A Critical Analysis of the World Bank
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A Critical Analysis of
the World Bank
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<th>Abbreviation</th>
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<tr>
<td>ACFOA</td>
<td>Australian Council for Overseas Aid</td>
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<td>ADB</td>
<td>Asian Development Bank</td>
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<td>ADF</td>
<td>Asian Development Fund</td>
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<td>AIDAB</td>
<td>Australian International Development Assistance Bureau</td>
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<tr>
<td>CIEL</td>
<td>Centre for International Environmental Law</td>
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<tr>
<td>DASET</td>
<td>Department of Arts, Sports, Environment and Territories</td>
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<td>DFAT</td>
<td>Department of Foreign Affairs and Trade</td>
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<tr>
<td>GEF</td>
<td>Global Environment Facility</td>
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<tr>
<td>GNP</td>
<td>Gross National Product</td>
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<tr>
<td>HPAEs</td>
<td>High performing Asian economies</td>
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<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>MDB</td>
<td>Multilateral Development Bank</td>
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<tr>
<td>NGO</td>
<td>Non government organisation</td>
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<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
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<tr>
<td>OED</td>
<td>Operations Evaluation Department (of World Bank)</td>
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<tr>
<td>SAL</td>
<td>Structural Adjustment Loan</td>
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<td>SAPs</td>
<td>Structural Adjustment Programs</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>UNFPA</td>
<td>United Nations Population Fund</td>
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<td>UNICEF</td>
<td>United Nations Children’s Fund</td>
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<td>USAID</td>
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Summary

It is fifty years since delegates from forty-four countries met at Bretton Woods, New Hampshire, to shape the institutional structure of the postwar international economy and lay the foundation for the World Bank and the International Monetary Fund (IMF) — the Bretton Woods Institutions. The IMF was designed to deal with balance of payments deficits and ensure the stability of exchange rates; the Bank to promote economic reconstruction to war shattered Europe and development in the Third World.

Today's vastly different political and economic landscape necessitates a review of these institutions. In recognition of this, the Group of seven (G-7) has placed evaluation and rethinking of the Bretton Woods Institutions on its agenda. The questions of how the global economy of the 21st century can provide sustainable development to the people of the world and what framework of institutions this will require will be addressed at the July 1995 G-7 summit meeting.

All governments are being called on to focus on the issues of sustainable development, poverty reduction, employment and social integration, in preparation for the UN Summit on Social Development (March, 1995) and the World Conference on Women (September, 1995).

The aim of this paper is to contribute to the consideration of these issues within the Australian Parliament and community by undertaking a critical analysis of the World Bank's approach to development. As the largest development agency in the world, the World Bank has played a central role in defining the parameters of the development debate and determining development practice.

Fifty years of development has yielded very mixed results. Rising life expectancy, falling infant mortality, increasing educational attainment and much improved nutrition are some of the gains which have been made. The share of the world’s population enjoying fairly satisfactory human development levels increased from 25 per cent in 1960 to 60 per cent in 1992. On the other hand, despite hundreds of billions of dollars invested in development, recognised estimates suggest that one-fifth of the world’s population goes hungry every night, a quarter lacks access to safe drinking water, and a third lives in a state of abject poverty. At the same time, the richest billion people command sixty times the income of the poorest billion; this has doubled since 1960.

The growing inequity between rich and poor, within and between countries, and the environmental degradation which has accompanied development as practised to-date, necessitate a re-examination of how development is defined, practised and measured. As only one player in the business of development, the World Bank cannot be held solely responsible for either the achievements
or failures of development. The performance of different countries in improving the quality of life of citizens is a function of a number of factors, including the international economic environment and, at the national level, macroeconomic conditions and policies, developmental priorities and capacities of local institutions.

However, the influence of the World Bank extends beyond the impact of its own lending. The Bank undertakes extensive co-financing with virtually all the main bilateral and multilateral agencies; its vast resources make it a powerhouse of research, which is drawn on extensively by the rest of the donor community. It plays a central role in determining the dominant development model. The fiftieth anniversary of the Bank offers an opportunity to review and evaluate the achievements and failures of the Bank’s approach to development.

While there is no public statement identifying an accepted development theory or model, examinations of Bank documents, policies and lending patterns and interviews with staff and officials reveal an underlying ideology widely shared throughout the Bank. The principal objective of this ideology is economic growth, to be achieved through capital accumulation and export expansion. Ingredients seen as necessary for achieving these goals include a sound currency, economic stability, free market determination of prices, wages and interest rates, trade liberalisation, and through these, a favourable climate for investment.

While there have been a number of changes in the strategies favoured to achieve development over the years, economic growth has been seen as the principal objective throughout. The presidency of Robert McNamara (1968-81) was characterised by the most significant changes in the Bank’s orientation: there was a vast expansion of the institution, with lending increasing from around $1 billion per year in 1968 to $12 billion by 1980 and a change in the Bank’s mission to relieve the poverty of the poorest of the poor.

McNamara acknowledged that economic growth failed to "trickle down" to benefit the poorest people and reoriented the Bank away from its almost exclusive concern with basic economic infrastructure toward anti-poverty work. However, this reorientation did not entail a rejection of the view that economic growth was fundamental to development; it aimed to better distribute the benefits of growth by targeting the poor, not to address existing inequities. This is not surprising given the Bank’s primary role as a bank. As articulated by one Bank president, Clausen, the Bank "is not in the business of redistributing wealth...It is not the Robin Hood of the international financial set."

Ironically, McNamara’s attempt to reduce poverty by vast increases in money lent to developing countries and his reliance on quantitative indicators, have recently been identified as major contributors to the Bank’s poor performance.
Criticisms of the Bank’s performance have been gaining momentum over the last decade. The main criticisms are that:

a) the Bank’s approach to development is failing to reduce poverty and contributes to environmental degradation; and

b) that when policy reforms and guidelines designed to improve performance are introduced, they fail to be implemented.

Evidence supports the claim that several elements of the Bank’s approach are not consistent with reducing poverty and achieving sustainable development.

- Rapid economic growth is almost invariably accompanied by substantial increases in inequity, unless it is targeted to benefit the poor. Where economic growth has led to significant reduction in poverty, the issue of income and asset distribution had been addressed before embarking on growth strategies (e.g. China, Malaysia, Korea).

- The Bank’s emphasis on economic growth as the fundamental basis for development does not address the finiteness of the ecological system on which the economy depends. The pressure to increase exports, which for many developing countries means natural resources and cash crops, has led to the extraction of resources at unsustainable rates, increasing soil erosion, deforestation and the depletion of fisheries.

- The economic adjustments called for by the Bank in its policy-based lending incorporate the essential elements of the development model espoused by the Bank. Structural adjustment loans (SALs) were introduced by the Bank in 1980 to assist developing countries to finance their balance of payments deficits and debts to commercial banks. In return for loans, borrowers must undertake policy "reforms". The most frequently imposed elements are: devaluation of currency, increasing exports, reduction of government expenditure, elimination of food subsidies, privatisation of government enterprises, abolition of price controls, caps on wages, trade liberalisation and reliance on market mechanisms. These measures have been shown to depress the economy, lead to cuts in community services and thereby retard development and increase poverty.

While assessing the impact of economy wide policies on the level and trends in poverty is complicated by the large number of variables and policies which affect the lives of the poor, the evidence regarding the negative social impacts of Bank imposed adjustments is significant. Some argue that countries forced to accept these loans were already in crisis and would be just as badly or worse off if they had not undertaken adjustment. While this is possible and there is no question that heavily indebted countries needed to make economic adjustments, it is not possible to argue that the adjustments imposed by the
Bank are designed to improve the living standards of the poor or promote sustainable development, even in the longer term.

Further, the evidence about the macro-economic validity of adjustment prescriptions is mixed. The expectation that the short-term costs of adjustment would result in long-term economic benefits has not been borne out in many countries undertaking adjustment to date. The Third World debt burden has increased from $785 billion at the beginning of the debt crisis in 1982 to nearly $1500 billion by 1993. In many developing countries, improving the investment climate through deregulation is not enough, by itself, to produce a wave of investment and heavy reliance on the market and free trade precludes such countries from developing industries with greater value than bulk commodities.

The Bank has, in recent years, acknowledged that its policy prescriptions have caused increased hardship and impoverishment and contributed to environmental degradation. It has responded to the criticisms and continually revises policies, guidelines, lending patterns, its organisational structure and processes. However, the changes are at the margins: they are designed, in large part, to cushion the poor from the worst impacts of the policies it imposes on borrowing countries. Measures include country poverty analyses; increased poverty focus in research; increased lending for human resource development; and increased share of adjustment lending going to education, health and safety nets.

While these measures should, in time, result in some improvement in the Bank’s performance on poverty reduction, there is no indication that the Bank is questioning the essential elements of its economic policy prescriptions. The Bank, while acknowledging that what is required will vary from country to country, continues to prescribe economic growth through increasing exports and trade liberalisation as the path to development for all countries.

The continued belief in the validity of this development model, in the face of inconsistent evidence, arises, in part, from the view that the Bank’s economic prescriptions are based on value-free, scientific economic theory. This belief limits consideration of alternative definitions and paths of development.

Where the Bank has introduced policy reforms to reduce the negative impacts of some of its prescriptions and processes, the effectiveness of these reforms has been limited by failures of implementation, resulting from deep institutional contradictions. These include:

- Conflicting roles of bank and development agency;
- A Bank culture which values obtaining loan approval over ensuring quality of projects;
- A lack of coordination between different departments in the Bank;
Pressures exerted by borrower and donor governments;

- Division of responsibilities between the President of Bank, and Bank staff and management;

- Lack of accountability and transparency in decision making processes;

- Charter of the Bank, restricting it to working with national governments;

- Lack of expertise in promoting popular participation; and

- Limited leverage of the Bank on national governments.

The Bank has acknowledged failures in its implementation of policies and is introducing a number of measures designed to improve its performance in this respect, including: the creation of a new vice-presidency for sustainable development; an Independent Inspection Panel to investigate complaints of violations of Bank policies and procedures; a new Policy on Disclosure of Information, which represents significant advances in transparency; and increasing efforts to develop effective recipient consultation mechanisms.

It is too early to assess the impact of these latest reforms. However, the Policy on Disclosure of Information, Inspection Panel and mechanisms to increase popular participation in all stages of projects and programs, should lead to improvements in performance, through increased accountability and transparency.

Nevertheless, to ensure that policy reforms are implemented, major institutional barriers need to be overcome and a change in the culture of the Bank is necessary.

The capacity of the Bank to meet the objectives of poverty reduction and sustainable development is also curtailed by the limited leverage it has on national governments. While the Bank exerts significant leverage on borrowing governments, in the end, necessary policy reforms at the national level depend on the willingness of governments to implement such reforms. The Bank’s lack of leverage on Northern governments severely limits its ability to address international economic factors, such as the terms of trade, private financial flows and debt, all of which significantly impact on poverty, inequity between North and South and ecological sustainability.

Australia has been associated with the Bank since 1948 (both as a borrower and contributor). As well as being seen as a good international citizen, the benefits of contributing to the Bank include the opportunity to influence Bank policies and for Australian firms to participate in the procurement of goods and services for Bank-funded projects. The Bank’s influence on policy within developing countries, through its policy dialogue and structural adjustment
programs, is seen by Treasury and AIDAB as particularly important for Australia.

There is a large measure of commonality between Australia’s development assistance objectives and those of the Bank. However, Australia also recognises that many of the criticisms of the Bank’s performance are justified and that Australia should take a more proactive role in pressing for reforms, particularly in the Bank’s accountability and transparency.

To ensure Australia’s interventions are as effective as possible, it is important to widen the development debate in the Parliament and the community. For example, implementation of the recommendations of the Parliamentary inquiry report *Australia, the World Bank and the International Monetary Fund*, tabled in 1993, would improve the quality of Australia’s influence in the Bank. The Government has yet to respond to the report of the Committee.

Development is a difficult endeavour and mistakes and failures are inevitable. This makes regular evaluations of approaches taken essential. Australia should seize the opportunity offered by the 50th anniversary of the Bank and use its influence on the Board to support calls for a review of the Bank’s approach to development.

While there is no blue-print for successful development, fifty years of experience have highlighted some lessons:

- Rapid economic growth leads to increasing inequity unless it is targeted to benefit the poor. The Bank should include measures to address equity in the conditionalities imposed on borrowing countries, especially distribution of land and allocation of funds to primary education and health care. Cuts in military and other non-productive expenditure and resource management and conservation should also be included as conditions for receiving loans.

- Different economic and social conditions require different strategies to reduce poverty. While the Bank acknowledges this, it continues, by and large, to pursue the same policy prescriptions. More flexibility and pragmatism need to be applied.

- The participation of the intended beneficiaries of development at all stages of the development process is likely to increase the appropriateness of and commitment to strategies employed.

- It is not possible to achieve sustainable development if development is defined and measured in purely economic terms. The index used to measure success of projects and programs must include the objectives of poverty reduction and sustainable development. Improving the economic efficiency of loans is not sufficient to ensure a positive development
impact. Social and environmental project and program indicators must be integrated into the definition of loan quality.

- Proposed institutional reforms to increase accountability, transparency and democracy of the Bank’s decision-making must be pursued to ensure their effective implementation.

- The pressure to lend must be removed and performance of Bank staff should be judged against the quality of loans and positive social and environmental impacts.

- Poverty reduction and sustainable development depend on addressing the inequities between North and South, as well as on factors within developing countries. Issues of debt relief, terms of trade, trade barriers against Southern exports and the inequity in consumption of resources must be incorporated into development strategies.
1. Introduction

...sustainable development remains the greatest challenge facing the world.¹

From its inception, the Bank has been both determinative and reflective of current thinking about development.²

1994 represents the 50th anniversary of the Bretton Woods Conference which led to the establishment of the Washington-based international financial institutions — the World Bank and the International Monetary Fund (IMF). The IMF was designed to deal with balance of payments deficits and ensure the stability of exchange rates; the Bank to promote economic reconstruction to war shattered Europe and development in the Third World.

The Bank is at one end of the development assistance spectrum, with non-government aid agencies (NGOs) at the other. As the largest development agency in the world (having lent more than $300 billion in the 48 years since its first loan), the Bank has played a central role in setting the development agenda and in defining the parameters of the development debate. Through its extensive research and policy work, co-financing arrangements and coordination of donor activities, the Bank’s influence in determining how development is conceptualised and practised extends beyond the impact of its lending.

Developing countries have made significant advances in increasing life expectancy, reducing infant mortality increasing educational attainment and improving nutrition. However, despite 50 years of development, 1.3 billion people live in absolute poverty and the gap between rich and poor continues to widen: The richest billion people command 60 times the income of the poorest billion — double the discrepancy which existed in 1960.

Development is difficult to do well and the underlying causes of poverty and the best strategies to reduce it have been debated since the concept of "underdevelopment" was introduced by President Truman in 1949. The World Bank, governments and NGOs have repeatedly modified the strategies favoured to achieve their goals.

However, the last decade, in particular, has been marked by growing criticism of the dominant development model, as evidence accumulates that the poorest people often fail to benefit from economic growth and that development

¹ World Bank, Learning from the Past, Embracing the Future, Washington D.C.: 1994. The World Bank follows the Brundtland Commission on Environment and Development in defining sustainable development as "meeting the needs of the present generation without compromising the needs of future generations".

projects and programs frequently exacerbate poverty and cause environmental degradation. Much of this criticism has been directed at the World Bank, as the most significant proponent of the dominant development model.

The 50th anniversary of its establishment offers an opportunity to review and evaluate the achievements and failures of the Bank’s approach to development. A call for a review of the Bretton Woods Institutions (the Bank and the IMF) comes not only from their critics, but also from the Group of G7 and finance ministers from the 40 Commonwealth countries, who have placed evaluation and rethinking of the Bretton Woods Institutions on their agendas.

As a member of the Bank, Australia should contribute to the debate. Australia has been a member of the Bank since 1948. Between 1950 and 1962, when its per capita income level made it ineligible for further loans, Australia borrowed $417 million from the Bank. Of the 1994-95, $1,486.5 million aid budget, $155.4 million (10.5 per cent) will go to the Multilateral Development Banks (the World Bank, Asian Development Bank and the International Fund for Agricultural Development). Given Australia’s financial contribution to the Bank and its shared perspective on development practice, Australia should seize the opportunity offered by the 50th anniversary of the Bank to review its own and the Bank’s approach to development.

The need to debate the objectives of and approaches to development within the Australian Parliament and community is reinforced by several United Nations Conferences focusing on development. The 1992 UN Conference on Environment and Development focused attention on the ecological unsustainability of current development practices. The UN Conference on Population and Development (September, 1994), the Summit on Social Development (March, 1995) and the World Conference on Women (September, 1995), will attempt to articulate the social objectives of development and to identify strategies for achieving them.

The Group of seven have committed themselves to focus on the following questions at its July 1995 summit meeting:

- How can we assure that the global economy of the 21st Century will provide sustainable development with good prosperity and well-being of the peoples of our nations and the world?

- What framework of institutions will be required to meet these challenges?

- How can existing institutions be adapted to ensure the future prosperity and security of our people?

The aim of this paper is to stimulate and contribute to discussion of these questions within the Australian Parliament and community by undertaking a critical analysis of the World Bank’s approach to development. It explores the extent to which this approach is capable of alleviating poverty and promoting
development which is ecologically sustainable and whether the institutional structure and charter of the Bank is capable of delivering.

Section 2 of the paper identifies the Bank's approach to development and shows that despite changes in emphasis and orientation over the years, the Bank's underlying approach has not changed. Section 3 examines the basis for the criticisms directed at the Bank's performance and the effectiveness of the Bank's responses to these criticisms. Section 4 identifies the barriers to implementing changes in the Bank's approach and organisational processes. In section 5, trends in Australia's commitment to the Bank, the extent to which Australia's approach to overseas aid coincides with that of the Bank, and avenues open to Australia for influencing the Bank's policy and operations are examined. Some conclusions, policy implications and reforms which should be advocated by Australia are outlined in section 6.

2. The World Bank's Approach to Development

We shall try... to help these countries to develop plans and to adopt wise and appropriate policies for development ... but always remembering that it is their country, their economy, their culture and their aspirations which we seek to assist.3

World recession and the debt crisis have provided the World Bank and IMF with an unprecedented opportunity to impose their policy prescriptions.4

Sound macroeconomic policies with sustainable fiscal deficits and realistic exchange rates are a prerequisite to progress.5

2.1 Essential elements of the Bank's approach

Mason and Asher, in their monumental history of the Bank, note that "One will look in vain in the Bank files, both current and old, for any evidence of accepted theories of development or models of the development process."6 Therefore, it is only by examining Bank policies and lending patterns that the Bank's approaches to development can be discerned.


One study of the Bank addressed the question of whether the Bank's performance criteria and allocation decisions suggested an underlying Bank ideology. Robert Ayres' examination of Bank documents and publications and interviews with staff and officials, led him to conclude that there is a dominant ideology, which he identified as "neo-liberal", widely shared throughout the Bank.  

The principal objective of this ideology is economic growth. The principal routes to growth are seen to lie, domestically, through capital accumulation and externally, through export expansion and diversification. The ingredients of neo-liberalism, derived from these goals are prevalent in Bank rhetoric and include: fiscal and monetary probity; free market determination of prices, wages, interest rates, etc.; a sound currency; economic stability; export dynamism; and through these, a favourable climate for investment.  

Since its foundation, there have been several changes in the Bank's preferred strategies for development reflected in its policies and lending patterns. These changes represent the Bank's responses to changes in the international economic environment, to lack of progress in reducing poverty and to criticisms directed at its performance. The Bank has also been profoundly influenced by its leadership, by the political climate in the US and other major donors and by prevailing economic theories.  

However, examination of the shifts in the Bank’s priorities shows that these do not represent deviations from its underlying approach to development. A major criticism of the Bank is that despite evidence that the dominant development model has failed to reduce the gap between rich and poor, the Bank has not questioned the validity of the essential elements of its approach to development and that, even where changes in policy orientation have been introduced, they have frequently not been implemented.  

The description below, of the Bank’s main reorientations, shows an adherence to an approach to development derived from neoclassical economic theory. The factors which contribute to this adherence are discussed in section 4.

2.2 The founding of the Bank and its conceptualisation of development

A product of the July 1944, Bretton Woods Conference, the International Bank for Reconstruction and Development (IBRD), known as the World Bank, began formal operations at its Washington, D.C. headquarters on June 25, 1945 and made its first loan in 1947. Its early loans were to European nations for

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8 The Bank itself has recently identified these elements as reflecting a neoclassical view of economics. The East Asian Miracle Washington DC World Development, 1993: 9.
postwar reconstruction, but it soon began lending to Third World countries for
development.

The concept of underdevelopment has its origins in the inauguration speech of
President Harry S. Truman:

We must embark on a bold new program for making the benefits of our scientific advances
and industrial progress available for the improvement and growth of underdeveloped areas.9

The label stuck and the idea of "development" provided the fundamental frame
of reference for the relations between North and South10: Southern countries
were instilled with the need to pursue the goal of development; the North was
provided with a frame of reference in which good neighbourliness on the
planet was conceived in the light of development.11

While the founders of the Bank envisaged an international institution, the fact
that the US Treasury had done all the preparatory work for the Bretton Woods
Conference (with some contribution from Britain), supplied most of its
loanable funds and was by far the most predominant market for Bank
securities, meant that the institution, as it emerged from Bretton Woods, was
an Anglo-Saxon creation, with the US very much the senior partner.12 This
dominance was reinforced by the Bank's location in Washington D.C., the

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9 Quoted by G. Esteva "Development" in W. Sachs (ed) The Development Dictionary: A

10 The "South" has been used to refer to countries which, in the 1950s, were almost all
colonies or ex-colonies, very poor, with low per capita incomes, low life expectancy, poor
health and educational facilities and largely located in the southern hemisphere. The
"North" referred to ex-colonial, industrialised countries, largely located in the northern
hemisphere. These categories continue to be used to describe "developing" and
"industrialised" countries despite the fact that divergent developments within both South
and North raise questions about the relevance of this categorisation.

11 Raymond Williams Keywords: A vocabulary of culture and society London. Fontana
Press, 1983, notes that the values inherent in terms such as "developed" and
"underdeveloped" mean that an often generous idea of aid to developing countries is
confused with wholly ungenerous practices of cancellation of the identities of others by
their definition as underdeveloped, and of imposed processes of development for a world
market controlled by others. For a discussion of the creation and implications of Western
conceptualisations of development, see W. Sachs, op.cit.

12 For a richly textured account of the creation of the Bank and the enormous role played
by the US and its dominant influence, especially in the early years, see Mason, E.S. &
composition of its professional staff and the weighted voting arrangements of the Bank.\textsuperscript{13}

In 1951, the US and the UK contributed more than 70 percent of total professional personnel of the Bank. As of 1993, the Bank employed 6 200 fixed-term staff from 121 countries. Of the higher-level staff, 58 percent were from industrialised countries and 42 percent from developing countries.

All presidents of the Bank have been US citizens. Mason and Asher's description of the selection of the Bank's presidents and of staff appointments made by them, illustrates the extensive links between the Bank's management, the US administration, the US financial community and large American corporations.\textsuperscript{14} It is not surprising that the culture of the Bank reflected (and continues to reflect) Western economic values and assumptions about development.

This culture of the Bank was reinforced by the recruitment of professionals from a particular academic stream, including development economics, health, demography, urban planning etc., which reflected a certain economic paradigm.

It was such professionals who constituted the senior management of the Bank, which in some way accounts for the relative unanimity of professional judgment regarding the problems of development and the acceptable solutions.

While the influence of the US in the Bank has diminished over the years with the admission of new countries (there are now 177 member countries) and with a growing diversification of the Bank's staff, the Bank's fundamental conceptualisation of development has not changed.

2.3 Economic growth — investment in infrastructure

In the first two decades of its existence, the World Bank equated development with economic growth and undertook to finance projects in infrastructure, transportation and energy, judged to be the necessary foundations for the building of strong, viable economies. The Bank's approach reflected the influence of structuralist theories of development, which held that the path to progress was via industrialisation and capitalisation and that the benefits of economic growth would, in time, "trickle down" to the poor.

\textsuperscript{13} The Bank is owned by member countries. The size of a country's shareholding is determined by the size of the country's economy relative to the world economy. As of 1994, the Group of Seven, (G-7) have about 45 per cent of the shares in the Bank. The US has the largest shareholding — 17.2 per cent — which gives it the power to veto any changes in the Bank's capital base and Articles of Agreement (85 per cent of shares are needed to effect such changes).

\textsuperscript{14} Mason, E.S. & Asher, R.E. op.cit.
The early literature of the Bank is full of references to "sound" economic, monetary and fiscal policies. Its emphasis is on domestic economic policies of borrowers, attributing lack of development to structural weaknesses in the economies of these countries, rather than to anomalies in the relationship between developed and developing countries.

2.4 Poverty alleviation by meeting basic human needs

The first major change in the Bank’s emphasis was introduced with the presidency of Robert McNamara (1968-1981). McNamara, who came to the Bank after serving as US Secretary of Defence during the Vietnam war, was the first president to come from a non-banking background. His presidency was characterised by two major changes in the orientation of the Bank: a vast expansion of the institution — lending increased from around $1 billion per year in 1968 to $12 billion by 1980; staff from around 1500 to over 5000; and a change in the Bank’s mission to relieve the poverty of the poorest of the poor.

McNamara acknowledged that policies aimed primarily at accelerating economic growth had benefited mainly the upper 40 per cent of the population; that high growth rates in the modern sector of the economy did not filter down to the rural poor; that average annual growth rates conceal differences between and within developing countries; that GNP is an inadequate measure of development; and that the income gap between the developed and less developed countries was continuing to increase.

Under McNamara much of the Bank’s research work was given over to questions about poverty alleviation and the Bank’s lending activities reflected the Bank’s reorientation away from its almost exclusive concern with basic economic infrastructure toward antipoverty work. While lending in the traditional sectors of power, transportation, etc. continued to increase in absolute amounts, they declined as a percentage of the Bank’s lending operations from 57 per cent of total Bank lending in 1968 to 39 per cent by 1980.

15 Mason, E.S. & Asher, R.E. op.cit.

16 The presidents of the Bank have been central to the Bank’s policy orientation; consequently changes in orientation have been linked to changes in presidency. Mason & Asher (op.cit. p86) noted: "The top executive of the Bank dominates the organisation and encounters few internal checks and balances."


18 Ayres, R. op.cit.
While the Bank’s lending for rural development, health, education, etc. increased, the Bank rejected strategies which emphasised the need for redistribution of income or assets; the need for government intervention in the market; and the need to address the inequities in the international economic order. Rather, the Bank adopted a Redistribution with Growth approach, which would direct investment toward poorer groups, with the goal of promoting national economic growth. As noted by Robert Ayres, McNamara’s antipoverty emphasis was superimposed on the neo-classical economic approach, without altering its fundamental slant.  

While McNamara’s zeal for poverty alleviation arose from moral and strategic concerns, essential elements of the Bank’s reorientation during his presidency have in recent years been identified as the major contributors to the Bank’s poor performance: the pressure to move large amounts of money, the reliance on quantifiable indicators and the central role of the Bank in planning country programs.

2.5 Structural adjustment lending — the Clausen presidency (1981-86)

The end of the McNamara presidency coincided with major upheavals in the global economy resulting in most developing countries facing a major balance of payments problem — the debt crisis. The Bank’s focus shifted from the problem of poverty alleviation to the problem of financing deficits and debts to commercial banks. The Bank’s introduction of structural adjustment loans (SALs) in 1980 represented a radically new direction for the Bank: it moved from its original major activity of financing development projects to program lending with policy reform conditions which are economy-wide. The Bank justified such loans on the basis that they help create the conditions and incentives needed for the investment of capital for productive purposes.

While representing a new direction for the Bank, the adjustment programs prescribed by the Bank reinforced its fundamental approach to development. The typical elements of an adjustment program include: devaluation of the

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19 ibid.: 79.


21 Until 1980, the Bank’s lending fell into the following categories: Project lending — for building infrastructure, such as dams, roads, power stations; Sector lending — to support an entire sector of a country’s economy, e.g. energy, agriculture. These loans carry conditions regarding policies and priorities for the sector; Cross-sectoral or program lending — for education, health, nutrition, population, etc.

currency, reduction of government expenditure, elimination of food subsidies, privatisation of government enterprises, the abolition of price controls and demand management through caps on wages and restrictions on credit, all with a view to promoting export-led growth.23

The difference was that during the McNamara years a soft approach to liberalisation added principles of equity to efficiency objectives and saw a role for the state in directing the benefits of growth to the poor; the Clausen years stressed efficiency, demoted poverty alleviation and discouraged government interventions.

However, during both periods (McNamara’s and Clausen’s), the Bank focused on domestic economic conditions within developing countries, rather than on international influences, such as protectionism in the West, terms of trade, cold war alliances. It is ironic that while the Bank places such a heavy emphasis on international trade and investment, on the one hand, it does not demand countervailing policy changes from developed countries' governments and takes a "closed economy" approach to policy making in developing countries.24

When the Bank introduced SALs in 1980, it expected such policy-based program lending not to exceed 10 per cent of the Bank’s lending and to be a short-term measure to assist developing countries with temporary balance of payments deficits. However, by 1989 SALs constituted 29 per cent of Bank lending.

With a change in its presidency, there was another change in the Bank’s emphasis.

2.6 Recent re-orientations — Conable to Preston: 1986-91

Under the presidency of Barber Conable (1986-91) and the current presidency of Lewis Preston, the Bank has again elevated poverty alleviation to the top priority and identified a number of new priorities — environment, women in development and popular participation. The Bank has increasingly acknowledged that some of its lending, both project and policy-based, has resulted in adverse social effects and that the state has a significant role to play in providing a regulatory framework in which the market can operate, providing essential services to the poor and protecting the environment.25


The changes have come (and continue) in response to growing pressure from NGOs, commentators and governments regarding the negative impacts of Bank programs on the poor, women, indigenous minorities and the environment. They also reflect a waning enthusiasm in the US and the UK for the market as the sole mechanism of economic management.

The Bank has responded to criticisms with changes in policies, lending patterns, organisational structure and new guidelines for projects. However, the underlying approach to development has remained the same.

3. Criticisms of the World Bank’s Approach to Development

The market and development, as practised to date, have incorporated a certain segment of developing country societies into the global economy — ten to forty per cent depending on the country.\textsuperscript{26}

... a vision of development that the Bank has swallowed whole... encourages the idea that northern levels of consumption and styles of living are not only desirable, but obtainable on a worldwide, generalised scale. It is an unexamined, false premise.\textsuperscript{27}

The main criticism directed at the Bank in recent years is that in spite of adjustments over the years its approach to development has negative impacts on the poor, on equity and on the environment. The Bank’s approach to development is said to have failed to have had a significant impact on poverty; in fact, some Bank funded projects and programs have caused increased impoverishment of already poor and marginalised groups and resulted in a widening, rather than a narrowing of the gap between rich and poor. Many Bank projects have also had disastrous environmental impacts, which have, in turn, resulted in a deterioration in the quality of life of the people, often indigenous peoples, dependent on those environments. Infrastructure projects such as dams, frequently entail an abuse of human rights, particularly when people are forcibly resettled.\textsuperscript{28}

While the policies and actions of recipient governments contribute to these negative impacts, the question being addressed here relates to the contribution made by the Bank’s policies and modes of operation.


\textsuperscript{28} For examples of adverse consequences of Bank programs see sections 3.1.1, 3.1.2 and 3.2.
The failures in the Bank’s operations reflect, in part, a failure to implement its own policies and guidelines in programs. To address these failures in implementation, critics, including those from within the Bank, have called for institutional reforms which would reduce the likelihood of approval for damaging projects. Reforms called for include greater transparency of Bank operations; accountability to the people affected by Bank operations; and the participation of people affected by Bank operations in the design and implementation of projects.

While there is agreement that reforms in Bank processes are essential, some critics argue that it is the development model applied by the Bank that is responsible for the negative impacts of much of its lending. What is required, they argue, is a different approach to development and a reappraisal of the assumptions entailed in the very definition and measurement of the concepts of development, progress and growth.

3.1 Performance on poverty alleviation and equity

The World Bank’s 1993 Annual Report confirms that:

The fundamental objective of the World Bank remains sustainable poverty reduction...........
(and that) poverty reduction is the benchmark against which the institution’s performance
must be judged.\(^\text{29}\)

Underpinning this objective is the Bank’s two-part strategy:

- to promote broad-based economic growth that makes efficient use of the poor’s most abundant asset, labour; and
- to ensure widespread access to basic social services to improve the well being of the poor and to enable them to participate fully in the growth of the economy. In addition, the strategy emphasises the need to provide safety nets to protect the most vulnerable groups.

A recent Bank report\(^\text{30}\) examining progress in the implementation of the Bank’s strategy to reduce poverty concludes that developing countries have made substantial progress in reducing poverty over the past three decades. Over the past twenty-five years, average per capita consumption has increased by 70 per cent in real terms, average life expectancy has increased from fifty one to sixty three years, and primary school enrolment has reached 89 percent.


However, the overall progress in improving living standards slowed down during the 1980s. There was also a marked divergence in progress among regions. The proportion of the population living in poverty (defined as those living on less than $1 a day in 1985 prices) has fallen slightly since 1985, but the absolute number of poor people has risen. Recent estimates suggest that 1.1 billion people in developing countries were living in poverty, about 8 per cent more than in 1985.

The aggregate figures hide marked differences across regions, as shown in table 1 below. East Asia and the Pacific is the only region where the number of people living in poverty and the proportion of the population in poverty are estimated to have decreased between 1985 and 1990. In the same period, the number of poor people in the Middle East and North Africa and in Latin America was estimated to have increased by more than the rate of population growth.

Table 1. Estimates of the Magnitude of Poverty in the Developing World, 1985-1990

<table>
<thead>
<tr>
<th>Region</th>
<th>No.of poor (millions)</th>
<th>per cent poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate</td>
<td>1051</td>
<td>1133</td>
</tr>
<tr>
<td>E. Asia &amp; Pacific</td>
<td>182</td>
<td>169</td>
</tr>
<tr>
<td>E. Europe</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>L. America &amp; Caribbean</td>
<td>87</td>
<td>108</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>60</td>
<td>73</td>
</tr>
<tr>
<td>Sth. Asia</td>
<td>532</td>
<td>562</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>184</td>
<td>216</td>
</tr>
</tbody>
</table>


There are also differences in performance within regions. For example, the 8.5 per cent average annual growth in China contributed to a decline in the incidence of poverty from about one-third in 1980 to barely one-tenth in 1990. In the Republic of Korea and Malaysia, with GNP growth rates that average 6 to 8 per cent, the incidence of absolute poverty was more than halved, to less than 5 per cent. In Thailand, however, the high economic growth rate during
the 1980s had little impact on the incidence of poverty, since the growth was not sufficiently broad-based.\footnote{Ibid.: 7.}

The Bank study identifies numerous factors which determine the extent to which the income of the poor grows. These include: the pattern of growth; access of the poor to land and credit; implementation of efficient growth policies; provision of basic social services to the poor; investment in human resources development; and the external economic environment, e.g., trade restrictions.

Despite its acknowledgment that many factors, including external ones, affect a country’s progress on poverty reduction, and that the rate of progress slowed in the 1980s, the Bank continues to apply the same policy prescriptions to all developing countries.

It is difficult to assess the extent to which the Bank’s own efforts contribute to either poverty reduction outcomes in some countries or to the deterioration in social and economic indicators seen in the 1980s in some Latin American countries, South Asia and Sub-Saharan Africa. However, there is evidence (see 3.1.1-3.1.3) that some aspects of the Bank’s lending policies have directly contributed to growing inequity between rich and poor within and between countries and to the further impoverishment of the poor. Evidence relating to the impact of the Bank’s emphasis on economic growth, infrastructure investment and structural adjustment lending is examined below.

3.1.1 Rapid economic growth often leads to greater inequity

While few would dispute that developing countries need economic growth, there is a great deal of evidence which shows that rapid economic growth is associated with deepening social inequities. Twenty years ago, Brazil was hailed as a miracle for its seven-fold increase in exports of manufactured goods between 1968 and 1973. However, between 1960 and 1970, the real income of the bottom 40 per cent of the population remained stagnant, while the income of the top 5 per cent increased by 78 per cent.\footnote{Bello, W. Kinley, D. and Elinson, E. Development Debacle: The World Bank in the Philippines. San Francisco: Institute for Food and Development Policy. 1982.}

Between 1960 and 1980, Brazil’s average per capita income grew by 220 percent, achieving a 34 per cent decline in poverty incidence. In contrast, Indonesia achieved a 42 per cent decline in poverty incidence, with a growth in per capita income of 108 percent from 1971-1987. The difference in
performance is due to the less equal initial distribution of income in Brazil and the broad-based growth achieved in Indonesia.\(^{33}\)

That economic growth, per se, frequently increases inequity, is supported by a major Bank research project covering twenty-one developing countries and focusing on the relationship between economic growth and poverty. The study found that while there is a strong positive correlation between growth and poverty reduction, unless carefully targeted, direct budgetary transfers intended for the poor were often captured by the middle class.\(^{34}\)

A review of a decade of research on poverty and income distribution showed that the development process is almost inevitably marked by substantial increases in the inequality of income distribution. The shares of the poorest three-fifths of the population decrease sharply.\(^{35}\)

Economic growth has also resulted in an ever-widening gap between rich and poor countries. In the 18th century, the gap between rich and poor countries was in the order of two to one, i.e., the average per capita income was twice as high in rich countries as in poor ones; after World War II it had grown to forty to one; it is now in the order of seventy to one.\(^{36}\) Table 2, below shows the declining share of the poorest 20 per cent of the world population in global economic activity. The Human Development Report 1993 notes that poor nations cannot participate on an equal footing in international markets or extend market opportunities to their own people. The poorest 20 per cent of the world’s population now receives only 0.2 per cent of global commercial credit, 0.9 per cent of global trade and only 1.3 per cent of global income.\(^{37}\)

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Table 2. Share of poorest 20 per cent of world population in global economic opportunities (per cent of global economic activity)

<table>
<thead>
<tr>
<th></th>
<th>1960-70</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global GNP</td>
<td>2.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Global trade</td>
<td>1.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Global domestic investment</td>
<td>3.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Global domestic savings</td>
<td>3.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Global commercial credit</td>
<td>0.3</td>
<td>0.2</td>
</tr>
</tbody>
</table>


While there is a relationship between economic growth and poverty reduction, the work done by the UNDP on human development shows that the link between income and human development is not automatic. Countries such as Chile, China, Colombia, Costa Rica, Sri Lanka and Uruguay have human development ranks way ahead of their per capita income rank.38

Thus, economic growth, per se, is not an appropriate strategy for achieving poverty reduction and does lead to an increase in the gap between rich and poor unless the distribution of resources is explicitly addressed. The countries where economic growth has led to significant reduction in poverty had implemented land reforms, invested in education and set in place other distributional policies before embarking on export oriented growth strategies (e.g., Japan, Korea).

The evidence also suggests that economic growth has not achieved the objective of generating employment. A comparison of the growth in GDP and employment in various regions of the world during 1960-73 and 1973-87 shows that employment has lagged behind economic growth in both developing and industrial countries. Less than a third of the increase in output in developing countries between 1960 and 1987 came from increased labour; more than two-thirds came from increases in capital investment.39

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38 The Human Development Index (HDI) developed by the UNDP combines indicators of real purchasing power (real GDP per capita), education (literacy) and health (life expectancy at birth).

39 Ibid.
The evidence relating to economic growth shows that it is not a sufficient condition to achieve poverty alleviation or to generate employment. The focus on economic growth, without addressing the distribution of resources within and between countries, has exacerbated inequality. The Bank's lack of mandate and authority to address inequities between North and South and the distribution of resources within countries, imposes severe limitations on its capacity to meet its objectives.

3.1.2 Large infrastructure projects and forced resettlement of the poor

A large proportion of Bank lending has been for infrastructure, including transport, water and sanitation, power, telecommunications and irrigation. Infrastructure is necessary for development because it contributes to economic growth, reduces costs of production, contributes to the diversification of the economy and helps to cope with population growth and urbanisation. It can contribute to the quality of life by creating amenities such as clean water, land and air, providing services such as transport and communication and generating employment.40

In recent years there has been increasing concern and debate about the performance of infrastructure in meeting poverty reduction objectives. The precise linkages between infrastructure and development are still open to debate. During the past fifteen years the share of households with access to clean water has increased by half and power production and telephone lines per capita have doubled. However, one billion people in the developing world still lack access to clean water and nearly two billion lack adequate sanitation.41

This year's World Development Report focuses on infrastructure; it concludes that past investments in infrastructure have not had the development impact expected and that the effectiveness of investments and the efficiency of service provision must be improved. The Report found that infrastructure investments have often been misallocated — too much to new investment, not enough to maintenance; too much to low-priority projects, not enough to essential services. Delivery of services has been hampered by technical inefficiency and waste: e.g., a review of power utilities in fifty-one developing countries showed that technical efficiency has actually declined over the past twenty years. And many decisions have failed to take into account the needs of different user groups or the impact on the environment.42

One clear conflict between the Bank's objective of poverty alleviation and large infrastructure projects has been the forcible resettlement of people,


42 Ibid.
usually the poorest, associated with projects. While projects financed by the Bank account for less than 3 percent of involuntary resettlements in developing countries, ongoing and completed World Bank projects between 1986 and 1993 entail the forcible resettlement of 2.5 million people. Projects currently planned and expected to be approved by 1997 will force the resettlement of 600,000 more. Fourteen percent of total IBRD/IDA lending is currently financing projects that forcibly resettle the local poor.\textsuperscript{43}

A 1994 Bank review, \textit{Resettlement and Development}, notes that the following impoverishing characteristics result from unsuccessful resettlement: landlessness, joblessness, homelessness, marginalisation, morbidity, food insecurity, loss of access to common property assets, and social disarticulation.\textsuperscript{44} For example, almost one half of the 2 million being resettled in 1993-94 projects are in India: small farmers, indigenous peoples, women and other marginalised groups have been displaced by Bank financed projects such as the Singrauli Thermal Power Plant, Upper Krishna Irrigation Project, and the Subernarekha Dam.

The World Bank’s 1980 policy on involuntary resettlement is one of its oldest environmental and social policies. It requires that a resettlement and rehabilitation plan be prepared by a borrowing government, with the consultation and approval of the affected population, before project appraisal is completed. The policy requires that where displacement cannot be avoided, those relocated are assisted to at least restore former living standards and earning capacity, and if possible, to improve them.

Three internal Bank studies have documented the failure of Bank policy to be implemented. The 1994 review comes to the same conclusion as previous studies that, although the data is weak (because information is often not collected), "projects appear often not to have succeeded in re-establishing resettlers at a better or equal living standard and that unsatisfactory performance still persists on a wide scale."\textsuperscript{45}

The Bank’s record on resettlement provides a stark example of instances where the Bank’s failure to meet its objectives is due to a failure to implement its own policies and guidelines. The exacerbation of poverty caused by some aspects of the Bank’s structural adjustment lending, on the other hand, illustrates how Bank policies themselves, appear to be inconsistent with the Bank’s stated objectives.


\textsuperscript{45} Ibid.: x
3.1.3 Structural adjustment and poverty reduction

In 1980, the Bank introduced structural adjustment loans (SALs). These loans were introduced to deal with the deficits faced by developing countries as a result of the debt crisis of the 1980s. The origins of that crisis were in the low interest lending which was available to developing countries in the 1970s, the sharp increase in interest rates which began in 1979 and the consequent recession in the North, which resulted in reduced demand for developing country exports and a fall in commodity prices. Developing countries were faced with a balance of payment problem. Indebted countries were called upon to restructure their economies in such a way as to ensure they could maintain servicing their debt. The Bank justified such loans on the basis that they help create the conditions and incentives needed to attract investment.\(^\text{46}\)

Structural adjustment loans from the IMF and the Bank are conditional on macroeconomic policy reforms being introduced. While the adjustment packages vary from country to country, they all have four basic elements:

- currency devaluation to encourage export growth;
- a reduced role for the state in the economy through privatisation of government enterprises and the abolition of price controls;
- drastic reduction in government spending, particularly social spending and the elimination of food and other consumption subsidies; and
- trade liberalisation.

In addition, in an effort to reduce inflation, SAL packages usually include "demand management" — i.e., reduction in consumption through caps on wages, restrictions of credit and the imposition of higher taxes and interest rates.

Evidence of the negative social impacts of structural adjustment programs, especially on the poor, began to emerge in the mid 1980s. A UNICEF study found that while national economic policies in many developing countries were severely flawed, structural adjustment programs were depressing demand, reducing public and in some cases private investment, leading to cuts in community services and, thereby, retarding development and increasing poverty.\(^\text{47}\)

The evidence of the impacts of adjustment depends largely on the source of the evidence and on how the impacts are assessed. The Bank, the OECD and the

\(^{46}\) Shihata, I. op. cit.

Australian Government, for example, argue that countries which needed to take structural adjustment loans were already in severe crisis and would be worse off if they had not undertaken adjustment. This is possible, but difficult to determine. Whatever the case, the central issue is not whether adjustment is necessary, but rather, what sort of adjustments are like to address the balance of payments and debt problems without exacerbating poverty.

Those whose information is based on direct contact with the poor in adjusting countries claim adjustment is having devastating social and environmental effects. At the recent preparatory discussions leading up to the World Summit for Social Development, delegation after delegation from the developing world spoke of the negative consequences of structural adjustment programs in terms of poverty, unemployment and social disintegration.48

Assessing the impact of economy wide policies on the level and trends in poverty is complicated by the large number of variables and policies which affect the lives of the poor and from the lack of knowledge about how these factors interact. Recognition of this complexity has led a recent Asian Development Bank policy paper to conclude that:

... policy analyses and conclusions have to be based more on intuition, judgement, and familiarity with the culture, history, and socioeconomic and political institutions of the countries than on narrow economic analysis.49

Given the above considerations, the evidence regarding the impact of structural adjustment programs must remain inconclusive. However, the weight of evidence regarding their social costs makes it difficult to argue convincingly that they are imposed in order to improve the living standards of the poor.

In Latin America, according to Inter-American Development Bank President Enrique Iglesias, adjustment programs had the effect of "largely cancelling out the progress of the 1960s and 1970s."50 The number of people living in poverty rose from 85 million in 1985 to 108 million at the beginning of the 1990s, representing an increase in the proportion of poor from 22.4 to 25.2 per cent of the population.51

The international aid agency, Oxfam, has recounted devastating effects in Sub-Saharan Africa. For example, under Bank/Fund adjustment dictates, consumer prices for low-income families in Zambia doubled in eighteen

48 BankCheck Quarterly, No. 9, September 1994: 5.


months. In the past decade, the number of Zambian children suffering from malnutrition has risen from one in twenty to one in five.\textsuperscript{52} 

Even in Ghana, which has been projected by the Bank and the IMF as a successful example of their Structural Adjustment Programs, the economic growth has been largely aid driven and has been purchased at the cost of the poorer sections of the population and the environment. Cuts in wages and public expenditures have led to increase in malnutrition and sickness; unemployment is rising; school drop-outs are increasing; income inequality has increased; timber exports have increased, increasing the deforestation rate to 2 per cent a year, threatening food security. At the same time, Ghana’s external debt has risen from $1.4 billion to $4.2 billion in the nine years since the beginning of the SAP.\textsuperscript{53} 

While there is a shortage of disaggregated data showing the differential impact of adjustment programs on men and women, existing evidence suggests that within the most vulnerable groups it is women who are being hardest hit. Women have been affected in their multiple roles as producers, reproducers and carers for children, sick and the elderly. As producers, many of them have lost their jobs in the formal sector due to the introduction of less labour-intensive technologies, forcing them to join the informal economy or to migrate. In the Philippines the number of women seeking jobs overseas increased by 70 percent between 1982 and 1987.\textsuperscript{54} The cuts in public expenditure and welfare spending have increased women’s work as providers of health and social services, preventing them from taking advantages of any new economic opportunities.\textsuperscript{55} Structural adjustment programs conflict with the Bank’s commitment to increase the incorporation of women in development as well as with overall poverty reduction objectives.

The evidence about the macro-economic validity of adjustment prescriptions is mixed. The Bank’s review of adjustment programs in Africa found that fourteen of twenty eight Sub-Saharan adjusting countries increased their average annual rate of growth between 1981-86 and 1987-91, while the other fourteen had it decrease. The study concluded that both policies and external factors contributed to the differences in performance. Countries that "improved policies the most" experienced the biggest increase in growth; countries that undertook more limited adjustment programs suffered a decline in growth rates.


\textsuperscript{53} "Ghana: An illusion of success". A case study of Ghana reported in \textit{Third World Resurgence}, No. 28 Penang: Third World Network.


However, the study found that investment sometimes went down in adjusting countries, that efforts to privatisate state corporations yielded meagre results and that many programs were based on wrong assumptions.56

A recently published study by the International Labour Office (ILO) also yielded mixed results on economic indicators. The study evaluated the effect on all fifty five developing countries which received structural adjustment loans between 1980 and 1988. Success of adjustment programs was assessed according to the level of their current account deficit; whether they restored a positive rate of growth in per capita income, and whether they avoided an increase in the incidence of absolute poverty.

Of the fifty five adjusting countries, twenty seven experienced a decline in per capita income between 1980 and 1989. In another thirteen, their external imbalance and debt continued to be unsustainably high. In another seven there was evidence of declining social indicators. In one, Brazil, the investment rate declined disastrously, severely reducing prospects for sustainable future growth. Thus, of the fifty five adjusting countries, only seven appear to have adjusted successfully.57 A review of ten case studies found that while changes made were found to be favourable to export growth, there was negative influence on aggregate investment and the effect on national income and financial flows from overseas was neutral.58

Nor have structural adjustment programs resulted in reductions in debt. The Third World debt burden has increased from $785 billion at the beginning of the debt crisis in 1982 to nearly $1500 billion by 1993. Thirty six of Africa’s forty seven countries have been subjected to structural adjustment, yet the continent’s total external debt is 110 percent of gross regional product.59

Claims that structural adjustment would be painful in the short-term but benefit the poor in the long-term have not been substantiated. IMF research has shown that even after fifteen years, expected economic benefits have not manifested.60


57 Study by A.R Khan. "Structural adjustment and income distribution" was reported in a paper by J. Langmore, Policy reform and poverty reduction: are the two compatible? presented at a World Bank Seminar on Sustainable and Equitable Development in the Developing World. Canberra: 2 March 1994.


The patchy performance of countries undertaking Bank sponsored structural adjustments casts doubts on the macro-economic validity of the prescriptions entailed. A Japanese Government critique of the Bank’s structural adjustment programs suggests that their failure to meet economic objectives is not surprising. The Overseas Economic Cooperation Fund (OECF), Japan’s equivalent of AIDAB, argues that the Bank’s heavy reliance on market mechanisms, rejection of state intervention, rapid liberalisation of trade and financial institutions, and indiscriminate privatisation fail to take into account the developing countries’ need to build up their own national capacities.61

While acknowledging that in many developing countries international trade is excessively restricted, causing serious inefficiencies, the OECF critique notes that if trade is deregulated very quickly, prices tend to skyrocket. It further argues, that in many developing countries whose advantage is found in raw products, an unqualified attachment to free trade alone, can have a negative impact on the possibility of achieving economic development: it precludes such countries from transforming their industrial structures into those supporting industries of greater value and potential growth than the commodities offer. The report maintains that:

Industrial development requires a certain period of time and a certain amount of social cost in its installation. To achieve it, protection for some time is indispensable (at least for industries in their infancy).62

Further, improving the investment climate through deregulation is not enough, by itself, to produce a wave of investment. Additional measures, aimed directly towards promoting investment would be necessary in many developing countries. Privatisation, while being of great importance, cannot always hold the solution for increasing the efficiency of the public sector and it is not valid to treat the private sector in the same manner whether it is national or foreign:

The various different conditions of individual countries have to be carefully taken into account. Unfortunately, the World Bank’s focus seems to be almost the same for all countries.63

The regional variations in the impacts of structural adjustment lead to the same conclusion. The Bank attributes failures in adjustment, largely, to the failure of countries to adopt the correct macroeconomic policies. It does not consider that the policies are not appropriate in all cases.

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63 Ibid: 16.
Few would disagree with the need to adjust the economies of heavily indebted countries to accommodate to the rapid changes in the global economy. But the Bank’s continued application of the same prescriptions (with only slight variations), in the face of both theoretical and empirical evidence casting doubts on the validity of these prescriptions, raises questions as to the real aim of structural adjustment programs and as to the Bank’s ability to modify its policies to meet its stated objectives of poverty alleviation and sustainable development.

The economic prescriptions imposed under the Bank’s structural adjustment programs have been immensely successful in achieving the objective of ensuring that indebted countries continue to service their debts to Northern commercial banks. Between 1984 and 1990, there was a net transfer of funds from the Third World to the commercial banks of $178 billion.64

3.1.4 Bank’s responses to criticisms re failure to achieve significant poverty reduction

The Bank in recent years has acknowledged that SALs have caused increased hardship and impoverishment. The Bank also acknowledges that economic growth has not been sufficient to significantly reduce poverty; that many of its own programs fail to benefit the poor and frequently disadvantage them further relative to the better off; and that forcible resettlement of people due to large infrastructure projects has impoverished millions of already poor people.

In order to remedy some of these negative impacts and improve its performance on poverty reduction, the Bank has introduced a number of measures. The Bank has increasingly been placing poverty reduction at the centre of its country assistance strategies. Both the Bank’s lending and analytical work have become much more poverty oriented. While shares of lending for agriculture and rural development and for water supply and sanitation have remained roughly constant, lending for human-resource development (health, education, nutrition, population) has increased about fivefold (by dollar amount) since the early 1980s. It increased from 5 per cent of total Bank lending in fiscal 1981-83 to 15 per cent in fiscal 1991-93.65

Another measure of lending, the Program of Targeted Interventions (PTI), consists of investment operations that include a specific mechanism for reaching the poor. In 1992, the PTI included fifty-eight projects in a wide range of sectors, the total value of which amounted to about 24 per cent of new lending. It is estimated that during fiscal 1993, 26 per cent of bank-wide


investment lending (and 40 per cent of IDA) will have fallen in this category.\textsuperscript{66}

To reduce the negative impacts of structural adjustment lending, the share of adjustment lending that addresses social issues — establishment of safety nets and the protection of public spending for basic social services — climbed from 5 per cent in fiscal 1984-86 to 50 per cent in fiscal 1990-92.\textsuperscript{68}

A Bank-wide review of all ongoing projects with involuntary resettlement was initiated in 1993. The findings of the review and strategies to improve the implementation of the Bank’s policy on resettlement have been identified in a recently released report.\textsuperscript{69}

There has been a sharp increase in the amount of country-specific poverty analysis that has been carried out since the late 1980s, including country poverty assessments, poverty-related economic and sector reports, research and data development.

3.1.5 Can the Bank’s response improve performance on poverty reduction?

The measures taken by the Bank can be expected to lead to some improvements in the Bank’s performance on poverty alleviation. Greater support for human resource development, better targeted interventions, increased financial support for safety nets to reduce the impact of adjustment lending and country poverty analysis to allow tailoring of poverty reduction strategies to meet the needs and conditions of different countries are steps in the right direction.

However, the measures taken by the Bank are, in large part, designed to cushion the poor from the worst impacts of the policies it imposes on borrowing countries. To the extent that poverty and inequity are exacerbated by certain elements of the Bank’s economic prescriptions, the Bank’s responses fail to go to the heart of the problem. There is no sign that the Bank is

\textsuperscript{66} The IDA (International Development Association) was established in 1960 and is the part of the World Bank which provides loans on concessional terms to the poorest developing countries. Loans are interest free and made for thirty five to forty years, with a ten year grace period. IDA resources are derived from contributions from governments. The IBRD, is the Bank’s main lending organisation; it lends to countries with medium per capita incomes, charges interest at rates a little lower than commercial rates and raises most of its money on the world’s financial markets.


\textsuperscript{68} Ibid.

questioning the correctness of its economic prescriptions, particularly as articulated in its structural adjustment programs. While it acknowledges that there have been large variations in the effectiveness of these programs, it continues to hold that economic growth through increasing exports and trade liberalisation hold the key to development for all countries.

The Japanese Government’s criticism of this failure to take into account the economic and social conditions to which the Bank’s structural adjustment package is applied has already been discussed. Similarly, the Australian Parliamentary Joint Standing Committee on Foreign Affairs Defence and Trade’s examination of structural adjustment policies in Indonesia, PNG and the Philippines, led the Committee to conclude that:

the economic base of the country is of paramount importance in their ability to implement reform without causing serious impact upon the poor. Political receptiveness to structural adjustment plus a developed capacity to respond are also critical ingredients for success.\(^\text{70}\)

The Bank has increasingly acknowledged that adjustment involves deeper and more complex policy reforms, takes longer than was anticipated, and needs to be geared to the institutional features in different countries.\(^\text{71}\) The recognition that different countries have different needs is also reflected in its adoption of a country-by-country approach to managing its lending operations.\(^\text{72}\)

However, there is no suggestion that the Bank is questioning the validity of the essential elements of its development model. This lack of flexibility is likely to reduce its ability to meet its objective of poverty reduction in many countries, despite the substantial improvements in its poverty reduction strategies.

3.2 Environmental impacts of Bank lending — criticisms and the Bank’s responses

The main criticisms relating to negative environmental impacts of Bank lending focus on the degradation caused by large infrastructure projects. There are also contradictions between a commitment to ecologically sustainable development and the Bank’s emphasis on export led economic growth.

Since the late 1970s, the environment movement began to question the Bank’s preoccupation with large infrastructure projects, such as dams, mines, power stations and roads and to publicise the environmental impacts of such projects.

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\(^\text{70}\) Joint Standing Committee on Foreign Affairs, Defence and Trade *Australia, the World Bank and the International Monetary Fund*. Canberra: AGPS. 1993: 80.


Examples of the early projects shown to have disastrous social and environmental effects include the Polonoroeste $500 million project to improve road access into Brazil's rainforests, resulting in widespread deforestation, soil erosion and the dispossession of Indians and rubber tappers and the Narmada Dam project, a huge water development project in India, of which the Sardar Sarovar dam is to be a centrepiece. This dam alone would submerge 13,744 hectares of forest and 11,318 hectares of fertile agricultural land.\textsuperscript{73}

The environmental impacts of structural adjustment programs are mixed. Measures such as reduction in government subsidies that encourage profligate consumption of water, energy and agricultural chemicals can yield environmental benefits. On the other hand, the pressure exerted by the Bank to increase exports, can lead to the extraction of resources (e.g., forests, fish, cash crops) at unsustainable rates, likely to result in long-term ecological damage.

Cuts in government spending and increased poverty precipitated by adjustment are also a cause of environmental degradation. A study of World Bank/IMF adjustment policies in the Philippines concluded that as wages fell more than 20 percent between 1983 and 1985, large numbers of workers in the Philippines migrated to open access resources of the uplands and coastal areas, increasing soil erosion, deforestation and the depletion of fisheries.\textsuperscript{74}

The Bank's dual commitments to sustainable development and to economic growth entail some contradictions, especially to the extent that economic growth is based on the destruction of natural capital. The continued pursuit of development through economic growth, as currently practised, does not take into account the finiteness of the ecological system on which the economy depends. The Bank's model of development, with its emphasis on export-led economic growth, liberalised trade and incorporation into the global economy, suggests that the goal of development is the generalisation of Northern consumption patterns to the South. This is obviously unsustainable.

Herman Daly, the recently departed chief economist in the Bank's Environment Department, spent six years at the Bank challenging the view that the orthodox development model can deliver either poverty reduction or sustainable development. In his resignation speech, Daly argued that until economists stop


counting consumption of natural capital as income, sustainable development will not be possible. Daly also argues that the ideology of global economic integration, espoused by the Bank, is undermining the major unit of community capable of carrying out any policies for the common good, i.e., the nation state.75

In response to a concerted environmental NGO campaign, which began in 1983, the Bank introduced a number of reforms aimed at improving its environmental performance. The loan to Brazil for the Polnoroeste Project was suspended in 1985. In 1991, the Bank set up an independent inquiry into the Narmada Valley project, which was extremely critical of the Bank's management of the loan and particularly of the Bank's failure to ensure that India complied with Bank conditions on resettlement. Nevertheless, the Bank refused to cancel the loan. Last year, India withdrew from the loan to escape increased pressure to implement Bank conditions.

In 1987, the Bank established an environmental unit to develop environmental policies and guidelines and to ensure that environmental considerations were fully integrated into all aspects of the Bank's operations. In 1993 the number of environmental staff increased substantially in the Environment Department, within country departments and in other units of the Bank: more than 200 environmental higher-level staff and long-term consultants now work full-time on environmental matters, compared with five in the mid-1980s.76

The World Development Report 1992 had the environment as its theme and stated that "the achievement of sustained and equitable development is the greatest challenge facing the human race".77 The Bank has established a new vice presidency for Environmentally Sustainable Development; elaborated environmental strategies for several regions and countries and expanded research on environmental topics. It has increased its lending for projects with primarily environmental objectives, from nineteen such projects in 1992, totalling $1.2 billion, to twenty-four projects, totalling $1.99 billion, in fiscal 1993. The Global Environment Facility (GEF), established in 1990 to provide grants to developing countries aimed at protecting the global environment had, at June 1993, approved for implementation thirty-two projects, amounting to


$250 million. There were 113 projects, valued at $727 million, in the facility’s work program, at that date.78

While the Bank’s growing commitment to environmental protection can be expected to improve its performance, the Bank’s failure to implement its own policy reforms, as seen in relation to forcible resettlement, is also evident with respect to its environmental guidelines. The 1991 Annual Review of Evaluation Results, carried out by the Bank’s Operations Evaluation Department (OED), gave particular emphasis to the environmental performance of completed Bank projects. The review’s findings included the need to improve monitoring of project environmental impacts and supervision of project environmental components.

Despite the recent changes in the Bank’s rhetoric and organisational structure, lending is still occurring which is inconsistent with sustainable development objectives.

In 1993, the Bank’s lending in the main sectors likely to have significant environmental impacts — agriculture and rural development; energy; transportation and water supply and sewerage — totalled US $11 175.4 million, representing 47 per cent of total lending.79 Energy sector lending is the most capital intensive and probably has the greatest economic, social and environmental impacts. In total, the World Bank has lent $57.47 billion on energy. A saving of 20 per cent of commercial energy would yield a total gross saving for developing countries of about $30 billion per annum. Yet, the Bank was devoting less than one percent of its energy lending to end use efficiency and conservation investments.80

For example, of the forty six power loans currently being prepared by the Bank for thirty three countries ($7 billion), only five significantly support improved end-use energy efficiency and only two comply with the Bank’s own policy papers on energy efficiency and power.81

In order to meet its stated objective of promoting development which is environmentally sustainable, the Bank will need to improve its performance in the implementation of its own policies. It continues to explore ways of achieving such improvements. It will also, however, need to take seriously critiques of its development model, which argue that the model itself is


81 Ibid.
incompatible with achieving ecologically sustainable development. To-date, the arguments of critics such as Herman Daly, both within and outside the Bank, have not been addressed.

4. Factors Contributing to Bank’s Failure to meet its Poverty Reduction and Sustainable Development Objectives

All World Bank of IMF reports in the end turn what evidence they have to recommending the standard free market package.82

As development bankers, we are nation builders, policy shapers, poverty fighters, job creators, family planners, lifesavers, and more. But, as the name implies, the World Bank is also a bank.83

The Bank is continually revising policies, guidelines, operational directives and its lending patterns in its efforts to address the criticisms which have been directed at it and the findings of a number of the Bank’s own evaluations of its performance.

Two independent reports prepared for the Bank were released in 1992. The Morse Commission Report into the Sardar Sarovar dam on the Narmada River and the Portfolio Management Task Force Report, the Wapenhans Report, set up to review the Bank’s $140 billion loan portfolio. The Morse Report revealed a pattern of gross negligence on the part of the Bank and the Indian government, in particular, regarding the resettlement of displaced people. The Report concluded that the problems identified for the Sardar Sarovar project "are more the rule than the exception to resettlement operations supported by the Bank in India."84 The Wapenhans Report concluded that, although portfolio performance had been satisfactory during the past decade, with more than seventy five per cent of projects having acceptable performance during implementation, there had been a gradual deterioration in the quality of the portfolio. The share of projects with "major problems" increased from 11 percent in fiscal 1981 to 20 percent in 1991, while the proportion of projects judged satisfactory by the Operations Evaluation Department (OED) in its annual review of evaluation results, fell from 85 per cent in fiscal 1981 to 63

82 Professor Colin Stoneman of the University of York, an economic statistician who is an expert on Zimbabwe, commenting on Bank and IMF reports on Zimbabwe. Quoted in George, S. and Sabelli, F. Faith and Credit: The World Bank’s Secular Empire. London: Penguin, 1994:64.


in fiscal 1991. The number of projects judged unsatisfactory at completion increased from 15 per cent of the cohort reviewed in FY 81 to 30.5 per cent of the FY 89 cohort and 37.5 per cent of the FY 91 cohort. For financial year 1991, 30 per cent of projects in their fourth or fifth year of implementation were reported as having major problems.  

Factors which contribute to failures in the Bank’s performance can be grouped into two categories:

- factors which limit the Bank’s ability to implement its policy reforms; and
- the application of the same development approach to different circumstances.

4.1 The gap between policy and practice

As has been noted above, the Bank’s policy reforms, introduced to meet criticisms, have frequently not been implemented in practice. Noting the fact that loans for damaging projects persisted despite the Bank’s own guidelines, the chairman of a US congress hearing into the Bank claimed that:

> [the Bank’s] written assurances don’t amount to a hill of beans; they don’t exist for practical purposes..... where do the pressures come from, pressing down on the World Bank to degrade its own procedures and to bring its own integrity into question?  

A number of deep institutional contradictions and political pressures have been identified, which present barriers to any significant changes in the Bank’s operations, regardless of policy shifts.

4.1.1 Lack of coordination

There has been a lack of coordination between the Bank’s operational staff, who identify and prepare loans, and its policy, planning and research division. Rich’s analysis of failure to implement environmental reforms, revealed that environmental plans drawn up for countries by the environment division of the Bank were not reflected in the country strategy plans prepared by operational staff. Some environmental recommendations were over-ruled by senior management.

An earlier study of the Bank reached the same conclusion: during McNamara’s presidency, the research division prepared many reports on poverty alleviation.

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87 Ibid.
However, the people carrying out research within the institution were largely
divorced from the operational staff. While the Bank’s research is considered
to be of high quality, there is considerable doubt as to its operational
relevance; there appears to be a tendency for operational staff to view
researchers as misplaced academics.88

It is too early to judge whether the Bank’s restructuring, creation of a Vice
Presidency for Sustainable Development and appointment of environmental
staff within country departments, will address implementation problems arising
form the lack of coordination between policy/research and operational staff.

4.1.2 Emphasis on quantity, not quality

This is perhaps, the most important factor in accounting for the discrepancy
between policy and practice. The Wapenhaps Report noted that a fundamental
role in portfolio management problems was played by the Bank’s pervasive
emphasis on loan approval, not matched by an equal emphasis on
implementation, planning, identification and assessment of major risks to
project performance.

In part, this conflict between moving large amounts of money quickly and
delaying approval to ensure that social, environmental and economic guidelines
are met, reflects the contradiction inherent in the dual role of the Bank - ie, as
a bank and a development agency. The pervasive preoccupation with new
lending, described as the "approval culture" of the Bank, is shared by
borrowers and co-lenders as well as by Bank staff. The emphasis on timely
loan approval means that Bank appraisals of proposed projects tend to promote
the project rather than being objective assessments of their likelihood of
success. The Wapenhaps Report notes:

loans feature conditions thought to be conducive to approval by management and the Board,
even where these may complicate projects so as to jeopardise successful implementation.89

4.1.3 Political pressures exerted on the Bank by borrower and donor
countries

The pressure to lend large amounts of money for large infrastructure projects
is also exerted by vested interests and government bureaucracies in borrowing
countries, who prefer such projects to smaller ones which require more
administration and provide less prestige.

Political constraints are also exerted on the Bank by principal donors,
especially the United States. For example, the debt crisis of the early 1980s,
saw pressure on the Bank to increase lending to heavily indebted countries,


89 Effective Implementation: Key to Development Impact. op.cit: iii.
with conditions imposed to increase their ability to meet their debt servicing obligations to commercial banks in donor countries.

Pressure to enforce environmental conditionality on borrowing countries is resisted by many, who view it as an added cost and as an imposition of the North’s priorities on the South. The Bank is very sensitive to these pressures, particularly with respect to its larger borrowers, and is reluctant to endanger its dialogue with host countries by overzealous insistence on the implementation of social and environmental conditions. This often results in a failure to have these conditions met. In its explanation of the failure to have resettlement guidelines met in the Sardar Sarovar dam project, the Morse Commission noted that "the Bank is more concerned to accommodate the pressures emanating from its borrowers than to guarantee implementation of its policies."

4.1.4 Policy by President of the Bank, implementation by the bureaucracy

The orientation and policy directions of the Bank are greatly influenced by the President of the Bank. However, implementation rests with the Bank’s staff. The current president of the Bank, Lewis Preston, may be sincere in his desire to shift the emphasis of the Bank’s activities from initiating loans to successful implementation, but he understands that any reforms he envisages may come to naught. In a recent interview he observed that the staff at the Bank have seen presidents come and go and they can "wait you out".

4.1.5 Decision making processes in the Bank

The lack of accountability and the decision-making processes in the Bank further contribute to failures to implement policy reforms. The Bank, like other multilateral institutions, is not accountable to civil society within borrower and donor countries. The official avenue of accountability lies with the Bank’s Board of twenty-four executive directors, representing 177 member nations. Executive directors vote in accordance with the voting strength of their countries and are expected to express the views of the countries they represent.

However, since most EDs represent groupings of countries, yet may not split their vote, they may, in fact, speak on behalf of just one of their constituents, if they receive different instructions from their members. Thus, the role of the

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Director's individual judgement outweighs his or her representational capacity. The dual allegiance to the Institution on the one hand and the country or country groups they represent on the other, represents an institutional bias against accountability and is probably responsible, at least in part, for the predisposition to secrecy.

While the Bank's Operational Directive 14.70 postulates a presumption in favour of disclosure of information if there is no compelling reason to withhold it, in practice the culture of the Bank is one of confidentiality. The majority of documents are not available to the public (or become accessible when they are outdated). Further, the Bank management withholds information from executive directors, except for documents specially prepared for the Board meeting. These documents and the oral briefings by Bank staff, tend to gloss over discussion of project risks and problems, in order to facilitate project approval.

4.1.6 Bank's responses — improving accountability, transparency and implementation

(a) Disclosure of Information & Inspection Panel

In response to growing international concern with its lack of transparency and accountability, the Bank has instituted a new Disclosure of Information Policy and established an Independent Inspection Panel, which will investigate complaints of violations of Bank policies and procedures that materially affect parties and groups in borrowing countries. The new Policy on Disclosure of Information was issued in March, 1994; the Independent Inspection Panel opened its office in September, 1994.

It is too early to assess the impact of these new initiatives. However, NGOs have identified several flaws in the way they have been conceived which may limit their effectiveness. Primarily, most information about projects — feasibility studies, consultants' reports on environmental and social risks, engineering studies and economic studies — will remain secret until after loan approval; that is, too late to be of practical use. However, the new policy does permit the release of such project information in response to a request about the project, after consultation with the government concerned. Similarly, after


consultation with the government concerned, country economic and sector work reports will be publicly available. These represent significant advances in transparency.

The fear of NGOs regarding the Inspection Panel is that a toothless unit will be created that will serve public relations purposes rather than be an efficient tool of accountability. According to the Centre for International Environmental Law (CIEL), the independence of the panel is compromised by the fact that the appointment of members, their salaries and expenses are determined by the Bank, which will also assign the panel's executive secretary. The accountability of the panel is seen to be sacrificed by the failure to invite public comment on panel reports, before their consideration by the Board of Executive Directors.

(b) Increasing Public Participation

Another essential measure for ensuring the accountability of development projects is the involvement of the supposed beneficiaries of the project in its design, implementation and evaluation. The Wapenhans Report found that borrower participation during preparation, was essential to the effective implementation of projects.

There is a growing recognition within the Bank of the benefits of participatory approaches in lending operations. A statistical analysis of evaluations of 121 rural water supply projects revealed primary stakeholder participation as the single most important factor in determining overall quality of implementation. The potential benefits of increased participation by those affected by development projects include: an increased uptake of project services; decreased operational costs; increased rate of return and increased income of the primary stakeholders. The costs of not adopting participatory development approaches include: a lack of ownership and support which can impede the uptake of services, reduce the sustainability of the intended benefits and reduce cost recovery. Non participatory approaches often lead to resentment and obstruction.


While the Bank is exploring ways it can improve its performance with respect to popular participation in project and program design and implementation, there are institutional characteristics and a lack of experience which limit the level of participation achieved in Bank activities. According to the Bank’s Charter, the relationship between the Bank and its member states is to be conducted only through the nation state’s treasury or similar fiscal agency. For the Bank to promote popular participation or to modify its decisions through negotiations with NGOs could be perceived as being in conflict with its Articles. Where governments support participatory development, there is no problem. However, this is not always the case.

The Bank’s Articles of Agreement explicitly prohibit the Bank from becoming involved in a country’s political affairs. While the Bank’s commitment to political impartiality has been purely theoretical and decisions have frequently reflected the foreign policy interests of the US, the Articles limit the extent to which the Bank can work with NGOs, who are frequently politicised and whose development objectives include democratisation, equity, good governance and human rights. The Bank’s primary role as a financial institution, makes its primary interest in participation that of improving the performance of its investments.

4.2 Universal application of single development model

In addition to the various institutional characteristics which limit the Bank’s capacity to implement policy reforms, a number of aspects of the Bank’s approach to development have been shown to contribute to increasing inequity, exacerbation of poverty and environmental degradation. While the Bank has acknowledged the evidence, it has not interpreted it as casting doubt on the validity of its approach to development. Despite changes in orientation, emphasis and lending patterns, the Bank continues to promote economic growth, increasing exports, privatisation, trade liberalisation and incorporation into the global economy as the path to development.

The belief in this approach is so tenacious that it is resistant to evidence which contradicts its assumptions. This is evidenced in the Bank’s frequent citing of the rapidly developing economies of East Asia as examples of successful development, when most of these countries avoided real adjustment and followed economic strategies diametrically opposed to the market-oriented approach at the core of SAPs.

The resilience of this model is due to a shared culture in the Bank; a consensual belief in neoclassical economics, accompanied by a denial that the economic prescriptions embodied in the Bank’s SAPs reflect an underlying

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101 For example, the Bank made no new loans to Chile under President Allende from 1970 to 1973; it ceased lending to Vietnam after the unification of North and South, resuming only this year.
ideology. Rather, they are viewed as neutral, "value free", scientific economics. The shared consensus extends beyond the Bank, to influential economists in Northern administrations, as well as amongst Southern elites, many of whom were trained in the same universities. The widely shared view of the development model as scientific and value free, constitutes a formidable barrier to any questioning of its validity or to a consideration of any alternatives. It also leads to its universal application.

While reiterating that the policy framework of the Bank is sound, Lewis Preston has made the point that many of the Bank’s initiatives, intended to support the objectives of growth, poverty reduction or environmental sustainability, "although important in themselves, are applied too routinely, with too little regard for differing country circumstances, too little recognition of widely differing implementation capacity, and to all projects without due regard to relevance."\(^{102}\)

This recognition is promising. However, a flexible approach to development, in which the intended beneficiaries identify their goals as well as the means of achieving them, will require a willingness to question the prevailing development orthodoxies. This, in turn, may depend on changes in the way economics is taught in universities and a generational change in Bank staff. In the more immediate future, pressure to re-evaluate the dominant development paradigm may come from the increasing influence of Japan and the other rapidly growing Asian economies.

5. Australia and the World Bank

5.1 Australia’s commitment to the World Bank

Australia joined the International Bank for Reconstruction and Development (IBRD) in 1948 and the International Development Association (IDA), when it was established, in 1960. Between 1950 and 1962, Australia received $417 million in loans from the Bank. In addition to its contributions to the multilateral banks, Australia contributes to multilateral programs via UN agencies, such as the United Nations Development Program (UNDP), the United Nations Children’s Fund (UNICEF) and the United Nations Population Fund (UNFPA), and Commonwealth organisations. Over the last decade, multilateral assistance has constituted between 20-25 percent of Australia’s total ODA.\(^{103}\)

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102 Memorandum from Lewis Preston to the Chairman of the Joint Audit Committee (JAC), on the subject of the Wapenhans Report, 2 October, 1992.: Internal Bank document.

Australia's contributions to the MDBs go mainly to the concessional lending arms of the World Bank (the IDA) and the Asian Development Bank. In the 1994-95 budget, a total of $155.4 million was allocated to the MDBs — an increase of 10 per cent on last year's allocation. This constitutes 11 per cent of the overseas aid budget. However, Australia's current commitment to these institutions means that payment to them will represent a growing proportion of the total aid program — up to 14 per cent in coming years, unless there is an increase in the overall overseas aid budget.\textsuperscript{104}

The increasing proportion of the overseas aid budget going to the MDBs, is of some concern to AIDAB and to NGOs, since it is at the expense of Australia's bilateral aid program, over which Australia has more control. The Joint Parliamentary Committee on Foreign Affairs, Defence and Trade has recommended that multilateral aid should be a separate component of the aid budget, so that payment does not take money out of the bilateral budget. The Federal Treasury, however, argues that bracketing the expenditures shows a recognition of a close relationship between multilateral and bilateral aid. The Treasury further argues that the multilateral banks have advantages in that they are in a better position to influence the policy framework of recipient countries than is Australia.\textsuperscript{105}

The different perspectives of the Treasury and AIDAB reflect the Treasury's emphasis on macro-economic indicators and affinity with the Bank's economic prescriptions, on the one hand, and AIDAB's greater emphasis on the contributions of overseas assistance (among other things) to Australia's overall foreign policy interests.

While there is some disagreement on the proportion of overseas aid which should be allocated to the MDBs, there is consensus that Australia benefits from its contribution. Multilateral aid is seen as an affirmation of Australia's commitment to the world community and as a relatively effective way of encouraging socio-economic growth in the developing world. It contributes to our being regarded as a good international citizen. The benefits include:

- Participation as an active member of the international economic and financial system: in addition to being able to apply policy conditionality and advice to developing countries (which a bilateral donor could seldom attempt), multilateral agencies can meet needs that individual donors could not tackle alone, carry out high-quality research beyond the means of individual countries and are essential in efforts to address global environmental problems.

\textsuperscript{104} The increasing proportion of the aid budget going to the MDBs reflects the protection of this allocation from the cuts suffered by the aid budget as a whole, since Australia's allocation to the Bank is covered by legislation.

\textsuperscript{105} Joint Committee on Foreign Affairs, Defence and Trade, \textit{Australia, the World Bank and the International Monetary Fund}. Canberra: AGPS. 1993: 24.
• Opportunity to influence the policies of the MDBs to promote the implementation of effective, equitable development policies.

• Opportunity for Australian firms to participate in the procurement of goods and services for MDB projects.\textsuperscript{106}

• Ability to encourage increased MDB involvement in the Asia Pacific region, thereby enhancing our regional bilateral development programs.

• Utilisation of the Bank’s research and poverty analyses to inform bilateral programs.\textsuperscript{107}

While there is little argument regarding the above advantages, the increasing proportion of overseas aid going to the MDBs raises questions as to whether multilateral aid is consistent with the objectives of Australia’s aid program and whether Australia can influence the MDBs in ways which will increase the coincidence of MDB policies and practice with Australia’s development assistance objectives.

5.2 To what extent is the World Bank approach to development consistent with Australia’s approach?

Australia’s development cooperation program aims:

to promote the sustainable economic and social advancement of people in developing countries in response to Australia’s humanitarian concerns, as well as our foreign policy and commercial interests. Poverty alleviation is intrinsic to this objective.\textsuperscript{108} the composition of Australia’s development cooperation program is based on the fact that broad-based, sustainable economic growth is the single most important ingredient in improving the lives of the majority of people in developing countries.

Thus, there is a three-fold purpose to Australian aid — humanitarian, strategic and commercial. Poverty alleviation is the over-arching objective and economic growth is seen as the essential ingredient.

In its 1991 document, Poverty Alleviation through Australian Development Cooperation, AIDAB identified three strategies which constitute its approach to development: economic growth, targeting the poor and direct transfer to the poor. The 1993 Ministerial update of Australia’s approach has given additional

\textsuperscript{106} Australia’s recorded procurement of SA704 million in the five years to June 1992, exceeded our payments to the IBRD’s capital and IDA resources over the same period ($501 million). Ibid.: 43.


weight to "social sector development in education and health and capacity building more generally." The updated poverty reduction framework is still composed of three parts: sustainable economic growth; investment in human resources through social sector development; and safety nets and poverty targeting (including emergency relief).\textsuperscript{109}

Australia’s approach is consistent with the approach taken by the World Bank and is seen to be so by government departments involved. It is acknowledged that there is an international consensus on development strategies and that the Bank is an intellectual leader and major contributor to the development debate through its research, publications, seminars and conferences. The AIDAB review of Australia’s relationship with the MDBs concluded that:

There is a large measure of commonality between Australia’s development co-operation objectives and the objectives of the World Bank and ADB.\textsuperscript{110}

The emphasis on economic growth as the essential ingredient of poverty reduction coincides with the Bank’s perspective. The recent shifts in emphasis in Australia’s strategies also coincide with shifts in the Bank’s rhetoric. The Bank’s shift, in the last five years, towards poverty reduction, environmental protection, the position of women in development and private sector development, as priorities in project and program lending, are all seen to be in line with Australia’s objectives.\textsuperscript{111}

The Bank’s influence on economic policy within borrowing countries is seen as particularly important: it cannot be addressed on a bilateral basis; it is consistent with Australia’s trade and foreign policy objectives, in that it promotes trade liberalisation; and it addresses policy reforms seen as necessary for achieving benefits from bilateral assistance programs.

Bank policies on economic liberalisation, in advocating the reduction of trade barriers and a more open international trading system, offer the potential for increased Australian commercial activity. For example, Australia’s Executive Director at the ADB points out that the Bank’s policy dialogue with Indonesia in the 1960s and 1970s has benefited both Indonesia and Australia and was therefore entirely consistent with Australian development priorities.\textsuperscript{112}

\textsuperscript{109} Ibid.: 8-9.


\textsuperscript{111} Ibid.

\textsuperscript{112} McCawley, P. personal communication.
While the Bank’s policies are seen as generally consistent with the direction the Australian Government wants to take, some areas where MDB operations have not been entirely consonant with Australian development and foreign policy objectives were identified by AIDAB. They include the following:

- The visibility of Australia’s aid is diminished by multilateral organisations;

- The large size of projects preferred by the MDBs has rendered them relatively inactive, until recently, in small countries such as in the Pacific, where Australia has strong interests. Further improvements require Australia to maintain pressure on the MDBs to devote resources to the South Pacific;

- The World Bank and IMF have devoted disproportionately large resources to Africa, while Australia is targeting Asia; (this can be seen as an advantage in that our contribution to the MDBs can be used to justify our not focusing bilateral aid on Africa, despite its being in the greatest need.)

- The Bank and the ADB should have been faster in incorporating issues such as women in development, poverty alleviation and the environment into their operations;

- The Bank’s refusal until recently to assist Vietnam (bowing to US pressure) conflicted with Australia’s objective of integrating Vietnam into the region.113

While there is general support for the Bank’s policy based lending and for the policies which the Bank and IMF have been imposing on borrowing governments, several submissions to the Parliamentary inquiry into Australia and the MDBs made the point that programs need to be better tailored to the conditions that exist in the country. They also noted that adjustment lending has generally failed to produce positive changes in poorer countries and in countries with poorly organised and developed infrastructure and weak government and business sectors. The Bank’s expectations of structural adjustment programs were seen to be over-optimistic and simplistic and the impacts on the poor, of policies imposed, in need of continued monitoring.114

The Bank’s push to increase the role of the private sector in developing countries has been endorsed by Australia. However, the role for MDBs in directly funding private sector development, as proposed by the US, has been questioned. Such a move will direct World Bank funds away from the poor. Concerns were also expressed about the impact of structural adjustment lending

113 AIDAB, 1992: op.cit.

114 Joint Standing Committee on Foreign Affairs, Defence and Trade, 1993. op.cit., AIDAB and Treasury submissions to inquiry, reported on pages 75 and 77.
on the environment and about poor performance in implementing Bank environmental and social guidelines.

In order to improve the performance of the Bank, many of the submissions to, and recommendations of, the Joint Committee on Foreign Affairs, Defence and Trade focussed on strategies for increasing the Bank’s accountability and transparency and the steps Australia can take to promote such reforms. Recommendations included a call for greater transparency and accountability regarding Australia’s performance at the Bank, including more detailed reporting to Parliament of the Bank’s performance, Australia’s interventions and voting patterns on decisions. Within the Bank and the IMF, Australia should exert pressure to increase the transparency of Bank processes and be more proactive in ensuring that greater attention is paid by the MDBs to poverty and environmental issues.\textsuperscript{115}

To some extent, the view of government departments that the World Bank’s approach to development, largely coincides with Australia’s approach and interests, reflects the shared attachment to neo-classical economic theory. Like the Bank, the departmental officials who made submissions to the Parliamentary inquiry into Australia and the MDBs supported the adjustment policies imposed under the Bank’s SAPs, while noting that they frequently did not achieve their objectives and had negative impacts on the poor and on the environment.

The tendency to largely ignore the persistent criticisms of the Bank’s performance led the Parliamentary Committee to conclude that there is a tendency for "government departments to accept Bank and Fund policies with insufficient analysis."\textsuperscript{116}

The view that structural adjustment loans conflict with the humanitarian objectives of Australia’s aid program was put in the submission to the inquiry made by ACFOA, on behalf of Australian aid NGOs. ACFOA further argued that the prescription to increase exports has damaged Australia’s commercial interests, since many of the raw materials exported by developing countries compete with Australia’s exports and the massive rate devaluations put Australia’s farmers at a competitive disadvantage.\textsuperscript{117}

There are benefits to Australia from its contributions to the multilateral development banks and the approach of the World Bank is, in large part, consistent with Australia’s own approach to aid and development. To the extent that the Bank’s operations fail to serve Australian development

\textsuperscript{115} Ibid.

\textsuperscript{116} Joint Standing Committee on Foreign Affairs, Defence and Trade, 1993. op.cit.: 57.

objectives, the question arises as to how much influence Australia can exert at the Bank and through which avenues.

5.3 What avenues are open to Australia to influence the direction of the Bank’s policies and operations?

Australia’s influence in the MDBs primarily derives from its ranking as a middle-sized power, reflected in its financial contributions which, in turn, determine Australia’s voting strength.\textsuperscript{118} Membership of the Boards of the MDBs is the most important avenue for Australia to exert influence on them.

Australia’s Executive Directors hold positions of influence within the Bank structures "because they are conduits between the Australian government, other members of our constituency and the Executive Boards of the Bank and Fund."\textsuperscript{119} Although our voting strength is determined by our financial contribution, decisions on the Bank’s Board are usually made by consensus. Therefore, the quality of our Executive Directors plays a major role in the influence Australia exerts. AIDAB’s review of the MDBs noted that "Australia’s influence had been increased by the quality of our representation, relative to that which might have been warranted by our ranking."\textsuperscript{120} This underlines the importance of using selection processes which ensure the best possible applicants are appointed to these positions. The relatively recent move to advertising Executive Director positions in the press should further this objective. (Executive Directors used to be appointed from Treasury).

Also contributing to the performance of Australia’s Executive Directors is the quality of the briefings they receive. Briefings provided are the result of consultation between interested Commonwealth departments — Treasury, AIDAB, DFAT and DEST. The views of NGOs are sought in regular consultations conducted by AIDAB and Treasury with NGOs. Such consultations have increased in recent years.

In addition to our representation on the Boards of the Banks, the mechanisms through which Australia influences the MDBs include representations by Governors and ministers and direct contact with Bank staff. Visits by NGOs and letters to the President from MPs also influence the process.\textsuperscript{121} Regular exchanges of high level staff between the Bank and relevant government departments provide another avenue. There are currently two AIDAB staff

\textsuperscript{118} AIDAB, 1992. op.cit.

\textsuperscript{119} Joint Standing Committee on Foreign Affairs, Defence and Trade, 1993. op.cit.: 26.

\textsuperscript{120} AIDAB, 1992: op.cit.: 37.

\textsuperscript{121} Thanks to Peter McCawley for his contribution.
working at the World Bank and two World Bank staff at AIDAB. In 1991 there were ninety eight Australians working at the World Bank.122

While the Bank’s responsiveness to criticisms is not adequate, it is sensitive to them and has introduced substantial changes in policy in an attempt to address them. It is not beyond influence. Australia has influenced the Bank group and the ADB on the South Pacific and on project quality.

However, as the AIDAB review points out:

on all major issues Australia has had to work within the parameters set by the major developed countries, notably the USA, Japan, Canada and the West Europeans.123

Exacerbating the institutional inertia of all large bureaucracies are the sometimes conflicting pressures on the Board, exerted by the different member nations.

Given the significant role the Bank plays in determining the parameters of the development debate and agenda, it is in Australia’s interest to maintain its influence in the Bank and to contribute to pressures to improve the Bank’s performance in poverty alleviation, environmental protection, portfolio management, accountability and transparency. Some of the recommendations of the Parliamentary inquiry into Australia and the MDBs124 would, if implemented, improve the quality of Australia’s influence in the MDBs. The Government is yet to respond to the report of the Committee.

6. Some Conclusions and Policy Implications

The Bank’s mission is to help developing countries reduce poverty and promote sustainable development.125

In the almost fifty years since its establishment, the Bank has lent more than $300 billion. Is the development approach taken by the Bank working to achieve its objectives? Is it capable of doing so? How can it improve its performance?

Great advances have been made in the last fifty years and the share of the world’s population enjoying fairly satisfactory human development levels

122 AIDAB, 1992: op.cit.

123 Ibid. 37.

124 Joint Standing Committee on Foreign Affairs, Defence and Trade, 1993. op.cit.

increased from 25 per cent in 1960 to 60 per cent in 1992.\textsuperscript{126} However, a quarter of the world’s population lacks access to safe drinking water, and a third lives in a state of abject poverty, the richest billion people command sixty times the income of the poorest billion; this discrepancy has doubled since 1960.\textsuperscript{127}

While neither the achievements nor the failures of development can be attributed solely to the World Bank, its approach to development defines the dominant development paradigm. The influence of the Bank extends beyond the impact of its lending: it is the major contributor to the development debate through its research and policy work. The Bank’s policy advice and conditionality, co-financing arrangements and coordination of donor activities within borrowing countries help to explain why both the achievements and failures of development are frequently attributed to the Bank.

The Bank represents one end of the development assistance spectrum, NGOs, the other. To the extent that it makes capital available at concessional rates to developing countries unable to borrow on the commercial market, invests in human resources development, targets its programs at the poorest people within the poorest countries and provides finances for infrastructure necessary for development, the Bank can and does contribute to the achievement of its stated goals.

However, as the Bank’s figures show, only one in five of the poorest nations eligible for its most generous forms of assistance 20 years ago have escaped that category. In sub-Saharan Africa, aid flows account for almost 10 per cent of GDP, but the real per capita incomes continues to fall.\textsuperscript{128}

While the factors which contribute to failure of aid flows to reduce poverty are varied and complex, reviewing the Bank’s performance over the years suggests that some elements fundamental to the Bank’s approach to development are not consistent with poverty reduction or with ecologically sustainable development. It is also apparent that the culture of the Bank and its decision making processes act as significant obstacles to reform.

The Bank has acknowledged that some of its projects and programs have failed to reach the poor, contributed to environmental damage and frequently even hurt the poor. However, this has not led the Bank to question its fundamental approach to development; the Bank’s responses have been at the margin. It has introduced measures to cushion the poor from the negative impacts of its programs, rather than review the validity of the development model being applied.


\textsuperscript{127} Ibid.

\textsuperscript{128} Reported in the \textit{Financial Review}, 5 October 1994.
6.1 Need for Bank to review its approach to development and explore alternatives — there is not one right way

6.1.1 Emphasis on economic growth without addressing equity or ecological sustainability

There is no question that developing countries’ economies need to grow. However, economic growth in itself is not sufficient to ensure improvements in the quality of life, particularly of the poorest sections of society. Further, evidence suggests that rapid economic growth is almost invariably accompanied by substantial increases in inequality. Where economic growth has led to significant reduction in poverty, the issue of equity had been addressed before the pursuit of growth strategies.

The frequently cited success of the high performing Asian economies (HPAEs)\textsuperscript{129} provides a clear illustration of the adoption of specific institutional mechanisms tailored to the goal of ensuring that the benefits of growth are shared. While the principle of shared growth assumed different forms in each country, some common ingredients have been identified. The following mechanisms to increase opportunities to share the benefits of growth were introduced:

- education — the provision of universal primary and wide access to secondary and higher education is seen as the most important of the wealth-sharing opportunity-creating mechanisms (in all HPAEs);

- land reform (in Japan, Korea, Taiwan);

- support for small and medium-size industries (Hong Kong, Japan, Korea and Taiwan);

- government provision of such basic amenities as housing and public health services (Hong Kong and Singapore).\textsuperscript{130}

The Bank frequently cites the HPAEs as examples of successful applications of the Bank’s approach to development. Yet, the Bank’s prescriptions for developing countries favour market mechanisms and discourage government intervention. While the Bank has more recently accepted that a combination of market forces and state interventions are necessary for effective development,\textsuperscript{131} it continues to see privatisation, trade liberalisation and the

\textsuperscript{129} HPAEs are High performing Asian economies and include Japan, Hong Kong, Republic of Korea, Singapore, Taiwan, Indonesia, Malaysia, Thailand.


withdrawal of the state from economic activity as prerequisites for development. Clearly, the successful Asian economies did not leave development up to market forces.

Measures to address inequity should be included in the conditionalities imposed on borrowing countries, especially distribution of land; allocation of funds to primary education and health care; cuts in military and other non-productive expenditure; and resource management and conservation.

While an analysis of the Asian economies is beyond the scope of this paper, the Bank’s own analysis of them points to another crucial ingredient for successful development. The governments of these countries have been flexible and pragmatic in their policy formulation and adapted strategies to changing economic circumstances.\textsuperscript{132}

This is a crucial lesson for the Bank to learn. Different policies and strategies suit different types of economic, social and institutional structures. The universal application of an ideologically based model, with only minor variations, has contributed to the huge regional differences in performance.

While the economic successes of the HPAEs point to some characteristics of successful approaches to development, the problems faced by many of them, particularly massive ecological degradation, point to a consequence of rapid economic growth which needs to be addressed.

A necessary step towards meeting the Bank’s stated objectives of poverty alleviation and sustainable development, is to ensure that the index used to measure the success of projects and programs reflects these objectives. The Bank’s response to deteriorating performance of its portfolio continues to focus on economic indicators: its proposed program of actions is aimed at improving the financial quality of loans. Improving the economic efficiency of loans, while necessary, is not sufficient to ensure a positive development impact. Social and environmental project and program indicators must be integrated into the definition of loan quality.

6.1.2 Adjustment with a human face

The Bank’s underlying approach to development is reflected in its policy-based lending. The policies which the Bank imposes on borrowers usually include: deregulation, devaluation of the currency, privatisation of state enterprises, trade liberalisation, removal of restrictions to foreign investment and the capping of wages.

The evidence relating to the effects of Bank imposed structural adjustments, shows that they frequently exacerbate poverty and inequity. Claims that

\textsuperscript{132} World Bank \textit{The East Asian Miracle}, op. cit.: 102.
structural adjustment would be painful in the short-term but benefit the poor in the long-term have not been substantiated. Further, even the economic objectives of structural adjustment have not been met: the Third World debt burden has increased from $785 billion at the beginning of the debt crisis in 1982 to nearly $1.5 trillion by 1993.\(^\text{133}\)

There is no question that the economies of heavily indebted (and industrialised) countries need to be restructured to accommodate to the rapid changes in the global economy. However, the Bank (and the IMF) need to review the conditions they impose on borrowing countries. As noted by the UNICEF study which first alerted the world to the devastating impact of the Bank’s (and IMF’s) SALs on the living conditions of the poor, "The issue .... is not whether to adjust or not, but how."\(^\text{134}\)

The UNICEF study identified six elements of "adjustment with a human face":

- More expansionary macro-economic policies, requiring a more gradual timing of adjustment and larger amounts of medium-term external finance;
- The use of meso policies to secure the priority use of resources to fulfil the needs of the vulnerable;
- Sectoral policies aiming at restructuring within the productive sector to strengthen employment and income generating activities, focusing particularly on small farmers and informal sector producers;
- Improving the equity and efficiency of the social sector;
- Compensatory programs to protect basic health and nutrition of the low-income during adjustment;
- Monitoring of the human situation, especially of living standards, health and nutrition of low-income groups during the adjustment process should be given as much weight as monitoring monetary variables.\(^\text{135}\)

The Bank has acknowledged that its SAPs have caused hardship to the poor and environmental degradation and it has introduced measures to reduce the negative impacts of adjustment programs. However, a more serious review of its policies is required. Continued prescription of trade liberalisation, liberalisation of financial markets and institutions, privatisation and reliance on


\(^{135}\) ibid.: 134.
market mechanisms are inappropriate for many borrowing countries, particularly in sub-Saharan Africa.

The Bank attributes regional variations in the impacts of adjustment to the failure of countries to properly implement the correct macroeconomic policies. However, as shown by a Japanese Government analysis, structural adjustment programs must be placed in perspective. There are countries where the policies being imposed cannot be implemented and others where implementation exacerbates poverty. The Bank continues to impose a uniform series of macroeconomic policies globally.

The belief that the application of "correct" macro-economic policies will eventually lead to sustainable human development, has led to unrealistic expectations. Adjustment policies cannot, by themselves, be expected to result in increased investment, or in the reduction of poverty. In order to encourage investment, for example, additional measures, such as preferential tax treatment, would be necessary in some situations.

6.2 Needed reforms in the Bank’s decision making processes

In addition to the need to review aspects of the Bank’s approach to development and adopt a more flexible and pragmatic approach, the Bank needs to undertake reforms in its decision making processes.

The best chances for reforming the Bank so that it is better able to meet its objectives, probably lie in making it more accountable and more transparent.

- It is necessary to increase the participation of those who will be affected by projects at all stages of design and implementation, in order to ensure that the needs of the supposed beneficiaries are met and that benefits are sustained. The Bank acknowledges that public participation is a major factor in determining the success and sustainability of projects and programs, but is yet to implement effective mechanisms.

- Public access to Bank documents at the early stages of project preparation are essential to improve the quality of projects. Full access to information will make the Bank accountable to citizens in both borrower and donor countries.

- An independent commission with the power to investigate complaints of environmental and human rights abuses in Bank operations needs to be established.
• The pressure to lend must be removed; loan quality and positive social and environmental impacts should be the criteria against which performance is judged.136

Increasing the transparency and accountability of the Bank (and other international institutions) by implementing the above reforms is also necessary to address concerns in both donor and borrower countries, regarding the subordination of national sovereignty to international institutions. The globalisation of the economy and the global nature of many of to-day’s problems, will increasingly demand international cooperation. For solutions to be found and implemented, the effectiveness of international institutions will need to increase. The acceptance, at national levels, of the authority of international institutions, will depend on the democracy, accountability and transparency of these institutions.

6.3 Other issues to be addressed

6.3.1 Limited "leverage" of the Bank on national governments

The requirements for changes within developing countries and in the relationship between North and South, point to some of the institutional barriers which limit the Bank’s capacity to meet its stated objectives. While the Bank has the opportunity to undertake policy dialogues with borrowing countries, its leverage on Southern governments is, nevertheless, limited. Domestic policy reforms depend on the willingness of governments to implement them.

International economic factors, such as terms of trade, private financial flows and debt, significantly influence the impacts of economic adjustments on the poor and on the environment. Strategies designed to achieve sustainable development must take these factors into account. To the extent that poverty in the South is due to inequities in the economic and power relations between North and South and to consumption patterns in the North, the Bank’s lack of leverage on Northern governments severely limits its ability to reduce poverty and promote sustainable development.

For instance, improvements in the world trade regime could bring far greater benefits to poor countries than increased aid. While the gains to world trade from the Uruguay Round of the GATT are estimated at $275 billion by 2002, developing countries are expected to see less than a third of this. It is ironic that as the Bank and the IMF impose conditions of trade liberalisation on borrowing countries, some industrial countries are becoming more protectionist. As the 1994 Human Development Report points out, in the coming decade,

adjustment changes will have to take place in the North, yet the Bank exerts no leverage on Northern governments.  

The main financial burden facing many developing countries is their debt. Despite years of structural adjustment, the debt of developing countries has continued to grow and is hampering their ability to meet their development needs. Much of the African debt is owed to the governments of industrialised countries and 36 per cent is owed to multilateral agencies like the World Bank. The industrialised countries could make a significant contribution to poverty reduction by providing further debt relief to the poorest countries. They could also direct the Bank to allot a proportion of its reserves to provide relief, to the poorest borrowers, from the burden of their Bank debts. Strategies to reduce the debt burden of sub-Saharan Africa must be applied.

A third area where action is required by Northern governments is in addressing the inequitable consumption patterns of North and South. Industrial countries constitute one-fifth of the world population but consume ten times more commercial energy than people in developing countries, account for 71 per cent of the world’s carbon dioxide emissions and 68 per cent of the world’s industrial waste. Economic growth generated by increased energy throughput in the South must be accompanied by the reduction in non-renewable energy use in the North, if sustainable development is to be achieved.

The current relationship between North and South and the development approach of the World Bank, serve the short- and medium-term interests of the North. Sustainable development depends on a more equitable relationship. Northern governments need to recognise that poverty alleviation and sustainable development are in their long-term interests. A failure to address the growing inequity between North and South represents a threat to international security and continued degradation of the global environment. As stated in the 1993 Strategy Paper of the US Government aid agency, USAID:

"The cost of not acting, of having to deal with global impact of imploding societies and failed states, will be far greater than the cost of effective action."  

While the Bank asserts that poverty alleviation and protection of the environment are its primary objectives, its approach to development fails to address the growing inequities between rich and poor, within and between countries.


6.3.2 Institutional barriers to meeting objectives

In addition to constraints which preclude the Bank from addressing North/South inequities, there are characteristics of the institution which limit its capacity to alleviate poverty and to implement policy reforms. The top-down, centralised Bank bureaucracy, based in Washington and lacking "on the ground" experience, with an institutional culture which values lending large amounts of money to governments in developing countries, is not especially suited to devising flexible programs to meet the needs of the poorest people at the local level.

Contradictions inherent in the Bank's dual role of bank and development agency, conflicting pressures exerted by donor and borrower governments and the felt need of Bank staff to secure loan approvals, limit the Bank's ability to implement its own environmental and social guidelines.

Australia should use its influence on the Board of the Bank, to push for the institutional reforms in Bank processes described above. It should also call for a review of the Bank's approach to development and particularly for changes to some of the adjustments imposed by the Bank in its policy based lending. Policy dialogue with borrowers should encourage the adoption of national policies which address inequity and poverty and the meeting of domestic needs. Australia should also contribute to a broadening of the development debate within the Bank and more widely, to incorporate the issues of debt relief and easing of trade barriers against Southern exports.

The fiftieth anniversary of the Bretton Woods Institutions offers the opportunity to address the shortcomings of the dominant approach to development adopted by these institutions and by most bilateral donors. This will require the political will of donor countries. Australia, through its membership of the Bank, can exert a significant influence in this direction.
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