

The MDBs and the Nation-State

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Section I. Introduction

The relationship between the Multilateral Development Banks (MDBs), led by the World Bank (WB), and the borrowing nation-states remains the subject of considerable controversy. Critics on the left complain that the MDBs, using their conditionality clout, have involved themselves in a neo-imperialist fashion in the most sensitive domestic policy arenas and threaten countries' self-determination efforts, while critics on the right point to what they see as a lack of overall development success as an indication that development should really be left to private markets. But both sets of critics can agree—and here they are joined by the Bank itself—that the adjustment assistance era of the 80's and 90's has not proved highly productive.

In this paper I hope to first briefly trace the evolution of the MDBs changing modus operandi over the past 60 years (Section II), focus on what I perceive to be the present situation (Section III) and conclude (Section IV) with an assessment of where the relationship should be heading if countries' self-determination is to be consistent with MDBs fulfilling their charter obligations.

Section II. The First 60 Years

During the 50s and 60s bilateral aid, especially by the U. S., was dominant. With the help of “long-run assistance strategy” papers, the U.S. tried to assert considerable influence on host country policies, with program loans of substantial magnitude playing an important leverage role. From the initial focus on balance of payments support in the Marshall Plan days focused on Europe, U.S. assistance to developing countries started with projects and then shifted to program

lending. The growing realization that the collection of even inherently sound projects does not necessarily add up to a good country program meant an increasing emphasis on exercising influence on recipient country policies. In this context both quantitative as well as qualitative targets were set. For example, in the course of aid programs to Pakistan, Taiwan and Korea, AID found it useful to distinguish between rewarding past performance and inducing future performance change. In negotiations with Pakistan the US offered to provide substantial additional commodity assistance as part of an agreed program of import liberalization and the freeing up of domestic agricultural commodity markets. A similar pattern was in evidence in the case of Taiwan when substantial aid ballooning between 1959 and 1963 was accompanied by the adoption of the famous 19 points of reform. In the case of South Korea, \$1 million was allocated for each of 5 specific reform steps. The elements of such programs were stated in official documents following comprehensive dialogue, but supported by the then overwhelming current view that donors possessed superior wisdom, along with the required resources.

Accordingly, there was relatively little hesitation about getting deeply involved in the internal affairs of recipient countries. Donors recognized that they could maximize their influence by program assistance when the country is viewed as the project or by sectoral assistance when the sector is the project; in both cases, the advantage was the relationship between a fast flow of resources and exercising maximum leverage on country policies. After all, the volume of program lending is usually based on an analysis of the overall balance of payments or budget requirements which almost begs to be broadened into a general review of the overall economic situation and the total budget of the recipient, complete with joint quarterly reviews of the economic situation and of progress on particular problems relating to the tranced disbursement of aid. The systematic use of influence in these sensitive areas, of course, requires

detailed knowledge, or at least the assertion of such knowledge, in order to determine what are the most important components of any conditionality list. It was recognized even in the 50s and 60s that the donor/recipient relationship is an inherently delicate one since there is always the risk of the donor being viewed as a neo-colonial entity interfering in the internal affairs of the recipient. However, it should be emphasized that during these early post-war decades there was still a honeymoon in place, with probably exaggerated expectations on both sides as to what the partnership would yield in the way of development.

In contrast to the dominant bilateral donors, the MDBs, even though presumably less suspect of political motives and neo-imperialist ambitions, chose to maintain their concentration on project assistance during this period. However, by the 1970s the WB, with the coming of McNamara into the presidency of the WB, began to shift to a concern with poverty alleviation, accompanied by an increasing resort to non-project lending. As the WB and the other MDBs, if lagging somewhat behind, moved towards non-project lending, under the label of structural adjustment, the risk of trespassing on internal decision makers in recipient countries, of course, increased. But it is also fair to say that there was an initial abundance of hubris on the part of donors in terms of their assumed superior wisdom as to what needed to be done and as to how recipients could be made to recognize this, with the help of conditionality and fast-disbursing loans. While recipients were supposed to understand that the executive branch in the U.S., for example, could propose but that Congress would dispose, there was continuously inadequate recognition given to the fact that recipients had similar problems, i.e., their ability to comply with agreed on commitments was subject to veto players, i.e. presumed losers from reforms who could torpedo a sincere desire by the executive branch of government to comply with the package.

All of this, of course, relates very much to the question of how well or how poorly the Bank was able to affect the quality of country performance during the 70s, 80s and 90s as a consequence of its provision of dollars and advice, coupled with conditionality. The MDBs' catalytic effect, much ballyhooed, has to be assessed in terms of the extent to which the policies reached make sense, the extent to which the behavior of recipient countries was, in fact, affected and, last but not least, the extent to which the aid itself actually eased adjustment pains, bought off vested interests, alleviated inflationary pressures, etc.

There seems to be general agreement, even within the WB and the other MDBs, that traditional conditionality embodied in the structural adjustment packages of that era have generally not been very successful. The Bank's own major evaluation reports in the 90s admitted to many failures of adjustment lending because of the frequent absence of a true domestic constituency for reform. There are, I believe, some other reasons for the relative lack of success of the structural adjustment packages embodying the so-called Washington Consensus during these three decades. For one, the World Bank, in particular, was unduly centralized, had very few full-fledged resident missions abroad, with most of the decision-making locus for both commitments and advice located in Washington, supplemented by relatively brief visiting missions, with changing membership. In fact, the recent Volcker Commission found that the typical World Bank staff member spent less than 10% of his/her time on recipient country contacts. Given their typically brief in-country presence, such missions usually gathered information on the run, while raising friction by insisting on meeting with high-level officials on a more or less automatic basis. Consequently intrusiveness was not always accompanied by the requisite understanding in depth, especially with respect to the institutional and political economy dimensions of the recipient government's reform tasks. In brief, while the World Bank

continued to preach decentralization to its customers in the context of its emphasis on improved governance, it did not really practice it consistently.

But when all is said and done, undoubtedly the most telling criticism of past MDB policy-based lending is that both donor and recipient are in too much of a hurry; they all too frequently rush to judgment, putting together packages that can be signed off on so that money can be disbursed quickly. In that sense, both WB and recipient personnel are similarly motivated. The former see their rewards and promotions in terms of the volume of commitments made and agreements signed; the latter anticipate the relief expected from the quick flow of funds. All the consistent rhetoric about the importance of package quality to the contrary, neither side is therefore really inclined to take the time and the potential flak to carefully assess more precisely what the needs are, what should be done in a broader socio-political and institutional context and how to ensure that the package was more than just superficially “owned” by the recipient.

There has, of course, been a continuous evolution of what is meant by reform quality, given the changing topics focused on for priority attention, especially at the World Bank. But the question remains: how does this evolving search for the “key” levers of successful development ultimately affect the lending decisions. It is this “disbursement dilemma,” i.e. the desire to lend being overwhelmingly strong and the list of conditions unduly long, as well as insufficiently differentiated to reflect specific local institutional, political, and even economic realities, which lies at the heart of the matter. All too frequently a laundry list of conditions, sometimes additive or even conflicting as between the WB, the regional banks, the IMF, and frequently bilateral donors, was put together without a clear idea of what was really important and what a country can reasonably be expected to accomplish over any given period of time.

The ideal sequencing of reform components, by no means a trivial issue, also took a back seat. As a consequence, it should not be surprising that, over time, the level of friction and disappointment rose exponentially—especially when it became increasingly obvious that ultimately the need to lend would overcome the need to ensure that the laundry list of conditions had indeed been met.

At the risk of some exaggeration, what often takes place is a rather time-consuming and expensive ritual dance. Most structural adjustment lending releases don't get cancelled; they may be delayed and few countries have ever had prolonged breakdowns in their relations with the MDBs as a consequence of non-compliance. And all this in spite of the fact, reported by Tony Killick, that in the early 90s only a quarter of the WB's structural adjustment loans moved forward according to their intended schedule. Once lender and borrower both know that the commitment to a fast-disbursing loan has been made, it is clearly difficult to maintain a credible threat of cutting off that loan in case of non-compliance. Even non-compliance is a highly ambiguous concept since it always comes down to a judgment call. Aware of the fact that the donor is likely to insist on compliance early in the game and anxious to disburse later on, both parties have an incentive to fashion and then implement superficial agreements. Paradoxically, moreover, while additional resources are supposed to ease the pain of adjustment they often have the very opposite effect, i.e., they take the pressure off and permit the recipient to avoid making often painful adjustments. The MDB achieves the desired commitment of resources and the recipient has the pressure for change relieved by the flow of resources. Both parties can claim that reform and loan disbursement targets have been met, more or less, and, in the absence of any externally verifiable measures of the effectiveness of the program, can declare it a success and go on to the next year's negotiations. But all this is not without a high cost in terms of increasing

mixtures of fatigue, cynicism and friction, plus at least the appearance of excessive interference in the internal affairs of the nation-state, without, in return, having the benefit of actually achieving progress on reforms—indeed possibly retarding it as a consequence of taking the pressure off, i.e. via an extension of the “Dutch Disease” problem.

One of the complications in tracing the relations between the MDBs impacting on the nation-state from above is that such pressure is sometimes utilized by the recipient as a convenient lightning rod to blame for unpopular policies or to permit the reform wing of any government to convince its more recalcitrant conservative wing that changes are necessary. Such hoary arguments, however, don't have a long half life in this repeated game context. It is always easy and convenient for the borrower to blame the lender both for excessive intervention in domestic affairs and, subsequently, for the failure of the program.

We should also remember that the falling credibility of structural adjustment lending packages was due to the fact that donor motives have become increasingly suspect over time, including the exercise of G-7 political pressures exerted through the MDBs and the influence of private investor pressures leading to the differential treatment among recipient countries. In fact, it is sometimes argued that the situation is not the WB as the principal and the recipient as the agent, but G-7 private interests as the principal and the MDBs as the agent impacting on recipient countries.

Clearly contributing to the increased lack of credibility has been the aforementioned large number of conditions, sometimes resulting from cross-conditionality between the MDBs and the IMF and bilateral donors which have made it easy to determine that a sufficient number of conditions have been complied with if there is a critical desire to do so, or, in the case of smaller or less “important” countries, to insist on a judgment of non-compliance. All this, of course,

frustrates recipients, given the implied intrusiveness, combined with a lack of realism, plus the fact that most countries aren't able to actually perform on more than 3 or 4 reform items at any one time. Indeed, while the average number of conditions has now been reduced from about 60 on the average in the 1980s to 30 in 2000, it is still unduly large in terms of the realistic implementation capabilities of most countries. This very much contributes to the notion of both parties going through ritual dances which are time-consuming and friction-laden, especially expensive in terms of the attention of scarce high-level manpower in the recipient nation-states.

I believe that the Rubicon on this issue was crossed at the WB early on, i.e., during the presidency of Robert McNamara, when annual and global country lending targets were established, even though--unlike the case of congressionally funded bilateral agencies--there existed no external mandate for the MDBs to do so. As usual, the regional banks soon followed suit, and while there has been a continuous evolution of what is meant by quality, reflecting the continuous search for "silver bullets," the quantity of lending has consistently won out as an indicator of success, for reasons already referred to. Indeed, this point is no longer hotly denied by the MDBs, especially in the Wolfensohn era. However, what to do about it remains an outstanding issue which I intend to return to below.

In this connection, it is useful to acknowledge the existence of two circulatory systems in operation within all the MDBs to differing degrees, but especially in the WB. One system focuses on the President's office, the research departments and is focused on the ever changing realm of ideas, with changing subjects for emphasis, moving, say, from basic needs to poverty, to human development and institutional reforms over time. This system continuously changes and enhances the quality of the policy papers, of country analyses, of the annual World Development Reports. The second system resides in the realm of the operating departments where what

matters is commitments on project and structural adjustment lending. The fact is generally recognized that the longer term chances for individual personal recognition and promotion still largely relate to commitments made. Of course, lip service continues to be paid and additional relevant qualitative performance indices tend to be produced by the operating branches of the MDBs, but this is not what determines lending decisions, very much in the tradition of ex post cost/benefit analysis on projects. The existence of these two circulatory systems, with relatively little capillary action between them, means that the MDBs continue to suffer from a case of schizophrenia, in spite of admittedly valiant efforts by the Wolfensohn administration to alleviate the problem. It also means that recipients are in a position to exploit that very lack of capillary action. The difficulty of the problem is demonstrated by the fact that management recognizes the need to change the culture of the Bank but, according to Mr. Wolfensohn himself, has not found a way to tackle the issue successfully.

Section III. The Current Situation

Even as the WB is complaining about its lack of capital and as its importance has continued to decline in relation to private capital flows, money continues to chase programs and projects. Of course, the need to shift to country “ownership” is being appealed to more and more frequently by all parties, and in that sense the pressure on the self-determination of the nation-state should have been relieved. But, in fact, the MDBs, directly or indirectly, still take the initiative in most instances, convince the borrowing country of what it should ask for, what it must do in the way of policy change, and what conditionality terms it must accept. In fact, it is no exaggeration to state that both the MDBs and the borrowers, having gone through this particular annual procedure many times, recognize fully, that while loans may be linked to

conditionality *ex ante*, *ex post* the need to lend still overcomes the need to ensure that the conditions have really been met. Few countries, certainly not politically important or large ones, experience prolonged breakdowns in their relations with the MDBs. Relations between the MDBs and the recipients have deteriorated to the point where structural adjustment lending has now been basically abandoned and new devices, including PRSPs, are being promoted.

One persistent difficulty still attending MDB programs, including the PRSP lending of today, is a certain amount of persistent and unwarranted insularity and self-assurance, especially on the part of the WB which has typically paid relatively little attention to the output of the academic community, bilateral organizations, the UN agencies and even the regional MDBs. While there is much cross-referencing and footnoting in most of the WB's output, relatively less consideration is given to work outside the institution, especially in terms of the attention paid to research and applied policy work in the developing countries themselves, in many of which there has been a substantial development of human capital over the past decades. The concentration of a large number of highly qualified professionals within one institution, all anxious to show their ability to superiors, and less anxious to refer to the work of others, adds up to a high cost of this insularity. There is insufficient encouragement of dissent or controversy. Especially non-Anglo-Saxon academic and policy-making communities in which subtle or not so subtle modifications to current paradigms are currently being advanced are ignored, dismissed or, at best, taken lightly. For example, it took a major effort by Japan not long ago to get the WB to re-examine its rather orthodox views on the role government played in East Asia's historical development successes. Such relative lack of flexibility and openness to alternative assessments of situations and inadequacies constrains the breadth of policy actions that recipients are able to explore when designing reform programs acceptable to the MDBs.

It should be noted that the WB's dominance, bordering on arrogance, continues to extend to its attitude towards the regional MDBs who have been more or less following, rather slavishly, the WB's leadership. They are generally treated as poor cousins who might be invited, along with bilateral donors, to support WB-orchestrated packages, but are otherwise expected not to get in the way. Even though the regional MDBs presumably have more local knowledge and are, by nature, more decentralized, there has been no discernible effort to evolve towards a sensible division of labor. In dealing with other lenders, the WB typically prefers to privately criticize their admittedly inferior professional capacities and then proceed to ignore them. If a new conceptual issue arises, whether in academia or in one of the UN agencies, the World Bank has a tendency to "take over" the issue and hire additional in-house staff to pursue the matter. The alternative of staying out of a given dimension of development, while helping to build up the capabilities of others, is generally viewed as generally too thankless and time-consuming and not consistent with the overriding view that the WB is the main instrument capable of both thought and action affecting what goes on in recipient countries.

Finally, we should remember that private capital is increasingly dwarfing public flows to the recipient nation states. Quite aside from what the MDBs can do in supporting domestic private sector activities directly, given the charter restrictions relevant to all but the European Development Bank, the most important function remains one of signaling, i.e., providing housekeeping seals of approval to other contributors. Private investors continue to depend heavily on both published and unpublished country analysis work provided by the MDBs, especially the World Bank. We should also keep in mind that, while the World Bank differentiates clearly between IDA, blend and Bank countries, the question of the extent of the complementarity rather than displacement between public and private flows and various types of

graduation has received inadequate attention. Much of Africa, selected parts of Central and South America and parts of South Asia will continue to require IDA type financing for some time to come. As for the rest, MDB lending, in terms of both project and program flows, will probably be directed more towards facilitating domestic as well as complementary foreign private flows, with the objective of the earliest possible graduation from public flows.

Given the poor report card that structural adjustment lending has received, both inside and outside the MDBs, we are now witnessing a two-pronged, differentiated approach in donor activity. On the one hand, with respect to the highly indebted poor countries, the HIPCs, forward looking poverty reduction strategy papers (PRSPs) are now insisted on before MDB relief is given. The PRSPs are supposed to be more participatory than the structural adjustment loans of the past, but in practice the ownership dimension remains rather token. While not necessarily representative, it is worth noting that, at a Kampala meeting in May 2001, 39 organizations and regional networks in 15 African countries, agreed that PRSPs were simply window dressing and really resembled the Structural Adjustment Loans of yester-year under different clothing. We do know that the IMF has issued a large-sized detailed manual on how to prepare the PRSPs, which would seem to indicate that the HIPC initiative offers only limited and still highly conditional resources, most of which, incidentally, might also turn out to be not really additional.

The other current innovation is the Millennium Development Account, proposed by the US, which will reward countries which have already done well, clearly favoring the speediest rather than the neediest. Here again the question of conditionality remains relevant, with the U.S. executive branch proposing an increase in total aid flows. As a consequence, a substantial middle income group of countries is likely to be left out, i.e. countries which are not in the debt relief category nor doing so well as to be able to receive funds from the Millennium

Development Account. Admittedly it is a bit early to tell how this new bilateral window will operate, nor are we suggesting that the HIPC initiative should be abolished, only that at the moment we still seem to be faced with the same defects in MDB activity previously referred to, plus having to deal with the illusion that we have now discovered a key solution of how to combat pervasive poverty. Indeed, we may instead have found a way to reward countries which behave “appropriately” not only in terms of developmental progress, but also in terms of meeting certain political criteria. This could, in fact, bode ill for increased intrusion into sensitive internal affairs, political as well as economic, of the recipient nation-state.

By around 2000 the realization grew, in other words, that what was needed was a shift of emphasis, with the MDBs focusing more on becoming knowledge banks rather than purveyors of capital, with the PRSP for the poor and a multi-lateralized MDA for middle income countries, on offer. The question still arises then whether self-determination in countries still requiring support from the MDBs can be made consistent with an effective contribution by the latter, a subject to which we will now turn.

Section IV. Is Self Determination Consistent with an Effective Contribution by the MDBs?

The fact that past performance by the MDBs, using fast disbursing loans cum conditionality packages as a chosen instrument, has been far from optimal, should not lead one to the conclusion that the instrument itself is faulty. On the contrary, when deployed appropriately, such loans may still represent a very good, if not the best way, of promoting development objectives in the third world. In any case, I am convinced that yielding to the temptation to

return to the safe ground of a “projects only” approach, complete with dams and other large infrastructural projects, would be an equally large size mistake. The components of any individual country reform program supported by non-project lending, if properly negotiated and truly owned by the recipient nation state, remains, I believe, the best device to assist reform in developing countries.

The first step in that direction must be a recognition by the MDBs that a *sine qua non* of success is full joint conceptualization and an agreement which is not only economically but politically feasible as to what needs to be done in the way of reform and what additional resources may be required to help the country get there. In its absence, no amount of conditionality is likely to work. This, I think, requires the abandonment of the sometimes explicit, often implicit, annual MDB country lending targets. While I recognize that it is pretty unrealistic from the political relationship point of view to expect the MDBs to completely abandon some sort of low level annual country loan targets, the point here is that major ballooning in lending, associated with the aforementioned type of agreement on policy change, would probably be negotiated only occasionally on a when and if basis. This requires greater passivity on the parts of MDBs and much more initiative on the part of the borrowing nation-state, a non-trivial change in the past behavior of both parties. It would be necessary for new windows to be opened permitting the MDBs to behave more like the banks they are supposed to be, in a position to sit back, encouraging would-be borrowers to approach whenever they are ready with plans for substantial reform initiatives. Such so-called “new windows” would give the MDBs an opportunity to initiate a fresh approach emphasizing substantial country selectivity while safe-guarding country self-determination. This selectivity could differ from the current Millennium Challenge Account set-up which unfortunately still proposes 16 criteria for purposes

of assessment and is heavily biased towards already good performers, presumably mostly middle-income countries. Moreover, the anticipated success, country by country, could be expected to lead to increased resources and a greater willingness of donor countries to support the MDBs and the development process generally over time. Nation-states which are not yet fully capable of taking such an initiative could, of course, request technical assistance to help them put together their proposal but the help should come from third parties. Self-destructing quasi-independent teams would be able to draw on the substantial expertise and experience of the MDBs but there should be no link between the advice and the possible subsequent lending activities.

If the “business as usual” annual country lending could be kept to a minimum, the annual ritual dance that I have described above could be replaced by serious bargaining and ultimate agreement on what needs to be done, once countries decide to approach the international community. A credible process would thus require the fullest possible commitment by the borrowing country and a willingness by the MDBs to respond when proposals are made, though they, of course cannot be expected to sign on the dotted line. Both parties must always keep in mind that the reform package has to be accepted both economically and politically. Moreover, it must be supported over a period long enough so that the borrower’s twin risks can be taken into account. We would not expect conditionality to be abandoned but it would have to be converted into “self-conditionality,” with the MDBs acting neither paternalistically nor in an interventionist fashion, but ready to discontinue providing resources in the case of non-compliance with an agreed self-conditionality list. Future reform packages would be reasonably restrictive in the number of conditions contained since there clearly exists an inverse relationship between the number of conditions and their credibility. The recipient country would have to put itself on

notice that in order to ensure the continued flow of resources this reduced number of home-grown conditionality rules would have to be adhered to, with the financial flows needed not only to buy off vested interest groups and ease the pain of adjustment, but also to provide the required reassurance to presumptive winning stakeholders. This procedure would at the same time acknowledge the growing professional competence of LDC policy makers as well as the need to inject much-needed credibility into a process which has become fatigued and unproductive.

This also means that there might be some fallow years, possibly even decades, when only low level “business as usual” country programs are being pursued in particular borrowing countries. It also means that, with respect to the big packages, the MDBs must occasionally refuse to respond and be willing to stop lending when self-conditionality provisions have been materially violated. In other words, the new window involving major reform packages and the ballooning of resource flows would presumably be relevant to only a handful of countries at any given time.

The safeguarding of self-determination by recipients would also be furthered if the MDBs agreed on and implemented a more effective division of labor within the family. Given the World Bank’s admittedly superior analytical capability, it would probably make sense to have it focus more on macro analysis and let the various regional development banks focus more on micro-economic, sectoral and institutional matters likely to be very country-specific and requiring extra doses of local knowledge. Such detailed country-specific analysis is clearly necessary when there is recognition that institutional differences may, in fact, be among the key issues preventing countries from putting together a viable reform program. It is, moreover, quite in keeping with the notion of the MDBs—not just the WB—as knowledge banks to have them focus on institutional interventions to help markets function better. The regional banks’ location

should place them in a better position to respond to relevant reform proposals in a realistic fashion. WB and regional bank efforts should, in other words, be viewed increasingly as complementary efforts instead of as WB subcontracts under which regional banks are asked to accept WB intellectual leadership and supplement WB resource flows. While self-determination might seem to be threatened by anything approaching a monolithic stance by the international lending community, such enhanced interplay between the World Bank, the regional banks and bilateral donors, in the context of recipient initiative, can be expected to improve overall efficiency. This is not to suggest any rigid blueprint for an improved division of labor on a country basis, but that a less dismissive and paternalistic attitude by the WB is warranted. If the posture becomes one of encouragement, of sharing information, of assisting the build-up of human capital in the regional banks and the UN agencies, instead of reinforcing inferiority complexes by the sheer weight of its lending and intellectual capital, a more realistic and productive division of labor could, in fact, result.

A major obstacle to the proposed new window and its suggested operations is, of course, the aforementioned deeply entrenched culture within the World Bank. As long as the signals governing personnel evaluations and promotions continue to favor lending commitments, rather than longer term and harder to assess qualitative results on the ground, safeguarding self-determination objectives in the recipient countries will be difficult to accomplish. Nevertheless, the current re-examination of globalization as an unalloyed benefit or curse should help concentrate the mind. There is a real risk that the deficiencies of the earlier structural adjustment era as well as, I submit, the current PRSP initiative will continue increasingly to drive a wedge between amended Washington Consensus adherents and those who reject the benefits of open markets, import liberalization and price flexibility.

Abandoning religion on the part of the MDBs is part of the challenge; for example, there already has been a change in how capital market liberalization is viewed, differentiating between FDI, which is favored, and short-term portfolio capital, which is shunned. The same is true for a more catholic attitude towards what constitutes optimal exchange rate policy. Evidence of greater sensitivity to differences in country conditions, deferring much more to third party expertise and, most of all, a willingness to be patient and passive would all be of great help. Whether or not the reward system within the MDBs can be made consistent with the emphasis on long-term quality as opposed to short-term quantity is still not clear and represents a critical challenge for the MDB management.

An additional device to ensure that donor activity from above, by MDBs and the IMF, can be made consistent with national self-determination is to take a leaf from the Marshall Plan experience, i.e. by installing peer reviews by countries in a given region passing judgment on whether the few self-conditionality items set by each of the members have, in fact, been met. The selectivity proposed here may indeed be the best way to protect recipient countries' sovereignty while also ensuring that MDB dollars are effectively deployed. Neither current friction-laden ritual dances nor selectivity by front-loading where conditions have already been met, comes close to addressing the basic issue. As an important actor among the poorest countries and an increasingly minor actor as countries move up the ladder, the MDBs would be well advised to put themselves in a position where they can respond to country proposals instead of pressing their ideas on them. It is a relatively tall order, acquiring a substantial shift in the direction and culture of the MDBs but would be extremely helpful not only in safe-guarding self-determination for the recipients but also in permitting the MDBs to regain real relevance in spite of their shrinking quantitative importance relative to private flows.