IFI's and IPG's:
Operational Implications for the World Bank

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Abstract

The global International Financial Institutions (IFI's) increasingly justify their operations in terms of the provision of International Public Goods (IPG's). This is partly because there appears to be support among the rich countries of the North for expenditures on these IPG's, in contrast to the "aid fatigue" that afflicts the channeling of country specific assistance. But do the IFI's necessarily have to be involved in the provision of IPG's? If they do, what are the terms and conditions of that engagement? How does current practice compare to the ideal? And what reforms are needed to move us closer to the ideal? These are the questions that this paper attempts to ask, in the framework of the theory of International Public Goods, and in light of the practice of International Financial Institutions, the World Bank in particular. For the World Bank, a series of specific operational and resource reallocation implications are drawn from the reasoning.

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1. Introduction

When people talk of the International Financial Institutions (IFI's), they mean the two Bretton Woods institutions, the International Monetary Fund and the World Bank. Of course, strictly speaking, any multilateral organization with financial operations is an IFI—for example, the regional multilateral banks, regional monetary authorities, some agencies of the UN that disburse funding, etc. However, in practice, by IFI's is meant the two global IFI's—the Fund and the Bank. In recent years there has been growing discussion of the role of these institutions in the provision of International Public Goods (IPG's). An aid fatigued public in the rich North, beset by its own internal budgetary problems (for example, the looming social security crisis of an ageing population) and convinced by tales of waste and corruption in aid flows, has grown weary and wary of conventional country-specific development assistance. In contrast, the notion of IPG's seems attractive to Northern publics—at least their representatives have adopted the IPG refrain in international fora.[1]

But what exactly is an IPG? Given the "aura" that the term seems to have developed, there is clearly an incentive to justify any activity by any agency as an IPG, and aid agencies have not been shy in doing this. At its most general level, development in poor countries is being argued to be an IPG, and hence an argument for continuing conventional aid—disenchantment with which turned the Northern public to IPG's in the first place. On the other hand, highly specific activities like research into vaccines for tropical diseases are also being labeled as the provision of an

[1] The rising interest in the policy arena has led to an explosion of analytical work at the intersection of IPG's and development assistance: see, for example, Jayaraman and Kanbur (1999), Kanbur, Sandler and Morrison (1999), Kaul, Grunberg and Stern (1999), Sagasti and Bezanson (2001), Gerrard, Ferroni and Mody (2001), Arce and Sandler (2002) and Ferroni and Mody (2002).

international public good. If we are not careful, everything will be labeled an IPG, and the concept will lose not only its analytical cutting power, but also its capacity to mobilize Northern resources.

This paper begins by carefully defining IPG's and characterizing their key dimensions (Section 2). It argues that the concept is subtle and multifaceted, and that in practice there are many different types of IPG's. The mechanisms for provision of these IPG's need to be equally subtle and multifaceted. The IFI's have not been slow off the mark in claiming the mantle of "IPG providers", but the theory of IPG's provides a framework in which to evaluate the claims of the IFI's for resources in the name of IPG's. The paper discusses World Bank practice for specific IPG's (Section 3), and then considers reforms to better articulate the comparative advantage of the Bank with the requirements of IPG provision (Section 4). The paper concludes (Section 5) with an outline of areas for further research and analysis.

2. IPG Theory

As noted above, there is an understandable tendency to fit almost any IFI activity under the IPG umbrella—for example, financial support for vaccine research, in-house economic research on development, capacity building for research in developing countries, collation and dissemination of research, convening international summits on global pollution, developing international trading mechanisms for national pollution permits, multicountry environmental and water preservation projects, raising money from financial markets at lower cost, disseminating and evaluating information on

economic and financial conditions in individual countries, developing and monitoring of banking standards, coordinating aid flows from disparate donors, etc.

It is important at the outset to clarify terms and set up a clear framework for identifying IPG's and their key characteristics.[2] The technical definition of a pure public good is a commodity or activity whose benefits are non-rival and non-excludable. By non-rival is meant that one entity benefiting from it does not diminish the benefit to another entity. By non-excludable is meant that no entity can in fact be denied the benefit. An international public good is one where the entities in question are conceptualized as nations rather than individuals. There are two important points to be made with regard to these two criteria. First, although they help sharp conceptualization, in most practical cases they will only be met partially. Second, while rivalry can be characterized as a property given by technology, excludability is man made.

IPG's relate very closely to spillover effects or externalities between countries, and it is worth clarifying the concept of such international externalities. Consider a collection of nation states that have jurisdictional authority and control over different policy instruments within their own boundaries. However, there are spillover effects of events and policies in one country on other countries, near and far. Civil war in one country sends refugees into near neighbors. Carbon dioxide emissions from one country affect all countries through their impact on global climate. Water use in one country lowers the available water supply for others who share the same water table. Infectious diseases incubated in one place spread to another. Financial contagion, as the name suggests, spreads from country to country; lack of confidence in one country's financial

[2] There are a number of studies that set out the basic theory of public goods. See for example Cornes and Sandler (1996) or Sandler (1998) or Kanbur, Sandler and Morrison (1999).

future may unfairly taint other countries in a peer group. Activities that mitigate negative externalities and promote positive ones then satisfy the criteria defining IPG's.

All of the above are examples of cross-border externalities, spillovers that are not mediated by competitive markets. Certain key features of these spillovers will be relevant for our discussion of IPG's and IFI's. The first feature to highlight is the spread of the spillover—what sorts of countries are involved at the two ends of the spillover? It is useful to distinguish between (i) spillovers across developing countries only and (ii) spillovers that include both developing and developed countries. The next feature to consider is the direction of the spillover—is it unidirectional or does the spillover go both ways? Characterization of this is a subtle and intricate matter, and is not independent of the particular circumstances of time and place. The standard example of a multidirectional spillover currently is air pollution, where developed and developing countries are inflicting spillovers on each other. Farm protection policies in North America and the EU, which create a surplus and depress world prices, are a unidirectional spillover from developed to developing countries. Infectious diseases are in principle multidirectional but in the specific conditions of today the issue is framed as a unidirectional one—poor infectious disease control in developing countries leading (though travel) to spread in developed countries.

Perhaps the most famous example of a unidirectional spillover, at least as it is portrayed in much of the current discussion, is development itself. This argument is being used with increasing force by donor agencies in general, and the IFI's in particular, to justify maintenance and increase of official development assistance. But there are at least two caveats that must be registered. The first is a certain unease with

the "there's something in it for us" line of argument bolstering the case for development assistance in the face of an aid-fatigued public. While recognizing that this seems to be working at the moment, at least if statements of politicians are anything to go by, it can be argued that this undermines the more solid moral basis for assistance based on a common humanity and alleviating suffering.

The second caveat is perhaps more pertinent for the discussion in this paper, and is in any case relevant to the critique noted above. This is that the whole argument rests on the assumption that the transfer in question actually makes the recipient better off. The theoretical literature in international economics is replete with analyses showing how the paradox of an immiserizing transfer can occur. Indeed, one can theoretically get a situation where the transfer makes the donor better off and the recipient worse off—and many NGO's have argued that this is what the aid system, bilateral and multilateral, actually does. The evidence on the efficacy of aid in promoting development is decidedly mixed and, before the IFI's and other agencies are allowed to use the "development is good for developed countries too" argument, they should be subjected to the scrutiny of whether aid is actually good for development.[3]

This paper will not elaborate further on the "development and poverty reduction in poor countries is an IPG" argument. In other words, it will not deal any further with the generalized unidirectional externality from lack of development in poor countries to the well being of rich countries (and other poor countries). Rather, it will focus on more specific activities that (i) although taking place primarily in developed countries, imply a unidirectional positive externality to several developing countries simultaneously, (ii)

[3] There is of course a huge literature on aid effectiveness. Some recent examples include: Burnside and Dollar (2000), Tarp (2000) and Kanbur (2000).

coordinate multidirectional externalities among groups of developing countries and (iii) benefit developed and developing countries simultaneously, the benefits in all cases being non-rival and non-excludable.

A leading example of the first type of public good is basic research, on tropical agriculture or medicine or even, some would argue, on the development process itself. Examples of the second category of public goods are regional or sub-regional level agreements on transport or water. Finally, global mechanisms to control carbon dioxide emissions, or financial contagion, are example of the third type of public good.

In the case of multidirectional spillovers, whether between developing countries or between developed and developing countries, the central issue is one of coordination failure—each country ignores the negative consequences of its actions on others. All countries could be better off if they took this into account and coordinated their actions. In this case it is the coordination *mechanism* that is the IPG. Once coordination is in place, countries as a whole benefit, and it is not easy to exclude any one country from this pool of benefit (otherwise why would it want to coordinate?). However, very many different types of coordination are possible, which determine not only the total gains but also the division of these gains. There is thus a range of possible IPG's each with different consequences for different countries.

This last point leads to a very important consideration. Coordination mechanisms may satisfy the technical definition of an International Public Good, but it is important to analyze the distribution of benefits from the coordination—in particular, how are they divided between developing and developed countries? To the extent that the benefits are very unevenly divided against developing countries, what we might have is not so much

an IPG as a cartel of developed countries pursuing their own interests. This distinction between an IPG and an international cartel is well worth bearing in mind as we move to a discussion of IFI practice.

The final theoretical consideration[4] follows from the principle of subsidiarity. This says that all other things being equal, the coordination mechanism must be as close as possible to the jurisdictions being coordinated. Under this rubric, there is a priori no strong argument for a global institution to coordinate the water rights problems of three countries in Africa—rather, it should be an institution as close to the three countries as possible. Economies of scale may suggest a regional level institution to deal with coordination issues between countries in that region—but it is unlikely that they will suggest a global level institution, capable of tackling coordination problems across any group of countries anywhere in the world. Going against this argument is one on economies of scope—that IPG issues in a particular sector (for example, health) could best be combined under a single institution (like WHO). In practice we may end up with a combination of regional and technical institutions to handle coordination problems within developing countries.[5] But the claims of a global institution to do all jobs should be treated skeptically.

[4] There are a number of other theoretical considerations that will not be considered further in this paper. One example is how exactly actions in different countries contribute to the public good. These issues of the technology of public good provision are dealt with, for example, in Jayaraman and Kanbur (1999), Kanbur, Sandler and Morrison (1999) and Arce and Sandler (2002).

[5] This is further discussed in Kanbur (2001).

3. World Bank Practice

How does the actual practice of the IFI's compare to the theory of IPG's? How much of what they do can be faithfully characterized as IPG's? The Bank and the Fund are of course complex entities with multifaceted operations in scores of countries and many sectors. They are also controlled primarily by the developed countries, especially by the G7. It will be important to bear this political fact in mind and also to be clear which parts of their operations are being discussed (e.g. financial versus research, country specific versus multicountry etc) and the criteria for evaluation. The bulk of the operations of the two institutions are country specific in nature and this is unlikely to change in the future.

In this paper we focus on the World Bank. Of its administrative budget of around $1.4b in FY01, about half went directly to support country operations ("Regions").[6] If we take away the "overhead" expenditure of administration, corporate management etc, the share of country operations is even higher. This therefore raises two questions. First, to what extent can their country specific operations take on the mantle of international public goods? Second, is there a case for a shift to more of their operations being multi-country in nature, and what would this entail? Under multicountry activities, research and dissemination of research (the budget headings of Development Economics and World Bank Institute) account, for around $100m of the total administrative budget. The Development Grant Facility, from which a range of global activities is funded in the form of grants, was around $150m in FY01. "Networks" account for almost $120m—it

[6] The figures that follow are from the annual report of the World Bank (2001), Appendix 1, "World Bank Expenditures by Program Fiscal 1997-2001." The table can be downloaded from http://www.worldbank.org/annualreport/2001/pdf/appendix.pdf

is not clear how much of this allocation is for multicountry activities and how much for supporting country operations, but if we allocate 1 in 8 (roughly, the ratio of research and dissemination to research, dissemination and country operations) of this to multicountry activities, we get $265m ($100m + $150m + $15m) as the allocation of the administrative budget to this category, compared to $805m ($700m + $105m) to country specific activities.[7]

It is important to realize that any evaluation of the Bank will stand and fall, for many years to come, by the efficacy of its country specific operations. Let us focus, however, on the non-country specific operations. We start from IPG's for small groups of developing countries and work our way up to global IPG's. What is striking is that multicountry operations across small groups of developing countries facing cross-border externalities are few and far between. To the extent that they exist, they are generally outside the normal realm of Bank instruments, relying on grants from the Bank's net income, rather than loans from IBRD or IDA. The hugely successful River Blindness project is often produced as an example where the Bank supplied an IPG in which (in concert with other donors) a multi country project was put into place to counter a vector borne disease—a classic negative externality across geographically adjacent countries, mitigating which benefited these countries in a manner that was at least partly non-rival and non-excludable.[8]

[7] Of course, this is a very rough and ready order of magnitude calculation. Sometimes under development Economics and World Bank Institute will support country operations, just as some times under Regions will support multicountry activities. A more sophisticated analysis can be conducted with more detailed budgetary data.

[8] Other initiatives like the regional Water Initiative for Middle East and North Africa, http://lnweb18.worldbank.org/mna/mena.nsf/Sectors/MNSRE/AA7510D24BEE223C85256B58005A5026?OpenDocument, are at the stage of seminars and meetings, with 'normal" project activity projected some time into the future.

But there are at least two questions that arise, in light of the theoretical discussion in the previous section. First, does the Bank necessarily have to be involved in such IPG's? The principle of subsidiarity suggests that it should be regional institutions that should prima facie have the responsibility for these activities. Even if it can be argued that at the time of the project regional institutions in Africa were not strong enough to take over this task, and even if they are not strong enough now, should we not be aiming for a time when they will be capable of supplying such localized IPG's? Second, how, if at all, can the Bank's standard loan instruments be used in the supply of such public goods? To the extent that they cannot, this surely implies a move in the direction of more grant financing from the Bank as a whole. These questions will be taken up in the next section.

Staying with multi-country coordination, let us move to the case where the coordination required is across developing and developed countries—in other words, a truly global coordination mechanism, the supply of which would undoubtedly count as the supply of an IPG. The Bank is involved in a number of these types of exercises. The global coordination (jointly with the IMF) of debt relief for the poorest countries (the HIPC initiative) is a leading example. It is clear that even for a single debtor country with many creditors there is a major coordination problem in debt relief, since it is in the interest of every creditor to be repaid at the expense of the other creditors. Such coordination mechanisms exist for commercial debt (London club) and official bilateral debt (Paris club), but there needs to be a mechanism for coordination across these, as well as of course for multilateral debt itself. Some of the debt issues are quite intricate—for example, the Soviet era debt owed to Russia by African countries, while Russia is

itself a debtor to Western nations. The case for coordination is strong, but not without questions. Should the Bank be involved at all or should this be left to the IMF? How can either the Bank (or the IMF) be a legitimate coordinator between creditors and debtors when its own debt is at stake?

A second leading example of coordination across developing and developed countries would be the Bank's work in the environment, especially air pollution. Global coordination problems on the use of the seas, on fishing disputes, etc are dealt with by specialized agencies of the UN and various trade organizations, and the Bank does not have a major role. However, for the case of carbon dioxide emissions or ozone depletion the Bank has taken a lead role in conjunction with UN agencies such as UNDP and UNEP. The Global Environmental Facility, for example, was incubated in the Bank but it is now a separate entity, with the Bank listed as an implementing agency, through its regular country operations in countries that participate in GEF projects. This shows another aspect of practice that is of interest. Global coordination will often require country specific projects. To the extent that the Bank's country programs purposively finance such projects (for example, the Aquatic Biodiversity Conservation project in Bangladesh as a part of the overall objective of global biodiversity conservation) they are part of the supply of IPG's. But this raises yet more questions. What is the trade off between resources for such projects and resources for national development pure and simple? And is it better to use loan or grant instruments for such projects?

Consider now a non-rival, non-excludable and unidirectional positive externality from activities primarily in the developed countries, or in the IFI's, to developing countries as a whole. One example would be generalized lifting of trade barriers, or

immigration restrictions against developing countries by developed ones. But the more commonly discussed examples are basic research—for example, into tropical agriculture, tropical diseases, or into the development process itself.

Rather like the River Blindness project, the work of the CGIAR is often used by the Bank as an example of an IPG that it is instrumental in helping to supply. Despite the usual problems of an ageing institution, most evaluations of CGIAR generally applaud its achievements in helping to increase agricultural yields in developing countries as a whole. Indeed they call on it to do more, in light of the slow down in yield growth that has been experienced in the last fifteen years. There is a strong argument for increased financial support of the CGIAR, subject to the usual caveats of institutional reform. By extension, there is strong argument for the Bank to increase its support, which is in the form of grants from its net income. But notice an interesting point. Whatever the Bank's initial role in getting CGIAR off the ground (it can be argued that Foundations such as Rockefeller played an even more crucial incubating role), its current contribution is essentially as a financier (through its Development Grant Facility) rather than provider of substantive input (for example, based on its country operations). This raises again a question on the link between the Bank's role as an IPG provider and its bread and butter country-specific operations.

Similar to the Bank's contribution to the CGIAR, its contribution to various proposed funds for research into diseases prevalent in developing countries satisfies the criteria for helping the supply of an IPG. Basic research that leads to an anti-malaria vaccine, for example, could benefit poor countries enormously. While this benefit will of course depend on the specifics of how the vaccine is disseminated, the output of the

research itself is non-rival, and furthermore non-excludable provided the right institutional framework is in place that does not create private property rights in its findings. As is well known, the development community faces a difficult tradeoff between using the private sector's efficiency in pursuing research goals, and giving private property rights on the outcomes as an incentive, since the benefits would not then be non-excludable. There is the added issue that vaccines or treatments for the diseases of poor people may not be profitable enough. One way to square these various circles is the well discussed device of the Vaccine Purchase Fund, which would act as an incentive to the private sector to do basic research on poor country diseases and then, effectively, make the findings available (at a price). From the point of view of developing countries, the Vaccine Purchase Fund in indeed an IPG, a positive unidirectional externality from the Fund to the countries as a whole.

But once again the question arises, is there anything other than the Bank's financing in the final product of the IPG? In the case of the Vaccine Purchase Fund (rather like in the case of the HIPC fund), it is clear that the Bank's "convening role" has been important, that (along with a small number of individuals and foundations) it was able to nurture the basic idea and then expand it out to other partners to the point where it could become operational. This convening and incubating role will be discussed again in the next section.

As a final example of World Bank practice in the supply of IPG's, let us consider its role in producing research on the development process itself. The World Bank, in particular, projects itself as the "Knowledge Bank," and sees its role as a synthesizer of country-specific development experience for the benefit of all countries—an IPG. While

the Fund does not project itself quite so aggressively in this mode, it offers the general experience of its staff in a range of countries to policy makers from specific countries, and it also has a large research department. Taking the World Bank specifically, there are two major issues of interest. First is the actual mechanism through which the vast amount of information generated by its operations is synthesized—much is made of the role of new information technology in this process. But secondly there is the issue of how and in what framework the synthesis takes place.

Leaving to one side complex technical and institutional issues of managing knowledge flow, the central issue is that frameworks for understanding and interpreting information and knowledge in the development process are contested. In this context, the Bank can take an open stance of allowing a range of issues to be debated and discussed, with dissenting voices invited and given their proper place, or it can present a particular synthesis and stand behind it to the exclusion of other perspectives. In practice the outcome is somewhere in the middle, with a definite stance on some policy issues (for example capital account liberalization till a few years ago, and trade liberalization now), which reflect and are reflected in country specific operations, but a more open stance on others (for example, on reducing gender discrimination).

Is Bank (and Fund) research an IPG? It is clearly non-rival, in the sense that once the output of the Bank's research goes on to its comprehensive website, access by one person anywhere in the world does not diminish access for another). And the Bank does a very good job in wide dissemination of its findings. It is also non-excludable in the sense that anyone who wishes to have access to the Bank's research can in principle do so. But this is a case where satisfying these technical criteria is not enough—we have to

look deeper into the consequences of making this research available widely. The consequences depend upon whether the research is believed, and by whom. To the extent that there is a perception, and perception is what matters, that the research is blinkered and dedicated to showing particular results, it will not have a general impact. In this context, effective mechanisms of collecting, organizing and disseminating information through electronic means can only deepen suspicion. The recent discussion of civil society's deep reservations on the Development Gateway is a case in point.[9]

The central question is whether research in institutions like the Bank, who have to take stances and views on policy in their operations, can ever command wide enough trust to be an IPG. This in no way to impugn the motives of the many fine individuals who do research in these institutions. But they do face constraints, and this is entirely to be expected in an operational organization. The point is not whether there should or should not be a research organization in an operational institution—any such institution will need a group dedicated to specific analysis and to interacting with outside analysis. The point rather, is whether IFI research can claim the mantle of an IPG, and thence the aura and the resources that flow from it in the current climate favoring IPG's. Our conclusion on this is a skeptical one, at least when there is a widespread perception that the research is in service of a particular line or policy stance to the exclusion of others. This is perhaps more likely in social science research where, unlike research in the natural sciences, much of the terrain is contested and there is no uniform, unifying framework in which research and its findings can be assessed.

[9] See Wilks (2001) on the Gateway for a discussion of the pressures on the World Bank from its major shareholder, see Wade (2002).

4. Reform to Promote IPG's

Almost by definition, IPG's will tend to be undersupplied in the world. And this undersupply will often adversely affect developing countries. The World Bank is engaged in a wide variety of activities whose direct (and sometimes indirect) objective is to supply various types of IPG's. Indeed, it (and other international agencies) are using this fact of IPG related activities to argue for continued support in a climate where conventional development assistance is out of favor. Before this argument is accepted, it is worth asking whether there are reforms that could make the Bank better at supplying IPG's. The theory of IPG's in Section 2,and the review of some examples of World Bank practice in Section 3, suggest some useful directions.

Let us start with the (reasonable) assumption that over the next ten to fifteen years the World Bank will essentially remain an organization the bulk of whose operations are country specific projects and programs. As noted earlier, we do not consider here the argument, increasingly stridently made, that since development itself is an IPG, the Bank's (and other agencies') country programs should be supported as IPG's. Suffice it to say that the argument hinges on the efficacy of these country programs in promoting development, and the debate on that will continue. What is important for us here, however, is that the culture of the institution, and the bulk of its detailed knowledge and experience, is and will continue to come from its country operations. Reform of the Bank to promote the supply of IPG's will have to take this basic fact on board, and weave a pragmatic path between current reality and the ideal suggested by the theory of IPG's.

Recalling the discussion of spillovers between adjacent developing countries in Section 2, a coordination mechanism requires simultaneous actions by a number of countries, and financing the costs of these actions, as well as the costs of the coordination mechanism itself, is an IPG. The fundamental disconnect between the requirements of the theory and Bank practice is that the Bank (IBRD or IDA) enters into loan agreements with *individual* countries, while what is clearly needed, if the loan route is to be pursued, are creative mechanisms whereby a number of countries can jointly be made a loan. This expansion of the scope of Bank lending is the first implication of the reasoning developed in this paper.

To the extent that multi-country loans are difficult to develop and roll out because of structural impediments in a sovereign debt framework, this argues strongly for the development of grant instruments *as a normal part of the Bank's country operations.* There is of course a big debate about whether *all* of the Bank's operations, certainly in the poorest countries, should be on a grant basis. The practicality of financing coordination mechanisms between adjacent developing countries adds its weight to the side of the debate arguing for conversion to grant instruments. Thus greater use of grants is the second set of operational implications of an IPG focused look at the World Bank's operations.

The theoretical principle of subsidiarity states that it should ideally be regional level institutions, not a global institution like the World Bank that should be addressing cross-border spillovers between small numbers of adjacent countries. In the short term there is often a strong argument for continued or even strengthened World Bank involvement in these local level IPG's. But over the long term there should be a

strengthening of regional institutions to deal with these issues, through transfer of knowledge and skills. To the extent that the World Bank's financial resources are used for this, they will be helping to supply IPG's indirectly. A similar argument can be made for strengthening sectoral organizations that are currently relatively weak but are needed on IPG issues—health and WHO is an obvious example. Thus a systematic program of strengthening of regional and specific sectoral organizations is thus the third operational implication of our reasoning.

On basic research into tropical agriculture and tropical diseases, World Bank practice and IPG theory are quite closely aligned; there are spectacular successes in the past and promising avenues being pursued currently. An expansion of financial resources into these operations is strongly suggested. However, there is scope for reform of World Bank practice from a closer examination of theory and practice. First, given that for the foreseeable future the bulk of the Bank's operations will be country specific, there should be a systematic attempt to feed in the lessons of country practice into these global initiatives—this would give a substantive strategic role to the Bank over and above its financial role. The details of this need to be worked out, of course, but the key is the word "systematic"—the use of new technology to collect and collate information through to global initiatives is something at which the Bank should excel.

But the experience of the various successful global initiatives highlights a second issue. In a number of cases the Bank played a central role as a catalyst, using its convening power, and then took a less central role in discussions while perhaps maintaining its financial role intact. This "entrepreneurial role" of the Bank has been useful in the past and should be maintained and strengthened. This requires a certain

amount of “blue sky thinking” to identify problems and potential solutions, and to start down the road of global consensus building on the issue. An expanded fund for pursuing such innovative ideas on IPG’s, perhaps through an expanded Development Grant Facility, is thus the fourth operational implication of the arguments in this paper.

As noted in the previous section, the Bank spends significant resources on general social science research into the development process itself, and to dissemination of the findings of this research. The Bank as a whole no doubt has a huge base of experience to report on from its country operations. A systematic and independent collation of this information would be an IPG. Reform suggests itself first of all in developing mechanisms that will enable raw information to be accessed the world over. New technology holds out some hope in this regard, and the Bank is already moving in this direction. But there is the fundamental problem referred to in the previous two sections. Social science is not like natural science. It is contested terrain to a much greater extent. Moreover, the Bank as a whole cannot possibly be viewed as an independent arbiter of social science research. It is owned by the rich countries, and it has operational policies that need to be defended. These features mean that social science research done by the Bank itself cannot fully lay claim to the mantle of an IPG. The issue is sharply seen in much of the “cross-country regression analysis” that is done at the Bank. Whatever one’s views on the quality of this research, there is weak comparative advantage justification for this type of research to be done at the Bank—it does not rely on information peculiarly available to the Bank because of its country operations, nor on methods and techniques that are peculiar to the Bank. The fifth and final implication of the reasoning in this paper is that more of the research at the Bank should be farmed out

to Universities and transparently independent institutions, where at least perceived independence will enhance its value as an IPG.

5. Conclusion

To summarize, the arguments in this paper have (at least) five implications for the operations of the World Bank. First, the development of multicountry loan instruments. Second, a stronger move in the direction of grant instruments, which will mean an increased charge on net income. Third, use of grants to support build up of key regional and sectoral organizations. Fourth, increased use of grants to support basic research initiatives, and innovative development of new IPG's, through an expansion of the Development Grant Facility. Fifth, a greater farming out of social science research to independent institutions.

This paper has only begun the systematic and detailed investigation of international aid agencies as suppliers of IPG's. It has focused on the World Bank, but many other agencies—the IMF and various UN specialized agencies, in particular—can and should be subjected to the same scrutiny. The details of the practice will differ in each case, of course, as will the application of the theory of IPG's in each case. Such analysis will contribute to an overall sense of what resource reallocation is needed in international agencies to address undersupply of IPG's. At the same time, it will highlight overlaps and duplications in the supply of IPG's—all international agencies are claming their activities are essential as providers of IPG's, and they cannot all be right.

But the case of the World Bank itself, as the biggest aid agency of all, needs more detailed analysis than has been possible here. We have used broad budget headings to characterize country specific operations and different types of multi-country operations that could be interpreted, or have been claimed by the Bank to be, IPG's. With the availability or more detailed budgets (more detailed than those available publicly in the Annual Reports), a more careful accounting would be possible to sort out items under country operations that should be reclassified to country specific operations and vice versa. While this may not lead to a big change in the overall proportions, it is an exercise worth doing. A concomitant of this exercise, however, would be a much more detailed set of operational and resource reallocation implications than the general ones developed here. For example, the overall set of activities currently lumped under Networks, Development Economics and World Bank Institute need to be examined against the criteria of IPG's. A more fine-grained conclusion on the research budget could then be reached.

There is, finally, a "big" question that we have left untouched. This is the issue of the World Bank (or the IMF) as an IPG per se. The IDA part of the Bank, for example, coordinates and acts as the channel for aid flows whose origins are not the Bank's own borrowing or its net income, but flows from donor countries that they have chosen to send through this mechanism rather than through direct bilateral arrangements. It is argued that in this sense IDA provides the IPG and, it is argued by some, because of this mechanism aid flows are greater than they otherwise would be, and hence developing countries benefit as well. This is a different argument from multi-country activities that IDA funds could support, or the positive externality that country specific use of IDA

funds generates as the country in question develops and grows. Rather, it is that this mechanism for country specific programs is better than others, better specifically than the alternative of all bilateral flows, and in providing this very mechanism the Bank provides an IPG. In the end, this may turn out to be the strongest IPG argument in favor of the World Bank.

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