (2005): 18.
249 Winters, *Oligarchy*, 179.
250 Winters, *Oligarchy*, 184.
251 Schutte, Sofie Arjon. "Against the Odds: Anti-Corruption Reform in Indonesia." *Public Administration and Development* 32.1 (2012): p. 39.

members of government.[252] The increased role of the KPK in Indonesian politics has corresponded with generally positive trends in terms of public domestic trust in the Indonesian government.[253] Overall, the post-Suharto transition years brought about improvements on the instability of the crisis and the violent, repressive side of Suharto's authoritarian regime, although corruption still broadly tainted Indonesia's political and economic dynamics.

The GAO investigation in 1999 marked a significant withdrawal of Bank operations in Indonesia, as well as increase in GAC implementation. In March 1999, the Bank's country director for Indonesia, Dennis de Tray, left his job, and was replaced by Sarwar Lateef, who was much more willing to engage GAC issues in the country, even at the expense of the Bank's 'special relationship.'[254] Total Bank lending to Indonesia fell from $2,741,000 in 1999 to $135,000 in 2000, a reduction of over 95%, which had already been a dramatic reduction from annual averages of over $1 billion during early to mid-1990s.[255] Even if the post-crisis lending had continued to inflate the 1999 figure, the project counts also declined dramatically, from twelve projects in 1999 to only 4 projects in 2000.[256] These lower levels of lending continued through 2004: between 2000 and 2004, the Bank averaged approximately $370 million in lending to Indonesia per year, down from approximately $1.4 billion per year throughout the 1990s.[257] Of the 41 Bank projects between 2000 and 2004 in Indonesia, 15 were categorized as "Central Government Administration"[258]-- the Bank's polite notation for a corruption and governance focus. Moreover, the Bank's only Policy Development Support Loan during this

[252] Ibid, p.39.
[253] Ibid, p.43.
[254] Mallaby, *The World's Banker*, 202.
[255] "Projects." Last modified March 4, 2016.
[256] "Indonesia." Last modified March 4, 2016.
[257] "Projects." Last modified March 4, 2016.
[258] "Projects." Last modified March 4, 2016.

time, in 2004, made *explicit* the anti-corruption focus of the loan,[259] and received an outcome rating of 'satisfactory' upon its closure in 2005.[260] Perhaps enabling these changes, each biannual Country Assistance Strategy for Indonesia (in 2001,[261] 2003,[262] and 2005[263]) makes explicit mention of GAC issues, making with analysis regarding the importance of addressing corruption in a range of Indonesian institutions, with the police to the judiciary among a number of other branches of the Indonesian government specifically noted.[264] Although critics of the Bank will question their self-evaluation during such a turbulent time, the shift towards dramatically lower lending, as well as explicitly noting anti-corruption initiatives in projects with that focus does signal a different approach from the Bank's lending behavior towards Indonesia throughout the 1990s.

This change in Bank behavior, which involved decreased project funding, increased oversight and monitoring, and explicit implementation of GAC initiatives in Indonesia's country strategy and projects demonstrates a significant departure in Bank behavior from the "three monkey"[265] approach of much of the 1990s. The fact that these changes occurred over three years after the Bank's formal commitment to GAC initiatives speaks to the importance of increased external intervention and oversight (embodied in the GAO investigation), the public exposition of Indonesia's instability, and the end of the Suharto government in Indonesia. This coinciding set of institutional and environmental factors provided the Bank with both an opening

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[259] World Bank. *Indonesia - Development Policy Loan Project*. Washington DC ; World Bank Group (2004). http://documents.worldbank.org/curated/en/2004/11/5318305/indonesia-development-policy-loan-project, 2.
[260] World Bank. *Indonesia - First Development Policy Loan*. Washington, DC: World Bank (2005). http://documents.worldbank.org/curated/en/2005/08/6230447/indonesia-first-development-policy-loan, 2.
[261]World Bank. 2001. *Indonesia - Country assistance strategy*. Washington, DC: World Bank.
[262]World Bank. 2003. *Indonesia - Country assistance strategy*. Washington, DC: World Bank.
[263]World Bank. 2005. *Indonesia - Country assistance strategy*. Washington, DC: World Bank.
[264] World Bank. *Indonesia - Country assistance strategy*. Washington, DC: World Bank (2001).
[265]See Weaver, *Hypocrisy Trap*, 122 for a description of the 'Hear Nothing, See Nothing, Say Nothing' method acknowledged by Bank employees with regards to corruption in borrower countries.

for action, in Suharto's departure, and a strong incentive, both in terms of public perception and stakeholder pressure. Prior to these changes, strong incentives persisted for noncompliance with GAC protocol given the legitimacy offered the Bank by Indonesian growth, the pressure on the Indonesia country-team to sustain a close relationship with the Suharto regime. These incentives were at least partially transformed by the economic and political crises in Indonesia. The dismissal of the Indonesia country team leader, Dennis DeTray, in 1999,[266] likewise demonstrates that the increase in external oversight informed personnel changes, thus improving principal control over agent behavior (both by replacing DeTray with an individual more committed to the GAC agenda, and in the signal sent to other staff who may have been hesitant to implement Bank policy).

As understood through a complex, layered principal-agent perspective, it seems likely that principals within the Bank demand a certain amount of stakeholder supervision in order to implement reforms in unpleasant ways (dismissals, increased oversight, and other punitive measures for staff and borrowing governments). Modeling Bank leadership as largely rational actors, they would likely prefer to avoid the inconvenience staff frustration and resentment insofar as it occurs as a result of unpopular new reforms and requirements. In light of the potential for backlash from staff and the negative press that creeps up around the Bank in times of staff discontent,[267] Bank management have a real incentive to avoid coming down hard on 'mainstreaming gaps' at the Bank unless it has been made clear that the issue area in question is important enough to governing states to warrant this level of attention. These cases demand much greater involvement on the part of governing states in order to make it clear to Bank

[266] Mallaby, *The World's Banker*, 202.
[267] For an example of this, see the melodrama that proceeded in national and international news relating to both reforms undertaken with Wolfowitz and, more recently, President Jim Yong Kim.

leadership that enforcing implementation is worth a discontented staff. Moreover, the case of Indonesia demonstrates the difficult position the Bank occupies as it seeks to cater to the interests of both donor and borrower governments. This case makes evident the challenge of navigating the layers management within the institution itself, and the complex chains of accountability that emerge within the institution. Every accountability relationship within and outside of the Bank's bureaucracy can be understood to increase the complexity of achieving implementation, as these relationships provide room for organizational dysfunction during times of chaos, and flourish in the ambiguities left between competing institutional and environmental pressures.

IV. The Wolfowitz Presidency: 2005-2007

This period in Indonesia largely maintained the post-Suharto political transition from the end of the 20th century, including a continuation of electoral democracy and improved public openness and debate.[268] Economic liberalization continued as well, with the Indonesian government enacted liberalizing economic reforms, such as cutting subsidies to the oil industry, and helped broker deals between state owned companies and multinational corporations.[269] These reforms took place under a well-respected finance minister, Sri Mulyani Indrawati,[270] whose reputation for integrity lent further legitimacy to the reform process. These types of changes broadly cohere with both the Bank's preference for governance reform in the country, as well as the economically liberal stances generally taken by the Bank in collaboration with the IMF with respect to states' economic management.

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[268] Winters, *Oligarchy*, 179.
[269] "An Understated Success; Indonesia after Suharto." *The Economist* 379.8470 (2006): p. 14.
[270] "Corruption in Indonesia," last modified April 1, 2016. http://www.indonesia-investments.com/business/risks/corruption/item235.

Following the early 2000s period of diminished lending to Indonesia, lending levels increased substantially throughout the late 2000s, to average $1.16 billion between 2005 and 2008, before a watershed lending year of $4.34 billion in 2009.[271] This period, from the beginning of 2005 through the end of 2009, included Development Policy Loans 2 through 6, all of which maintained an explicit proviso that the Bank would withdraw funding if presented with evidence of funds misallocated through "corrupt, fraudulent, collusive or coercive practices."[272] This specific phrase occurs throughout the documents, and seems to have become a standard Bank operating procedure in these loan agreements.[273] [274] [275] [276] [277] All of these loans achieved a rating of "Satisfactory" after their closings.[278] [279] This lending both demonstrates a return to 'business as usual,' in terms of lending greater amounts to Indonesia than in the prior few years, while beginning (at least nominally) to implement GAC reforms with specific reference to Indonesia.

These changes occurred under President Paul Wolfowitz, who has been noted as willing to "break with the clientelistic culture of the Bank" in order to hold borrower governments in

271 "Projects." Last modified March 4, 2016.
272 Good, Melinda. 2009. *Loan Agreement, L7658-ID Conformed*. Washington, DC: World Bank. http://documents.worldbank.org/curated/en/2009/03/10343720/loan-agreement-l7658-id-conformed, 11.
273 World Bank. *Indonesia - Second Development Policy Loan (DPL) Project*. Washington, DC: World Bank (2005).
274 World Bank. *Indonesia - Third Development Policy Loan (DPL) Project*. Washington, DC: World Bank (2006).
275 World Bank. *Indonesia - Fourth Development Policy Loan (DPL) Project*. Washington, DC: World Bank (2007).
276 World Bank. *Indonesia - Fifth Development Policy Loan (DPL) Project*. Washington, DC: World Bank (2008).
277 World Bank. *Indonesia - Sixth Development Policy Loan (DPL) Project*. Washington, DC: World Bank (2008).
278 World Bank. *Indonesia - Fifth and Sixth Development Policy Loan Project*. Washington, DC: World Bank (2010). http://documents.worldbank.org/curated/en/2010/10/15973480/indonesia-fifth-development- policy-loan-project, ii.
279 World Bank. *Indonesia - First, Second, Third, and Fourth Development Policy Loan Project*. Washington, DC: World Bank (2008). http://documents.worldbank.org/curated/en/2008/01/10952154/indonesia- first-second-third-fourth-development-policy-loan-project,vii.

general, and Indonesia specifically, accountable.[280] In a 2006 speech, Wolfowitz directly and publicly attacked the gap between the Bank's rhetoric and lending practices regarding the GAC agenda.[281] This same speech involved Wolfowitz straightforwardly accusing Indonesian government of continued high levels of corruption.[282] The Wolfowitz presidency, characterized by an extreme focus on the GAC agenda,[283] also marked the first period in which Bank management acted unilaterally to actually cancel loans at risk of misuse.[284] Viewed within the principal-agent framework of Bank practice, Wolfowitz' management style, although characterized by tension and confrontation with other Bank hierarchy,[285] signaled to Bank staff a sort of potential futility in getting documents approved with inadequate safeguarding against GAC issues in projects. The increased difficulty in loan approval signaled Wolfowitz's willingness to directly attack disbursement culture in the pursuit of good governance.

As this thesis has noted throughout, the Wolfowitz presidency brought an increased link between donor state influence (specifically the U.S.) and the Bank executive, as Wolfowitz maintained close ties to the Bush administration throughout his presidency.[286] Interestingly, this period also corresponded with increased hostility to the Bank's leadership among many European donor nations, as they found Wolfowitz's loan cancellations suspiciously similar to American foreign policy interests.[287] Lending strategy during the Wolfowitz presidency could provide for several theoretical interpretations. Firstly, it is clearly an instance of American power

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[280] Weaver, *Hypocrisy Trap*, 133.
[281] Weaver, *Hypocrisy Trap*, 133.
[282] Weaver, *Hypocrisy Trap*, 133.
[283] Weaver, *Hypocrisy Trap*, 133.
[284] Weisman, Stephen R. "Wolfowitz Corruption Drive Rattles World Bank." *The New York Times*. September 14, 2006.
[285] Weisman, "Wolfowitz Corruption Drive Rattles World Bank."
[286] Weaver, *Hypocrisy Trap*, 133.
[287] Weaver, *Hypocrisy Trap*, 134-135.

and intervention, in ways that align with a geopolitical view of IO behavior. However, principal-agent logic likewise applies given the U.S.'s 16% share in Bank voting (and funding).[288] In terms of both funding and voting power, the U.S. is simply in another league from other governing states. Given the unparalleled institutional power held by the U.S., it may be the case that shared interests with essentially any other member in the Bank's complex principal structure can serve to generate a 'significant coalition.' This, perhaps, better suits the case of Indonesia, as we can note instances throughout of American preference for greater GAC implementation and Bank leadership preference for greater GAC implementation, but mostly notice a real change in Bank lending behavior when these preferences were given an opening by political and economic changes in Indonesia and enforced throughout the Bank's bureaucracy. This complex negotiation process between the U.S., the Bank and its bureaucracy, and the borrower government demonstrates the complexity of coordinating interests in these layered principal-agent relationships. The Bank's resistance to change in Indonesia reflects how problematic these divergent interests can be for organizational effectiveness.

Summing Up: Lessons from Indonesia

The timeline for reform in Indonesia largely follows the trends observed quantitatively in language use in GAC projects. The causal mechanisms observed for implementation involved increased oversight and accountability both within and without of the institution. These changes seem to result more directly from forces outside of the institution, in the form of the GAO investigation and tighter control of Bank leadership during the Wolfowitz years. The tug-of-war between the institutional and American demands for GAC implementation, and hostility from the Indonesian government to the same reforms, complicated implementation for the in-country

[288] "Voting Powers." Last modified March 5, 2016. http://www.worldbank.org/en/about/leadership/VotingPowers.

team, who bore the brunt of implementation in negotiations and daily operations. This case underscores the incoherence of expecting an IO influenced by both donors and borrowers to act solely as an agent of donor preferences. The complex set of interests channeled throughout the Bank can best be understood as layers of influence, which necessitate a certain amount of alignment in order to bring about implementation of unpopular or difficult changes.

GAC reform, specifically, also involves significant potential for confusion, as the Bank staff must personally deal with complex ethical questions of borrower sovereignty, and the extent to which the Bank can legitimately require political change as a component of lending. Borrowing governments are frequently justified in claiming that the Bank oversteps its mandate, but the Bank's actions may also be justified insofar as the parts of the borrowing governments may be motivated by creating opportunities for graft. In instances like Indonesia, where corruption is entrenched and institutionalized, and could even be regarded as an essential part of the political system, the Bank does seem to overstep their role as a development agent by championing reforms that have the potential to undermine political stability in the borrowing country. If the Bank's mandate should be understood to 'do no harm' as well as promote development, the GAC agenda becomes increasingly a grey area for Bank staff.

Chapter 5. Implementation, Project Outcomes, and the Talk-Action Gap

This thesis would be remiss without examining, at least briefly, the correspondence between the implementation of GAC language in projects and the Bank's ability to produce improved development outcomes. This chapter serves as an basic but necessary examination of the effect of GAC language use on project outcomes, with the goal of understanding whether or not the use of GAC language in projects reflects an actual effort towards addressing the issue, or is a further instance of lip-service with no real follow up nor impact on project management. On a theoretical level, this chapter seeks to establish whether the use of GAC language in projects merely relates another instance of a 'talk-vs.-action' gap, or whether the changes noted in the prior chapters actually demonstrated meaningful instances of change in Bank practice.

The data in this section was created from my prior data by assigning a group of projects with high instances of GAC language to a treatment group, and then creating a balanced sample between treatment and non-treatment cases in order to isolate the effect of GAC language in project outcomes. The separation of a subset of projects from the prior dataset as 'treatment' cases selects treatment cases as projects possessing measures on the indexical indicators that exceed one standard deviation above the mean for that indicator. The cases whose indexical values exceeded this threshold were assigned a value of '1' for the treatment variable, while the rest of the cases were considered non-treatment cases (and assigned a value of '0').[289] This transforms continuous data for term usage into a binary of treated and non-treated cases, where the treatment reflects the values of the language use indices for the project. Requiring a significant change from the average use of GAC language reflects the general over-disbursement of the indicators themselves, and thus isolates cases that are truly unusual in their attention to

[289] The number of treatment and non-treatment (matched) cases can be found in Appendix 3.

GAC issues. These treatment cases were then matched with non-treatment cases with otherwise similar determinants of project success, a process discussed in more detail shortly, in order to discern whether there was a difference in outcomes for the treated projects as opposed to those with around or below average usage of GAC terminology.

The matching process, run through the package “Matching” in R, assigns treatment cases to a balanced non-treatment case in order to isolate the effect of the treatment on the dependent variable.[290] This program matches based on a number of observably similar parameters, as decided by the researcher, for other factors that are likely to affect the dependent variable and ought to be eliminated.[291] Matching is, in this way, similar to a standard regression analysis that controls for a variety of factors. The matching criteria would serve as control regressors in a standard regression. The crux of analysis through matching is that the resulting dataset achieves a balanced pairing system between treatment and non-treatment cases, and reduces other distortions in the data. Existing literature on aid project evaluation largely dictated the matching parameters for this analysis, as investigations that seek to isolate one input when evaluating project success will frequently attempt to control for other determinants of success.

The literature on project outcomes is mixed, however certain elements of the project environment are conventionally and importantly controlled for when seeking to determine what inputs generate successful aid and infrastructure projects. The bulk of this literature is produced by the World Bank and other multilateral development banks (MDBs), and thus provides an relevant basis for matching criteria. Almost uniformly in the literature reviewed for this

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290 Nelson, Stephen and Geoffrey Wallace. “Are IMF Lending Programs Good or Bad for Democracy?” *Review of International Organizations*, forthcoming.

291 For a much more in-depth discussion of the mechanics and relevant instances of matching, see Diamond and Sekhon “Genetic Matching for Estimating Causal Effects: A General Multivariate Matching Method for Achieving Balance in Observational Studies” (2013).

investigation, project assessment cases deal with the level of economic development and the overall macroeconomic stability of the country in which the projects take place.[292] A study of World Bank specific projects likewise found that higher levels of economic development, as measured by GDP per capita, had a positive and significant effect on World Bank project outcomes.[293] This analysis relies on per capita GDP as an approximation of development levels, and the inflation rate to approximate the health and stability of the borrowing country's economy, both datasets sourced from the World Bank's own data site.[294] This analysis is not unique in using these indicators as approximations for their corresponding purposes. The bulk of papers reviewed also included indicators for domestic conflict involvement during the time of the project, citing violence as a frequently disruptive of aid projects.[295] This analysis utilized the Polity dataset, which comprises the number of total conflicts in which the country was involved during the year in which the project launched.[296] Specifically, the variable in the Polity dataset used as matching criteria sums across the total number of conflicts, both civil and interstate, that the country is involved in at the time. The procedure in this thesis also matched on general political stability in the countries at hand, as captured by the IPRG dataset's Political Stability score, and as was a common practice amid the research reviewed. This matching criterion seeks to capture non-violent, non-economic instability that could alter the constraints for which the project was designed. Finally, an investigation of GAC language somewhat begs a chicken-and-egg problem, as it could conceivably be the case that more corrupt implementation agencies lead

[292]For one example, see Assefa, Rivera, and Vencatachellum. "Macro and micro determinants of project performance," *African Evaluation Journal* 2.1 (2013).
[293] Chauvet, Lisa, Paul Collier, and Marguerite Duponchel "What explains aid project success in post-conflict situations," *The World Bank Group Development Research Group* (2010).
[294] "Data," *World Bank*. http://data.worldbank.org/. Updated 4/16/2016.
[295] Kwak, Yoon Hoon. "Critical Success Factors in International Development Project Management" *CIB 10th International Symposium Construction Innovation and Global Competitiveness* Conference Paper, presented Sept. 9-13, 2002.
[296] Polity data sourced from http://www.systemicpeace.org/polity/polity4.htm.

to both more utilization of GAC language *and* worse project outcomes. To account for this, this investigation matches on the IPRG dataset's Bureaucratic Quality indicator, which seeks to capture the capacity and quality of the country's institutions (broadly defined). Matching cases based on these criteria improved the balance of the dataset for this analysis. The matching procedure generated a dataset with overall lower difference in means between treatment and non-treatment groups for each criteria, a table of which appears as an appendix to this paper with explanation. The difference-in-means test reflects the dispersion between treatment and non-treatment cases prior to and following matching; the reduced difference in means for the matching criteria after matching reflects a greater similarity between the treatment and non-treatment groups than in the unmatched dataset.[297]

Project outcomes, as evaluated by the Bank's Independent Evaluation Group (IEG) serve as the dependent variable for testing with respect to GAC language. The scores for project outcomes are drawn from standard project reviews, conducted by the IEG at project closing. Project outcomes are rated on a scale that includes the measures Highly Unsatisfactory, Unsatisfactory, Moderately Unsatisfactory, Moderately Satisfactory, Satisfactory, and Highly Satisfactory. For the purposes of analysis, this project assigns these projects with a value from 1-6, with lower numbers corresponding to more satisfactory projects.[298] This thesis looks at overall project outcome scores (as opposed to component sub-scores) as the distinctions between the IEG's subcategories remained somewhat opaque.

Were the GAC language to be followed up on with thorough implementation, this thesis would expect to see some sort of improvement in project outcomes across treatment projects as

[297] Nelson, Stephen and Geoffrey Wallace. "Are IMF Lending Programs Good or Bad for Democracy?" *Review of International Organizations*, forthcoming.
[298] This data is also publically available at http://data.worldbank.org/data-catalog/IEG.

opposed to their matched non-treatment pairs. This is to say that, other determinants of project success relatively static, increased attention to GAC issues and improved project management from a GAC perspective should have a positive impact on the closing rating of the projects.

The following data table outlines the results each indicator on the project outcome variables, as given by the matching algorithm.

Table 5. Matching Results for the Effect of GAC Language Indicators on Project Outcome Data

Treatment	GAC	Corrupt Behaviors	Institutional Framework	Punitive Mechanisms	Bank Oversight	Doubt Language
Estimate	**-0.01667**	**0.5625***	**-0.071429**	**0.0526**	**0.24405**	**0.29487**
T-statistic	(-0.396)	(1.9249)	(-0.26276)	(0.1642)	(1.1198)	(1.3436)
	*Note: * p < .1; ** p <.05; *** p <.001*					

As is visible in the table, treatment cases (with usage of respective terminology one standard deviation or higher above the mean for that index) displayed no statistically significant positive impact on project outcomes in five of six indicators. Three indices (Bank Oversight, Doubt Language, and Punitive Mechanisms) correlated (albeit insignificantly) with worse project outcome rating. Three of the indicators (GAC mentions, Institutional Framework) connoted a slightly positive relationship with project evaluations outcomes, but likewise lacked a statistically significant relationship. The Corrupt Behaviors Notation Index, corresponded with a slight decrease in project evaluation scores of about half a category (.5625 on this thesis' translation of project outcome scores) at a 10% confidence level, displaying a weak but significant relationship.[299]

[299] To reduce confusion, note that the coding scheme utilized with the data rated highly satisfactory projects as a 1 on a 1-6 scale, with highly unsatisfactory projects achieving a rating of 6. This has caused positive coefficients to correspond with worse project outcomes, and the reverse for negative coefficients.

Perhaps frustratingly for the Bank, this general lack of correspondence, as well as negative relationships, between GAC language and project outcomes hints at a troublingly familiar concern throughout the layers of Bank bureaucracy: does project writing delineate another instance of disconnect between rhetoric and practice? Amid the years of implementation, personnel transitions, and intermediate changes in project structure and goals, it is entirely foreseeable that even projects in theory designed to deal with corruption and governance issues eventually abandon those initiatives, especially over the lifetime of the project (the duration of which frequently exceeds five or more years). Accountability for corruption in projects may receive little enforcement as Bank staff members move on to designing another project, and the implementation agency or borrowing government remains at the helm of project management. Personnel transitions over the course of the project may mean that even individuals with an intention of GAC engagement at the beginning of a project are not involved in bringing the project to fruition, resulting in little attention paid to the finer elements of design at the initial phases. Likewise, the language may serve merely a functioning signal at the project appraisal stage, designed to skirt any trouble from the Executive Board, with little intention of following up on such language as the project unfolds. The mechanism by which this language ceases to be enforced would be the realm of future research, and could help to illuminate other mitigating factors for project implementation and project success.

As relating to this thesis' conception of a 'layers of governance' approach to GAC reform implementation at the Bank, the lack of correspondence between PAD language usage and project outcomes hints at the persistence of reform statements without genuine accountability. The weak relationship between GAC language (taken as a proxy throughout this thesis for GAC focus in project design) and project outcomes could merely serve to illustrate that language use at the appraisal stage is another instance at which the Bank attempts to outwardly project an image of reform, while maintaining business-as-usual practices following official project approval. The integration of GAC language without follow-up in project documents could even plausibly serve as a mutually-understood charade between Bank staff and borrowing governments, creating a situation in which each group can pursue some of their objectives without stressing borrower relationships or dramatically altering Bank practice in ways unappealing to staff. This discussion, however, is largely hypothetical, and merits further and more precise investigation into the roots of the dissonance between GAC focus in projects and project outcomes. For the purpose of this thesis, it at most helps reaffirm the intuition that runs throughout: that genuine reform necessitates a coalition of groups involved in the lending and implementation process, with aligned incentives and shared effort towards genuinely instituting the reform in question. Without monitoring throughout and precise mutual assurance that reforms are honored, little change can be expected in such a long and tenuous chain of delegation.

Chapter 6. Conclusion

Between political and developmental demands, the World Bank plays a complicated role. As an institution, the Bank is designed as both a bank and a development agency, and beholden to diverse and often conflicting group of formal and informal stakeholders. The Bank's existential demand for borrowing combined with resource dependency (both in terms of funding and legitimacy) on influential donor governments subject it to pressure to balance controversial emerging issues in the development world, and leave it beholden to controversy. Although expected to remain apolitical, the Bank is frequently placed at the forefront of emerging issue agendas for development, and beholden to corresponding controversy. In attempting reform, the Bank deals with extra-institutional factors such as borrower and donor interests, global political climate, economic and humanitarian constraints, as well as intra-institutional dynamics relating to staff culture and organizational performance. With respect to new agendas in development, the Bank fails both through inaction as well as through overstepping bounds; for complicity as well as coercion.

This thesis finds that implementation for the GAC agenda at the World Bank relied on a confluence of principal interests forming a necessary coalition in order to begin to translate the reforms from rhetoric to practice. Examining implementation of the GAC agenda through quantitative text analysis of roads and transportation project appraisal documents supported the argument that reform is possible for the Bank, but necessitates oversight and accountability from several layers of the Bank's governance structure. These findings support a behavioral theory of the Bank as a complex principal-agent structure in which principal interests must align in order to provide clear signals and effective incentives for the Bank to put policy changes into practice at the project level. This thesis argues that sociocultural explanations in which the Bank is incapable of any change are not only pessimistic, but also unsupported. However, the Bank's culture *is* acknowledged as strong and pervasive, and thus reform necessitates serious attention to institutional incentives and improved oversight in order to effect change—it does not occur automatically or easily. The investigation into the correspondence between GAC language implementation and project outcomes provides further evidence for a need for greater organizational accountability insofar as they attempt genuine implementation of such reforms.

The case study of Indonesia further supported these findings, in uncovering that the GAC agenda lagged in Indonesia due to the Bank staff and executives' willful ignorance of both governance and economic troubles. A confluence of stakeholder interests, including greater American involvement, governmental transition in Indonesia, and personnel changes at the country-team level resulted in changed lending patterns, but only several years after the Bank's formal adoption of the GAC agenda. Faced with the notoriously corrupt Suharto government, the country team failed to implement the GAC reforms for fear of damaging the borrowing relationship. Only following changed political and institutional incentives was GAC language implemented in Indonesian projects, reflecting the changes in the complex balance of principal interests that get hashed out at the project level.

These findings include many avenues for improvement and further inquiry. This thesis is limited in the extent to which it can deeply and satisfyingly probe the more culture-driven explanations of Bank behavior. Having limited access to direct engagement with Bank staff during the time period in question, this project relies heavily on other academic works to understand the Bank's culture. This project offers no firsthand account of whether the increased implementation witnessed in the early 2000s actually stemmed from an effective change in the culture of the Bank staff rather than an increase in oversight. Perhaps more troublingly, I struggled within this project to gauge accurately whether the increased use of GAC terminology in projects actually corresponded to enforcement and improved project outcomes on the ground. Word counts, although interesting, provide an imperfect measurement of thorough implementation. This thesis acknowledges that a talk-action gap can occur at the project level as well as the institutional level. Although Chapter 5 seeks to address this concern, there is still the worry that these project evaluations are carried out by a World Bank affiliated institution, and thus bring with them all of the potential pitfalls and concerns regarding self-evaluation and objectivity. Unfortunately, a firsthand evaluation of Bank projects would have been beyond the present scope/constraints of this project, but would be an avenue that further research could investigate. Perhaps not surprisingly, the bulk of concerns with this project's reliability feed off of the fact that the Bank's internal workings can be extremely opaque from the outside looking in.

This opacity, even amid the flurry of reports, evaluations, and other technical information available from the Bank's website to any citizen with internet access, creates an interesting framing for the Bank's role as an ostensibly public but largely unaccountable institution. Investigating the Bank's ability to reform, in itself, in many ways presupposes certain ideas of accountability and other norms by which we expect an organization like the Bank to work. Implicit in the notion of a reforming Bank is the idea that the Bank ought somehow to be responsive to the demands of various stakeholders, and that these stakeholders need methods of recourse in the event that they discern that the Bank is behaving inappropriately.[300] These

[300] The question of NGOs reappears here. Although this thesis found NGOs to generally be treated as exerting little direct power over Bank behavior, the court of public opinion as evidenced by media attention and NGO criticism clearly believes that the Bank is, at least in some way, beholden to all of us. This tie also presents an area of further research, delving into the degree to which vocal NGOs (and, more broadly, public opinion) can shape a state's expressed preferences towards the Bank and other IOs.

methods of recourse rely on the Bank's transparency as an institution, in order to allow for the stakeholders to access accurate information and hold the Bank accountable in accordance with their knowledge. These notions of 'accountability,' 'responsiveness,' and 'transparency' demand some unpacking in order to conceive of how an institution like the Bank ought to be improved or altered.

Normatively, it seems entirely justified that an institution such as the Bank, funded largely by democratic governments, ought to be accountable to both those governments and their electorate. Likewise, it seems reasonable that the Bank ought to be accountable to the citizens whose lives are affected by the Bank's operations in their region. However, as these two relationships arguably pose two qualitatively different types of accountability, and to which the Bank may be differently obligated.[301] In conceiving of these differences, this thesis adopts Grant and Keohane's distinction between "delegation" and "participation" models of accountability in order to understand the Bank's relationship to these different groups.[302]

In line with this analysis, the Bank (and its staff) are subject to accountability through delegation by the Bank's own hierarchy, funding principals and governing states, as they, at each level, entrust the other with delegated tasks in the name of furthering the Bank's mission. However here is where the Bank's ambiguity becomes clouded: Grant and Keohane likewise distinguish between principal-agent relationships and trustee relationships of these delegated varieties.[303] The Bank operates in a nebulous in-between region: its funding and organizational structure make it resemble a principal-agent relationship; however it's unique concentration of development experience, education, and prestige make it seem much more like a trustee as the

[301] Grant, Ruth W. and Robert O. Keohane. "Accountability and Abuses of Power in World Politics." *American Political Science Review* 99.1 (2005): 29-30.
[302] Grant, Ruth W. and Robert O. Keohane. "Accountability and Abuses of Power in World Politics." 31.
[303] Grant, Ruth W. and Robert O. Keohane. "Accountability and Abuses of Power in World Politics." 31.

Bank possesses much more development-specific knowledge than do its principals. In order to understand how responsive the Bank ought to be to borrower preferences, particularly at levels of delegation and into country-level operations, the Bank's role as a principal or a trustee must be clearly defined. An agent or intermediate principal Bank, as supported by this analysis would be reformed by improved oversight and increased coordination of principal interests in order to incite change. Bank principals such as governing and donor states would be justified in investigating the Bank, and would need access to complete information about Bank operations and license to limit funding and operations if they feel that the Bank is falling short of its obligations. A trustee Bank would operate on a looser timeline, adapting principal preferences as they feel will be best suited for the purpose of eradicating poverty and enhancing development outcomes. The trustee Bank, however, would necessitate stronger internal accountability mechanisms and self-evaluations with 'teeth' in order to ensure that the institution operates honestly, relying on their own development knowledge and adopting donor state preferences in an appropriate balance. An intermediate Bank, which we appear to have now, has the upsides of being less of an agent for neocolonialist interests and American hegemony than it could be as conceived of as a proper agent, however it does bring an unfortunate ambiguity regarding accountability and conditions in which reform is reasonable or mandatory.

From another angle, the Bank's relationship with borrowing governments and their constituency commits it to set of participatory accountability relationships. From this point of view, the Bank abuses its power when it acts against the interests of the individuals affected by its projects. From an operational lens, this quickly becomes extraordinarily murky, particularly in cases like Indonesia: is providing development aid for a country ruled non-democratically or with human rights abuses in the interests of the citizens? If the Bank works through these governments, are they (in the long term) supporting oppressive regimes for the short-run improvements in development? Moreover, what sort of public participation would prove productive in a development context? In the Bank operations examined in this thesis, cooperation from government elites provided a necessary condition for improved GAC engagement in Indonesia. Although this instance certainly demonstrates an element of country participatory influence, citizens have no means of recourse with the Bank for projects and policies undertaken by their government, in their names. Bank projects undertaken at a local level with direct participatory engagement of the project's affected population could potentially help this problem, but could similarly prove problematic insofar as local governments suffer from the same pathologies as national governments.

Specifically in terms of the governance and institution-building agenda, this investigation leaves one to wonder whether the controversy and hesitancy surrounding the GAC reveals deeper concerns, regarding whether involvement with country governance oversteps the bounds of a development bank. Throughout its emergence as a development norm, the GAC agenda has been shaped at least in part by American preferences and relatively strong enforcement capacity. Insofar as GAC practices have been mainstreamed at the Bank, they should be implemented in cases where Bank staff feels that they have enough participatory engagement that the project can be done properly, with anti-corruption cooperation at the project level. The failure of GAC language mainstreaming to elicit improved project outcomes, at least as found within the preliminary investigation of this project, creates a further impetus for the necessity of strong participatory engagement on the part of borrowing governments in order for effective corruption management at the project level. In the case of future reforms, greater participatory power for borrower-states in the initial agenda-setting would increase the likelihood of mutually agreed upon development goals, although the quasi-diplomatic nature of the Bank as well as the aid reliance of some countries may make honest and transparent participation difficult.

Appendix 1. Counted Words

Arbitrary
Assessment
Assessments
Audit
Audits
Auditor
Auditors
Clientelism
Contingencies
Contingency
Corrupt
Corrupting
Corruption
Corruptive
Corrupts
Debarment
Debarments
Disbursement
Disbursements
Disclosure
Efficiency
Efficient
Fiduciary
Fraud
Fraudulent
Govern
Governance
Government
Governments
Inefficiency
Inefficient
Institution
Institutional
Institutions
Patronage

Performance
Policies
Policy
Preventative
Prevents
Procure
Procures
Procurement
Rentseeking
Report
Reports
Responsibility
Responsible
Result
Review
Reviews
Risk
Risks
Sanction
Sanctions
Signal
Signals
Supervise
Supervision
Supervisor
Supervisors
Warning
Warnings

Appendix 2. List of World Bank Projects in Dataset by Year and Project ID Number

1987: P006442, P003877, P007642, P006416, P009459, P006410, P006810, P007615, P006366, P010277, P003448, P003489, P004900, P009873, P009855
1988: P004905, P003472, P003524, P003923, P005963, P004126
1989: P003523, P009225, P004154, P003543, P002124
1990: P005433, P006005, P010352, P002783, P008567
1991: P004597, P001396, P008780, P003922, P003572, P003943, P009958, P003520
1992: P003512, P008223, P010408, P003581, P010407, P003586, P000759, P006479, P004787, P006454
1993: P003626, P008210, P004832, P003622, P006547, P005514, P005517, P005168, P008771, P003473, P004006, P008599, P007648, P005438
1994: P006661, P004175, P004173, P003612, P009465, P003890, P004020, P003644, P003998, P001804, P002770, P008045, P009509, P003595
1995: P004800, P035717, P038882, P010522, P003951, P004907
1996: P009518, P004026, P036053, P040521, P040125, P002758, P039312, P000957, P003649, P001319, P036013
1997: P053796, P003590, P039250, P039584, P006010, P004842, P006562
1998: P050036, P050646, P063201, P039082, P035824, P042940, P003615, P003619, P040033, P043421
1999: P059864, P042039, P046564, P051705, P048869, P041264, P050637, P041890, P048588, P041887, P008499, P009524, P039161
2000: P045915, P059242, P041723, P058844, P010505, P045049, P058202, P058843, P039019
2001: P040578, P059936, P001785, P062748, P056199, P058845, P056596
2002: P074963, P077012, P058847, P072852, P069901, P070459, P069916, P058846
2003: P010556, P063622, P082806, P071144, P043195, P071435, P044613, P077477, P040599, P074726, P078284
2004: P084792, P088032, P085786, P082618, P082998, P075730, P074079, P088153, P081749, P075602, P074290, P082615, P080149, P078387, P078170, P069852, P066955
2005: P086411, P070519, P085333, P083351, P081161, P071094, P077328, P070628, P084583, P088923, P088824, P092019, P068752
2006: P101785, P095460, P093812, P083322, P093906, P064925, P088252, P094488, P075407, P060484, P096214, P097271
2007: P094229, P083581, P099894, P083325, P086768, P099051, P086515

Appendix 3. Difference of Means Results for Balance Matching Process, Treatment and Non-Treatment Statistics

	Difference in Means between Treatment and Non-Treatment Groups: Before and After Genetic Matching											
	treatmentGAC		treatmentBOI		treatmentIF		treatmentPM		treatmentLDI		treatmentCB	
	Before	After	Before	After	Before	After	Before	After	Before	After	Before	After
Year	52.3	6.762	-3.117	3.703	-3.028	-19.785	16.374	0	0.33029	-2.9821	44.603	2.2196
Inflation	-79.349	-1.2433	-526.85	-17.6	-461.24	22.469	-636.85	23.707	-92.209	5.2671	-585.92	25.409
GDP	-45.201	-4.8729	-36.578	2.8919	-6.0264	4.2307	-34.819	-30.183	2.4095	4.1407	34.202	-10.984
Polity: Total Conflict	25.715	1.8433	33.903	-1.168	23.763	10.411	53.445	17.474	-37.918	4.8472	4.7777	-6.473
Bureaucratic Capacity (IPRG)	-17.704	1.6945	-10.079	7.9412	-17.399	0	80.448	30.678	-2.2872	1.9045	18.699	6.5664
General Stability (IPRG)	23.936	-8.7965	-1.4652	-2.7323	-12.173	0.000002	-51.158	-5.5505	-6.2268	-3.5727	-42.803	-7.4865

Note: The number in the “Before” column indicates the difference of means prior to genetic matching, while the number in the “After” column indicates the difference of means following the genetic matching procedure. A successful genetic matching procedure reduces the difference in means, which reflects an overall more balanced dataset between treatment and non-treatment cases. The treatment variables are listed across the top of the table, to make it clear which language index each difference of means test corresponds to.

	Treatment	Non-Treatment (Matching Pool)
Governance and Corruption (GAC)	20	164
Bank Oversight Index (BOI)	28	156
Institutional Framework (IF)	28	156
Punitive Mechanisms (PM)	19	165
Language of Doubt Index (LDI)	26	158
Corrupt Behaviors (CB)	16	168

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