CHAPTER 6

ROLE OF WORLD BANK AND DEVELOPING COUNTRIES

6.1. Introduction

As is already discussed in the previous chapters that the IMF and World Bank were both created at the end of World War II in a political climate the is very different from that of today. Nevertheless, their roles and modalities have been suitably updated to serve the interests of those that benefit from neoliberalism. The institutional structures of the IMF and World Bank were framed at an international conference in Bretton Woods, New Hampshire. Initially, the primary focus of the IMF was to regulate currency exchange rates to facilitate orderly international trade and to be a lender of last resort when a member country experiences balance of payments difficulties and is unable to borrow money from other sources\(^1\). The original purpose of the World Bank was to lend money to Western European governments to help them rebuild their countries after the war. In later years, the World Bank shifted its attention towards development loans to third world countries\(^2\). Immediately after world war II, most western countries, including the US, had ‘New Deal’ style social contracts with sufficient welfare provisions to ensure ‘stability’ between labour and capital. It was understood that restrictions on international capital flow were necessary to protect these social contracts. The postwar ‘Bretton Woods’ economic system which lasted until the early seventies was based on the right and obligation of governments to regulate capital flow and was characterized by rapid economic growth\(^3\). In the early seventies, the Nixon administration unilaterally abandoned the Bretton Woods system by dropping the gold standard and lifting restrictions on capital flows. The ensuing period has been marked by dramatically increased financial speculation and low growth rates.

The power of the IMF becomes clear when a country gets into financial trouble and needs funds to make payments on private loans. Before the IMF grants a loan, it imposes conditions on that country, requiring it to make structural changes in

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\(^1\) Articles of Agreement for the International Bank for Reconstruction and Development, (1965), p.81
its economy. These conditions are called ‘Structural Adjustment Programs’ (SAPs) and are designed to increase money flow into the country by promoting exports so that the country can pay off its debts\textsuperscript{4}. Not surprisingly, in view of the dominance of the G7 in IMF policy making, the SAPs are highly neoliberal. The effective power of the IMF is often larger than that associated with the size of its loans because private lenders often deem a country creditworthy based on actions of the IMF. Several different authors have defined structural adjustment (SA) as a conscious change in the fundamental nature of economic relationships within a society\textsuperscript{5}. Killick elaborates that the conscious aspect means that it is “a result of the manipulation of policy, not a change that occurs through the market as a response to changing demands and opportunities”\textsuperscript{6}.” Finally, the World Bank defines adjustment simply as government policy and institutional reforms. What exactly is the ‘structure’ that is being adjusted in the context of a country’s economy? The term structure refers to how a society employs resources, produces goods, and distributes goods and income. The political system, legal framework, enforcement agencies, established patterns of social organization, public administration, and even demographics of a country all form a country’s institutional base, which, combined with its productive system and physical infrastructure, are all parts of the country’s structure.

Beginning in the latter half of the twentieth century, developing countries were plagued by deeply rooted economic distortions and inefficiencies that had become widespread in their production, distribution, and financial systems. Faced with difficult international conditions, those structural weaknesses left many developing country economies increasingly dysfunctional in the global economy. This led the international financial institutions (IFIs) to recognize that deficiencies in national policy-making processes in underdeveloped economies and structural weaknesses in their economies were a significant contributing factor to their worsening economic performance. SA thus became the process by which the IMF and the World Bank based their lending to underdeveloped countries on certain pre-determined conditions.


A recent WB report admits that when a country does not own the adjustment and reform process, no amount of aid is going to have the desired effect of bettering the quality of human life in that country. It is the old top-down versus bottom-up approach: only here we are talking about nations and not communities. A strict reward and punishment system no doubt theoretically discourages reneging on commitments, but conditionality also discourages a feeling of ownership and belongingness with the development plan or reform process. Governments like those of Moldova, Mozambique and Ecuador cave in under pressure and the threat of financial starvation, but at what cost? When public support for the reforms is not there, indeed when in many cases the public is actively against what is viewed as interference at best and colonialism at worst, political instability is bound to increase. And the success of macroeconomic reforms is closely linked with political stability.

It shouldn’t be surprising, then, that the complex loan procedures of the Brettonwood Institutions have not achieved what they set out to. And as the number of loan conditions keeps multiplying, it doesn’t seem that that’s likely to change in the near future unless the BWIs’ procedures undergo a more radical transformation than they have submitted themselves to so far. The IMF has come a long way, but conditionality remains at the root of all development lending and is still considered indispensable. In a recent press conference though, Masood Ahmed, the Deputy Director of the IMF Policy Development and Review Department, admitted to a need for streamlining conditionality and reducing the number of formal conditions associated with structural loans. On March 7, 2001, the IMF Board agreed to reduce conditionality in structural lending, applying it only where macroeconomic stability was the goal. The number of conditions for PRGF loans has decreased by a third, but in other cases it has risen.

The World Bank plays a qualitatively different role than the IMF, but works tightly within the stringent SAP framework imposed by the IMF. It focuses on development loans for specific projects, such as the building of dams, roads, harbours.

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8 Bordo, Michael D. and Harold James, “The International Monetary Fund: It’s present Role in Historical Perspective”, (2000), p.44.
etc that are considered necessary for ‘economic growth’ in a developing country\textsuperscript{10}. Since it is a multilateral institution, the World Bank is less likely than unilateral lending institutions such as the Export Import Bank of the US to offer loans for the purpose of promoting and subsidizing particular corporations. Nevertheless, the conceptions of growth and economic well being within the World Bank are very much moulded by western corporate values and rarely take account of local cultural concerns. This is clearly exhibited by the modalities of its projects, such as the ‘Green Revolution’ in agriculture, heavily promoted in the third world by the World Bank in the sixties and seventies\textsuperscript{11}.

The ‘Green Revolution’ refers to the massive industrialization of agriculture, involving the replacement of a multitude of indigenous crops with a few high-yielding varieties that require expensive investments of chemicals, fertilizers and machinery. In the third world, the ‘Green Revolution’ was often imposed on indigenous populations with reasonably sustainable and self-sufficient traditions of rural agriculture\textsuperscript{12}. The mechanization of food production in third world countries, which have a large surplus labor pool, has led to the marginalization of many people, disconnecting them from the economy and exacerbating wealth disparity in these countries. Furthermore, excessive chemical agriculture has led to soil desertification and erosion, increasing the occurrence of famines.

While the ‘Green Revolution’ was a catastrophe for the poor in third world countries, western chemical corporations such as Monsanto, Dow and Dupont fared very well, cashing in high profits and increasing their control over food production in third world countries. Although other development banks and even individual countries have implemented various macroeconomic stabilization and structural adjustment measures, the World Bank and the IMF have been at the forefront of promoting SAPs. Other organizations that participate in adjustment lending are major public international financial institutions, such as regional multilateral development banks (MDBs). The three major MDBs are the Inter-American Development Bank.

\textsuperscript{10} Broz, J. Lawrence, “The Role of the United States Congress”, (2005), p.34.


(IADB), the Asian Development Bank, and the African Development Bank. Founded in the 1960s, the structure and operations of these institutions are largely modelled on the World Bank. The debt of developing countries has multiplied alarmingly in the last few decades. In 1991, their total external debt amounted to $1.362 trillion, or 126.5 percent of their total exports of goods and services. The ratio of debt servicing to the gross domestic product of developing countries reached 32.4 percent. Today, every person in the Third World owes approximately $420 to the West. That is more than a teacher in Zambia earns in a year.

What is the story behind this huge accumulation of debt by poor countries? Prior to the oil crisis of 1973, most of their debt was financed by public agencies like the World Bank, but after the crisis many commercial banks used the windfall from the oil-producing states to make loans to developing countries, thinking (wrongly) that a country would not default on payment. The following recession, decreasing demand for developing country goods, the huge budget deficit of the United States, and the fact that the debt had been used to finance consumption rather than make productive investment, all conspired to make it difficult if not impossible for the countries to pay back their loans. The international debt ‘crisis’ is said to have sparked in 1982 when Mexico suspended her payments following the accumulated burdens of the recessions, rising interest rates and oil prices. The IMF jumped into the fray to try and solve the financial problem by approving structural adjustment loans to countries that fell in with its macroeconomic policy adjustment demands and austerity measures. However, what it neglected to consider was the possibility that the problem may be more of an external than an internal one, in which case the focus on internal economic reform was misplaced and would fail in solving the financial crisis.

Since their creation, the World Bank and the IMF have had a profound impact on the world economy. Their influence in third world countries is particularly powerful. Indeed, Hansen and Hansen have proposed that the World Bank influences

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14 Available at http://ojp.la-archdiocese.org/ppb-oped.html
other donor agencies, private lenders and investors, thereby strongly influencing all aspects of the country’s macroeconomy even when its lending portfolio is insignificant\(^{17}\). The World Bank/IMF annual meetings serve as a gathering place for member nations, finance ministers and central bank presidents as well as high-ranking representatives of leading private commercial banks and investment firms. According to Rich (1994:8), these meetings are above all an unprecedented opportunity for the world’s bankers, public and private, to cut deals among themselves and with governments. Harvard development economist Jeffrey Sachs calls the IMF a proconsul force that wields tremendous power in poor borrowing countries; even though the policies are implemented as a result of agreements with the countries in question, disapproval by the IMF of a country’s economic policies can lead to a denial of public and private international credit and development aid, since multilateral development banks, aid agencies, and private banks defer to the IMF seal of approval.

The World Bank, in conjunction with the IMF, thus became the driving force on a global level in facilitating and guiding economic restructuring in scores of developing countries. SA became the lending vehicle by which these two financial institutions gained access to policy makers, and, through conditionality, tried to induce profound changes in development policy and economic structures. For example, the World Bank and the IMF insist that borrowing countries open their markets, while industrialized countries are able to increase the protection of their domestic markets against developing countries. This greatly benefits industrialized countries over the less developed ones\(^{18}\). The economies of third world countries are thus deliberately and systematically being reshaped to be more market oriented, in line with a world view promoted by the World Bank and the IMF. The prevalence of structural adjustment programs (SAPs) as a curative measure for the macro-economic imbalances within the Third World economies marks the triumph of monoeconomics over structuralism.\(^{19}\)

\(^{17}\) Hansen, Jørgen Karthum and Stein Hansen, Integrating environmental concerns into economy-wide policies in developing countries, (1999), pp. 45-68


\(^{19}\) Mohan, Giles. Structural Adjustment Theory, Practice and Impacts, (2000), p.34
Economic stabilization and structural adjustment programs have been a major part of multilateral development banks. They account for over 20% of total new lending from the World Bank in the second part of the 1980s and the early 1990s. Even before this, however, structural adjustment programs (SAPs) were informally a part of project lending when institutional and other policy reforms were deemed necessary for project feasibility. The World Bank began structural adjustment lending because it was seen that first, long-term support was necessary to resolve balance of payment problems, and second, policy mistakes and the intrinsic structure of the economy were retarding the economic development in developing countries.

The first phase of structural adjustment loans funded by the World Bank consisted of front-loaded, quick-disbursing loans that helped ease the short-term pressure on available capital. This quick infusion of resources was accompanied by immediate measures to reduce domestic demand. Cuts in public spending and monetary policies were designed to reduce the money supply and thus conserve foreign exchange. The second phase aimed to increase the overall economic efficiency and promote growth by reforming macroeconomic policies and strengthening national institutions.

6.2. Problems of Developing Countries

Developing countries face massive poverty, slow GDP growth, high mortality rates, and low levels of education. In the year 1999, 1.2 billion people lived on less than $1 (in PPP USD) a day, and another 2.8 billion people lived on less than $2 a day (World Bank, 2003). The majority of the people in the least developed countries cannot read or write. Over 854 million adults in this world are illiterate, and 543 million of them are women (Human Development Report, 2000). Similarly, many people in developing countries do not have access to health treatment. According to the United Nations Children's Fund (UNICEF), more than 10 million children under five years of age die each year from preventable diseases in these countries. At the

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end of the year 2000, 34 million people were living with HIV/AIDS Human Development Report, 1998)\textsuperscript{24}.

These statistics reflect the extent of low human development in poor countries. A low level of human development means miserable, sub-standard living for the country's poor. The governments in these countries do not have a large budget to eradicate poverty, prevent deaths from curable diseases, and increase the literacy rate. Hence, developed countries and multilateral organizations such as the World Bank and International Monetary Fund have been providing financial assistance to developing countries for over half a century in an attempt to improve living conditions\textsuperscript{25}. Even though the effect of foreign aid is different among various countries, development economists agree that the fundamental role of development aid is to help minimize the levels of misery and deprivation in poor countries. Foreign aid can be used to meet basic human needs such as food, shelter, education, and health. In the absence of foreign aid, the magnitude of poverty, illiteracy, and mortality rates may worsen because governments do not have adequate funding to promote the standard of living, education, and health\textsuperscript{26}.

\textbf{6.3. Paradigm Shift in Approach}

The creators of the Bretton Woods multilateral system had designed an international economic architecture to deal with the causes of the global financial breakdown in the 1930s and with the economic and security problems they thought would follow World War II. The World Bank was part of that framework, which covered monetary, and currency issues, trade, investment, development, and the reconstruction of broken states\textsuperscript{27}.

In 2007, those challenges remained, although the conditions were vastly different. The rise and diffusion of private capital and free enterprise around the world now offered developing countries a great opportunity. Yet that did not obviate the need for the World Bank, because it was never simply about loans and grants: its role has been to contribute to the development of market economies in an open

\textsuperscript{24} Adopted by the United Nations Monetary and Financial Conference, (1944), pp.1-22
\textsuperscript{25} Rights of Nationals of the United States of America in Morocco, (1952), pp.176 at 192
\textsuperscript{26} Lohani '04, Satish, "Effect of Foreign Aid on Development: Does More Money Bring More Development?" (2004), pp.22-26
\textsuperscript{27} Department of State Bulletin,(1970), pp. 230-231.
international system -- fostering growth, opportunity, and hope and overcoming poverty within a better political and security order. Not only had the world changed, but the World Bank had changed, too. It now encompassed four policy and financing arms: the IBRD; the International Development Association, or IDA (the bank’s special fund for the poorest 79 countries); the International Finance Corporation, or IFC (its private-sector arm); and the Multilateral Investment Guarantee Agency (which offers investors insurance against political risk).

Since 2007, the international economy has witnessed tectonic shifts and a reordering of power relationships as it has struggled to recover from the greatest blow since the 1930s. Developing countries have provided two-thirds of all economic growth over the last five years, helping compensate for the stumbling industrialized world. Developing countries have also become the source of economic ideas, development models, investment, and even foreign aid. The institutions, national and international, designed for the old order has been straining at their seams to accommodate this new dynamic.

Developing countries are the World Bank’s clients - not the objects of old “structural adjustment” policies. This notion may seem obvious, but it represents an important shift in mindset. The bank should be a seeker of solutions, not a purveyor of prescriptions. Clients have vastly different needs. Countries struggling to break out of cycles of violence, poor governance, instability, and poverty need much more than development theories.

Middle-income countries Brazil, China, India, Indonesia, Mexico, Turkey, and others face entirely different problems. These countries, which are still home to two-thirds of the world’s population living on less than $2 a day, have stark development challenges of their own. At the same time, they are playing an increasingly important role in the world economy and in the development of other countries. Their actions will be indispensable to crafting sustainable solutions to transnational problems, whether they involve health, trade, the environment, or financial integration. The bank

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28 Supra note.18, p.87
31 Dervis, Kemal, with Ceren Ozer, A Better Globalization, (2005), p.34.
needs to not only assist middle-income countries but also share their experiences with others and encourage them to assume greater international responsibilities.\(^\text{32}\)

### 6.4. The Recurring Crises

Over the years developing countries have, as a group, experienced severe economic instability and difficulties. Many of these countries were hit by a real blow in the early 1980s, and again in 90s. The main problem these countries are facing time and time again is the debt crisis. These countries borrowed extensively from the Western creditors, which includes, banks, developed countries, and from institutions like the IMF and the World Bank, and then they were unable to repay loan. Developing countries required loans from creditors in order to keep their economies running. Creditors provide loans to finance development projects in the belief that such loans would generate more income for the country and help the economy to flourish, which would eventually lead to reducing the dependency on foreign loans.\(^\text{33}\)

Government takes loans in whatever project possible but many of those projects are either not completed or unsuccessful to bring any good. Mainly for these reason the developing countries are still dependent on foreign loans and unending cycle is formed.\(^\text{34}\) When giving loans to developing countries, creditors attached many conditions. This conditionality’s included reform programs, which are formulated to lead the developing countries on the path of development. Working for the development of developing countries, the IMF and the World Bank provide the loans for these countries in various circumstances and projects. The World Bank introduces the projects, lend the money for these projects in the hope that it will lead to sustainable development and reduce poverty. On the other hand, the IMF's main role is to reduce imparity between balance and payments, reduce poverty, increase employment, all of which can lead to faster economic development.\(^\text{35}\)

The loans of the IMF and the World Bank come with their prescribed reform and conditionalities. Implementation of these reforms and fulfilment of the

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\(^\text{32}\) Why We Still Need World Bank, a paper by Robert B. Zoellick in YaleGlobal Online available at http://yaleglobal.yale.edu/content/why-we-still-need-world-bank  
\(^\text{34}\) Supra note 12, p.87.  
conditionalities are very important for the developing countries, as it not only ensures acquirement of future loans but also other developed countries and financial institutes monitor and evaluate the implementation prior to giving loans to a developing country. The IMF and the World Bank's reform program and conditionalities are also widely known as Structural Adjustment Programs (SAP). Structural adjustment programs require that in exchange of the growth oriented loans a country must accept a packet of reforms that include - liberalization of imports, privatisation of state industries, full privatisation of land tenure, abolition of restrictions of currency exchange and commodity prices, demise of the subsidies and constant devaluation. The reform program have also been highly criticised by various scholars, development workers and political leaders, as they claimed that through the reform programs the IMF and the World Bank look after the interests of the developed countries at the detriment of developing countries. Various conditionalities of the structural adjustment program have also been criticised by critics; they viewed that many of conditionalities were not going to achieve the development, rather the country have will end up paying excessively for the drastic measures. For example, the IMF and the World Bank prescribed liberalization of financial markets, but many of the developing countries do not even have the suitable environment to implement it. In this context, Chang, H. said, “the success of liberalized financial markets depends on numerous prerequisites many of which are not met in the developing countries and cannot be transplanted easily”.  

The country, which takes the loan, has to pay interest for the loan as well as repay the loan. The developing countries are highly depended on these loans. According to Jubilee Debt Campaign's website, “total external debt of low income countries is around $523 billion and these countries are paying around 90 million US$ everyday for the debt service”. Slowly but surely the debt becomes a burden for these third world countries and leads to the crisis not only for them but also for the whole world economy. Debt crisis is a double edged sword it both compromises the development of a number of Third World countries, and endangers the stability of world financial markets by raising by the spectre of debt defaults.

38 Rethinking Development Economics by Ha-Joon Chang, (2003), p.34
The world realized the depth of the debt crisis in the early 1980s when Mexico failed to make its repayments, followed by Brazil and Argentina. The whole world economy fell into a crisis at that time. Fortunately, after some drastic measures, the World Bank and IMF were able to solve the crisis but debt still remains quite a big issue in today's world. IMF and the World Bank identified 15 countries as Highly Indebted Poor Countries.40

Third World countries are high-risk borrowers; the IMF and the World Bank play a significant role not only in giving them loan but also negotiating or guarantee credit worthiness for loan from the other financial institutions or donor countries. As the world's leading loan officers, the IMF and the World Bank exerts substantial power in international debt renegotiation and restructuring. They provide credit worthiness and then provide suggestions or reform programs for repaying existing or additional loans. According to Bradshaw, Y. K., Huang, J “appropriate adjustment policies in debtor countries are clearly needed to foster what Directors called the normalization of debtor-creditor relationships, which in turn encourages the restoration of the debtors credit worthiness, greater spontaneous bank lending, official credit flows, official development assistance41”. The World Bank provides loans at preferential rates to member countries, as well as grants to the poorest countries. Loans or grants for specific projects are often linked to wider policy changes in the sector or the economy. According to the Bank's website the Bank is currently involved in more than 1800 development projects in the developing countries and provided 20.4 billion US dollars for 245 projects in the year 2005.42

Governments of the developed countries and international financial agencies press for the conditions or the reform programs while they give loan to the developing countries. By imposing these policies they assume that, the reform will stabilize the economy to profitable practices. In some time doing so sometimes they don't consider even the social cost debtor country have to pay. According to Jonakin, J., Stephens, M. “reform came disproportionately at the expense of poverty programs, wages,

employment, and public services for working and peasant classes who received from the borrowings.

Stiglitz, J described the reform as a strategy to make sure the loans are paid back at the same time to ensure the loans are used effectively. The donors' belief that if there is no condition for the loan the country might not use it for the purpose it given or even if it does, it might implement the economic policies, which support the loan funded programs. In a sense, without the conditions for the reform the third world countries would become aid dependent. According to Sobhan, R. “countries who disburse loan on easy financial terms are more likely to expect recipients to be dully differential to their advice and interest. Cheap loan contribute to the addicts dependence on aid as the solvent for low performance and poor domestic resource mobilization”.

Both the IMF and the World Bank are playing an extensive role in determining the conditions of the debtor countries to sign for the reform programs before giving a loan. If the country fails to implement the reforms or slow in implementing them, the IMF and the World Bank might withdraw the loan as happened in the case of Bangladesh. Because of the slow implementation of the prescribed reform programs IMF turned down $9 million and the World Bank turned down around $20 million as loan. Moreover, based on how a country implements the reform programs of the IMF and the World Bank, the donor countries or other financial institutions give loan to the third world countries.

The IMF and the World Bank pressure or conditionalities i.e. policy prescription or reforms that all parties (these include borrower countries, the IMF and the World Bank advisors, and potential lenders whether they are Bank or the IMF/World Bank itself) formally agree to as a condition for new or renegotiated loans. The IMF and the World Bank have a set of pre prepared reform programs for all the debtor countries which the country has to implement. Now, to which extent the reform to be implemented varies from country to country\textsuperscript{43}.

6.5. The Risks of Borrowing Money

When a country takes a loan they are running on the borrowed times and eventually they have to make reforms to balance their budgets or control inflation and if these conditions are not implemented the country can expect bigger problems. On the contrary, Loxely, J. illustrated the benefits of the reform as “structural adjustment seeks to improve external balance both by reducing total expenditures and therefore, those on imported goods, and by freeing up goods for export by restraining domestic spending. Curbing demand also serves to reduce inflationary pressure, which in turn may further strengthen the balance of payments. Structural adjustment stimulates production through price incentives and to switch the composition of output and demand in such a way as to boost exports and investment and reduce imports and consumption”. Thus, the structural adjustment programs overall developed a country's situation.

According to Bradshaw, Y. W., and Huang, J. “IMF and World Bank and private commercial banks argue that indebted countries must implement structural adjustment policies to save money and facilitate exports thereby facilitate development”.

In most countries, inflation trends and budget deficits were effectively brought under control and confidence in macroeconomic authorities increased. Reflecting the democratization wave that simultaneously swept over the region, social spending rose and innovations were introduced in the way social policy is undertaken.

Following the IMF and the World Bank prescribed reform programs the whole region improved a lot of their economic scenario, which, hit rigorously during the 1990s debt crisis. In September 2000, the United Nations declared its “United Nations Millennium Declaration” which 118 of its member countries signed. The main objective of this declaration was to achieve the eight goals which are commonly known as ‘Millennium Development Goals’ by the year 2015. The UN described the purpose of Millennium Development Goal as “to establish global partnership for development which would address transparency in government and business, as well

46 Id p 22
as deal with the debt problems of developing countries among other issues”. The IMF and the World Bank are an integral part in achieving ‘Millennium Development Goal’; and also have changed their reform program. Structural adjustment has been replaced by an emphasis on poverty reduction with developing countries encouraged to draw up ‘Poverty reduction Strategy Papers (PRSPs)’. The IMF and the World Bank identified 70 low income countries; around the world and the ‘Poverty Reduction Strategy Papers (henceforth is going to be called as PRSPs)’ are the basis for the provision of debt relief in these countries.

PRSPs emphasis the reduction of poverty, and debt of the poor countries. The IMF and the World Bank always keep the same old structural adjustment programs in the name of the PRSPs. If we look at the PRSPs of Bolivia as an example, in its PRSPs action plan the country agreed to reduce social spending, attracting foreign investment by liberalizing the market, restructuring the revenue policies to collect more revenue which will help to decrease the budget deficit. All of those conditions had already been prescribed anyway in the structural adjustment program in the past.

Despite the pressure from the IMF and the World Bank and their constant monitoring whether the reform is going on in the proper direction or not, the reform program is highly criticized. The reform did not work well in most of the countries where it was implemented. It may solve the problem for the debt in the short term but did not achieve the goal of making the country sustainable. Stigltz, J. former chief economists of the World Bank viewed the reform as “eliminating the tax barriers and tax distortions may enhance long run growth but the disturbances to the economy as it strives to adjust may only deepen its down turn”. As in the case of Indonesia, although the reform was a success but many criticize the reform as the cause of the crisis of 90s.

The IMF and the World Bank had to change the reform time and time it had backfired in the case of Indonesia. According to Chowdhury, A. and Sugama, I. “there have always been policy reversals… these policy reversals indicate that the Indonesia

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less than committed to reforms. Indonesia agrees to these structural reform agenda under duress. These raises question about the effectiveness of conditionality based lending linked to policy reforms.

6.6. Loan Conditionalities

Again the tools, which are used for the structural adjustment, are also not suitable in different countries conditions. By introducing reform program in a country the IMF and the World Bank also make conditionality of the more liberalized economy. Now the reason for doing this was to attract more foreign investment and gradually they will enjoy the benefits of the globalization. The benefits of the globalization are: greater economic interdependence among countries, reflected in the increasing volume of international financial flows and increasing flows of labour. But the problem is mentioned by Dowrick, S. & Golley, J. “many of the less developing countries subsequently liberalized trade, perhaps under pressure from the IMF and the World Bank, did so without introducing the appropriate internal policies and institutions only to find out that trade reform alone was not the magic solution”. Chang, H. analyze the growth rate under the trade liberalization process and finds out that, “the growth records of the developing countries during the last two decades of trade liberalization also suggests that the removal of protection and subsidies has lead to a slow down rather than an acceleration of economic growth”.

The IMF and the World Bank make the reforms and they are pressurizing countries to implement them. No major economy project can be carried out without their approval, storms of foreign offers descend on the country in order to check its account books and no government can be politically independent when every few months it must plead with foreign agencies for debt rescheduling or new loans. In a simple way it can be said that through the implementation of the reform program the IMF and the World Bank make the developing country a slave for the developed worlds.

50 Anis Chowdhury & Iman Sugema, “How Significant and Effective has Foreign Aid to Indonesia been?,” (2005) p.87.
IMF and the World Bank impose and pressurize a country to implement the conditionality while ignoring in what extent the reforms are going to be implemented. Floxely, A. mentioned in this context “IMF and the World Bank should not, as it frequently does, apply a rigid conditionality for the international adjustment of the economy. Rather it should leave the country free to design its own domestic adjustment programs as long as the goals for the balance of payments and balance of trade are met”. According to Bradshaw, Y. K., Noonan, R., Gash, & Sershen, C. B. “reform may impose western oriented economic policies that are not entirely appropriate in the Third world settings”. The instrument for achieving the goal for development should be tailored to the specific characteristics of each country\textsuperscript{53}.

Reforms can be successful if the debtor country made the reform program them and implemented it with the help of the IMF and the World Bank. The debtor countries should go beyond the IMF and the World Bank's reform policies and make their own programs according to their domestic capacities and competitiveness of their economies. The reform also required the willingness of the country's government to implement it properly\textsuperscript{54}.

Foreign loans are an integral part for the development programs in the developing countries. Investing the loan in the profitable projects those countries supposed to attain the sustainability. The sustainability here means that they do not have to rely on the foreign loans anymore, able to reduce the gap in the balance of payments, generate enough income for the population to reduce the poverty, although in reality the loans are utilising for financing current consumption. Therefore, the reasons for which the loans are not achieving rather it create addiction for more loans. Donors are attaching the conditionalies to ensure proper utilisation of the loan and prescribing the reform programs for developing countries\textsuperscript{55}. The following section takes a brief look at World Bank and its effectiveness to a few developing countries\textsuperscript{56}.

\textsuperscript{54} Supra note 34, p.43.
6.7. World Bank Aid to Afghanistan

Afghanistan’s biggest economic challenge is finding sustainable sources of growth. To date, the World Bank has committed more than $2.69 billion for development projects. The Bank-administered Afghanistan Reconstruction Trust Fund has raised more than $6.42 billion. Afghanistan became a member of the World Bank in 1955. Shortly after the Soviet invasion in 1979, World Bank operations were suspended, although the Bank continued to provide assistance to Afghans through the Bank office in Pakistan. Prior to 1979, the World Bank had provided 21 no-interest loans, known as "credits," to Afghanistan across a wide range of areas including education, roads, and agriculture. Of the original $230 million in credits approved by the International Development Association the Bank’s concessionary lending arm, $83 million was disbursed and $147 million was subsequently cancelled. Afghanistan had repaid $9.2 million to IDA and was up-to-date on debt service payments until June 1992, when it stopped making payments\(^57\).

The core objective of foreign aid to Afghanistan has been to serve a “stabilization” function in the face of an insurgency that has sought the overthrow of the regime of President Hamid Karzai and the withdrawal of the foreign troops which supported him. In this sense, aid has been actively shaped as a compliment to military action during the counterinsurgency campaign. Underlying these aid flows is a theory of counterinsurgency known as “winning hearts and minds” (WHAM)\(^58\). Operations resumed in May 2002 to help meet the immediate needs of the poorest people while assisting the government in developing the administrative systems required for longer-term nationwide development. Aid has since grown tremendously. To date, the World Bank has provided a total of over $2.66 billion for development and emergency reconstruction projects, and five budget support operations in Afghanistan. This support comprises over $2.23 billion in grants and $436.4 million in no-interest loans known as ‘credits’. As of February 2014, the Bank has 18 active IDA projects in Afghanistan with net commitments value of $ 881 million\(^59\).

\(^59\) International Monetary Fund, Articles of Agreement, (1993),p.34.
The International Financial Corporation, the World Bank Group’s private sector development arm, has provided support through investments totaling some $131 million, as well as advisory assistance involved in seven interventions in the areas of Access to Finance, Investment Climate reform, Agribusiness, SME training and Public Private Partnerships. IFC is working towards increasing its commitments to the private sector and assessing the possibility of increasing its advisory work in different areas\textsuperscript{60}.

6.8. Afghanistan Reconstruction Trust Fund (ARTF)

Established in 2002, the Afghanistan Reconstruction Trust Fund (ARTF) is the largest single source of external on-budget financing that supports Afghanistan’s national priority programs, government operating costs and salaries, as well as the policy reform agenda. It includes support for development projects in health, education, rural development, infrastructure etc. Since 2002, 33 donors have contributed a total of $6.94 billion to the ARTF. The ARTF is administered by the World Bank in close cooperation with the Government of Afghanistan, represented by Ministry of Finance, as well as the many donors. ARTF support is contributing to the achievement of the Afghanistan National Development Strategy goals\textsuperscript{61}. The World Bank Group’s multilateral investment guarantee agency has offered a limited number of guarantees but there is interest by Government and the private sector to see additional guarantees going forward, particularly to support infrastructure investment\textsuperscript{62}.

The World Bank’s current engagement with Afghanistan is determined by the Interim Strategy Note (ISN), which is closely aligned with the government’s Afghanistan National Development Strategy (ANDS). World Bank support to Afghanistan over 2012-2014 will be based on supporting the delivery of some of the country’s most important national priorities. It is also grounded in helping the government manage the critical transition from security and development dominated by the international community to one led by the government of Afghanistan by the end of 2014. World Bank Group support will be provided around three themes:

\begin{footnotesize}
\textsuperscript{62} Supra note 66, p.78.
\end{footnotesize}
1. Building the legitimacy and capacity of institutions
2. Equitable service delivery
3. Inclusive growth and jobs

The Bank will deliver its program through International Development Association (IDA) grants, from which Afghanistan will receive about $150 million per year, as well as the Afghanistan Reconstruction Trust Fund (ARTF), which could potentially provide up to $800 million per year in grants during the period of the ISN (2012-14). The Bank’s private-sector arm, the International Finance Corporation (IFC), will also strengthen its support to both the private-sector companies and improving the business environment. World Bank support emphasizes national programs that have improved the lives of millions of Afghans across the country, including in the areas of health, education, rural development, and public finance management. Some of the projects being implemented by the World Bank in Afghanistan are:

6.8.1 Afghanistan Skills Development Project

The project is designed to increase the number of immediately employable skilled persons by building in stages a high-quality Technical and Vocational Education and Training (TVET) system that are equitable, market responsive, and cost effective. More specifically, the project aims to develop a demand-driven vocational education and training system, and encourage the provision of autonomy to training institutions to plan and customize their programs.

The Access to Finance Project aims to build the government’s institutional capacity to improve access to credit of micro, small, and medium enterprises. The project has three components:

Component 1: Improving access to financial services for micro and small enterprises. This component aims to provide continuing support to the microfinance sector through the Microfinance Investment Support Facility for Afghanistan (MISFA), as well as, supporting MISFA to take on a broader role as a catalyst for

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64 Foreign Direct Investment (FDI) refers to *investment made by multinationals*, (1986), p.2.
innovations to increase access and usage of financial services from the lower end of the market (notably micro and small enterprises) according to its new strategic plan\(^65\). Component 2: Improving access to financial services for small and medium enterprises. The aim is to increase commercial bank and microfinance institution (MFI) lending to small and medium enterprises (SMEs) in Afghanistan and thus facilitate their access to financial services. It will support the expansion of the Afghanistan Credit Guarantee Facility. It will also support technical assistance to commercial banks to strengthen their SME lending capacity. This component will include support to the Credit Guarantee Facility to provide coverage to MFI lending to the lower end of the SME market\(^66\).

### 6.8.2 Afghanistan Financial Sector Rapid Response Project

The project is assisting the Afghanistan Bank (DAB) to develop a set of action plans to improve banking supervision and implement a modern payment system for efficient and transparent payment transactions. Specifically, the project aims to allow DAB to accurately assess the financial situation of 10 commercial banks through audits conducted in accordance with international standards\(^67\).

The audits will lead to the development of action plans to address weaknesses that are identified, with oversight from DAB. The project also aims to modernize the national payment system with the goal of reducing the use of cash transactions, currently the main means of making payments in Afghanistan, and transitioning to electronic, card or mobile payments. The project will also provide further support to the Afghanistan Institute of Banking and Finance (AIBF) to allow it to scale up its activities, in order to increase the availability of banking sector skills\(^68\). The audits of the 10 commercial banks, started in November 2011, were completed in June 2012. The procurement processes for modernization of the payment system (national card

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\(^{65}\) Kelkar, Vijar, “Reforming the International Monetary Fund: Toward Enhanced Accountability and Legitimacy,” (2005), p.34.


and mobile payment switch) was completed and the contract was awarded on August 18, 2013\textsuperscript{69}.

6.8.3 Financial Sector Strengthening Project

The project supports the Afghanistan National Development Strategy’s vision to establish a modern and competitive financial sector. The project will specifically strengthen the capacity of DAB through modernization of its IT systems (off site supervision and human resource management). It will also develop necessary financial infrastructure such as a public credit registry, movable collateral registry, and the Afghanistan Institute of Banking and Finance. Through this project, IFC also provides technical assistance to the central bank in order to establish two basic financial sector infrastructures:

(i) Public Credit Registry (PCR) that will provide lenders with information for efficient risk assessment on borrowers; and (ii) a Collateral Registry for movable property that will provide lenders with the ability to effectively use borrowers’ property as collateral.

System Enhancement for Health Action in Transition (SEHAT) Program The program aims to expand the scope, quality, and coverage of health services provided to the population, particularly for the poor, in 22 provinces, and to enhance the Ministry of Public Health’s (MoPH) stewardship functions. The project supports the provision of basic health and essential hospital services in both rural and urban areas. It also strengthens the national health system and MoPH’s capacity at central and provincial levels, so it can effectively perform its stewardship functions\textsuperscript{70}.

6.8.4 Afghanistan Information and Communication Technologies (ICT) Sector Development Project

The project builds on the success of earlier projects and catalyzes the next phase of ICT development in the country. It will support policy and regulatory reforms and strategic infrastructure investment to expand connectivity and enable more users to access high quality mobile and internet services. It will also help mainstream the use of mobile applications to improve public service delivery and program management in strategic sectors in the government. The project will help

develop the local IT industry by expanding the pool of skilled and qualified IT professionals, and supporting the incubation of ICT companies in Afghanistan. As of January 2014, major milestones under the project include progress in construction of optical fiber cable and completion of about 186 km of ducting\textsuperscript{71}. The Ministry of Communications and Information Technology has adopted an open access policy for the national backbone network, ensuring non-discriminatory access to wholesale Internet bandwidth for all firms. A total of 450 Afghans have been trained under the IT skills development program, and a second round will train another 1,050 Afghans in the next 18 months. Results of the first round of the Innovation Support Program will be announced in April, and 10 government services are expected to be launched in April 2014.

6.9. Irrigation Restoration and Development Project (IRDP)\textsuperscript{72}

The project builds upon and scales up activities supported under the completed World Bank-financed Emergency Irrigation Rehabilitation Project closed in December 2012. It supports the rehabilitation of irrigation systems serving some 300,000 hectares of land, and design and construction of a limited number of small multi-purpose dams and related works, while establishing hydro meteorological facilities and services.

As of end January 2014, several achievements had been made. In the irrigation component, approximately 14,200 hectares (31 percent of the target 45,000 hectares) of incremental irrigated area had been achieved. In the small dam component, the completed pre-feasibility study had selected seven dam sites in the northern provinces. A feasibility study for four dams has been submitted and is under review while the feasibility study report for the three remaining dam sites will be submitted soon. In the hydro-met component, installation of hydro-meteorological equipment had been completed and data collection performance of the installed stations also improved considerably in all five river basins.

\textsuperscript{71} Gerald M. Meier, Leading Issues in Economic Development,(1984),P.434.  
\textsuperscript{72} Govt of India, National Commission on Agriculture, (1989),p 32.
6.10. Urban Water Sector Project

The project aims to assist the government in developing the capacity of the Afghanistan Urban Water Supply and Sewerage Corporation (AUWSSC) for operational management, and investment planning and implementation. Institutional development results have been significant since the creation of the water utility four years ago. AUWSSC has assumed the country’s urban water supply and sewerage responsibility and expanded operations. Select empirical indicators for operational management as measured by the expansion and improved efficiency of operations achieved by AUWSSC are: (i) expansion of operations from 16 to 42 towns (162 percent increase); (ii) reduction in water production and distribution costs by 25 percent; (iii) reduction in system water losses from 60 percent to 35 percent; (iv) reduction in the number of staff per water connection from 8.6 to 5.9; (v) increase in total AUWSSC operational revenues by third quarter in 2013 over end of 2011 by 67 percent; and (vi) increase in the number of water connections by second quarter in 2013 by 8 percent.

A system of internal monitoring and monthly reporting between the AUWSSC headquarters and Strategic Business Units (SBUs) is in place, providing both physical and financial data (e.g. number of metered connections and revenues from connections). With the government’s approval of increased water tariffs by over 200 percent, AUWSSC is on a sustained path to transformation into a financially viable institution.\(^{73}\)

6.11. Justice Service Delivery Project

The objective of the Justice Service Delivery Project for Afghanistan is to increase access to and use of legal services. The project seeks to implement the government’s NPPs; mitigate the impact of the transition; put the system on a sustainable path for long-term results; and improve service delivery. The project will finance the costs associated with: (a) building capacity of front line legal service providers to deliver key legal services; (b) increasing scope and quality of legal aid; (c) improving access of the people to legal information and civil legal education; (d)

improving management and provision of legal services by central justice institutions; and (e) building project management capacity.\footnote{Subrat-Ghatak and Ken Ingersent, *Agriculture and Economic Development*, (1984), P.36.}

The project has been effective since May 31, 2012 and the implementing agencies are the Supreme Court, Ministry of Justice, and Attorney General’s Office (AGO).\footnote{Government of India, Eighth Five Year plan, Vol II, p.322.} There has been progress in several of the components and sub-components: the implementation infrastructure is in place; annual work plans have been prepared; capital investment plans (which will govern all capital investment projects and maintenance and operations expenditures) are under implementation; the development of the legal aid road map (overall policy for the state legal aid) and legal aid regulatory framework, training needs assessments for courts and public defenders’ offices are about to be contracted; civil service reform in the AGO has been advancing according to plan (a number of critical positions have been advertised and new staff have been hired through a competitive process); training programs for prosecutors focusing on white collar and corruption related crimes is on its way; and the construction of the Information and Administrative Center of the Supreme Court and two other provincial offices have been completed.\footnote{Lane, Timothy, “Tensions in the Role of the IMF and Directions for Reform”, (2006), pp.47-66.} The Project has ambitious objectives for structural reforms and development of an improved legal services regulatory framework. Right-sizing of the sector according to the demand for legal services will require strong policy dialogues between the Bank and judicial institutions.

Political uncertainty and insecurity could undermine Afghanistan’s transition and development prospects. International experience demonstrates that violence and especially protracted internal insurgency are extremely damaging to development, and that political stability and consolidation are key ingredients of transitions to peaceful development.\footnote{World Bank., *World Development Report 2011: Conflict, Security, and Development*. Washington,(2011), p.98.} This experience underlines ongoing efforts to reach a peaceful solution to the Taliban insurgency and the urgent need for better political consolidation, particularly in the run-up to the next election cycle. (The presidential election is to be held in 2014, and parliamentary elections are in 2015.) But if
insecurity worsens and uncertainty increases about longer term stability, Afghanistan’s development prospects will be harmed.\textsuperscript{78}

The extremely high level of annual aid roughly US$15.7 billion in 2010, about the same as Afghanistan’s GDP cannot be sustained. Aid has funded essential public services under government auspices (implemented directly or through government-contracted NGOs), including education, health, infrastructure investments, and government administration. And substantial improvements have taken place in the lives of Afghans over the last 10 years. But these inflows, most outside the Afghan budget, are so high that waste, corruption, aid dependency, and parallel systems to circumvent the government’s limited absorptive capacity have impeded aid delivery and building a more effective Afghan state. The public spending that these aid flows have financed both on and off budget will be fiscally unsustainable when donor funds decline. Less aid with more effective aid delivery could, in the end, lead to more positive outcomes. The key is how to manage declining aid, mitigate the adverse impacts, and put aid and spending on a more sustainable long-term path. International experience and Afghanistan’s history after the Soviet military withdrawal in 1989 demonstrate that violent fluctuations in aid, especially abrupt cutoffs, are damaging and destabilizing.

The impact of declining aid on economic growth will be less than expected. Why? Because most international spending “on” Afghanistan is not spent “in” Afghanistan, and much of what is spent in Afghanistan leaves the economy through imports, expatriated profits, and outward remittances. Even so, projections suggest that, under reasonably favorable baseline projections, real GDP growth may fall from 9 percent a year in 2000–10 to 5–6 percent over 2011–18. Given Afghanistan’s annual population growth of 2.8 percent, there would be limited increases in average per capita incomes, continuing high underemployment, and little progress in reducing poverty. Only growth at the upper range of plausible scenarios would enable Afghanistan to significantly reduce poverty and increase average per capita incomes. For example, with real GDP growth of 6 percent a year, average per capita income

\textsuperscript{78} Id. p 45
currently among the lowest in the world at US$528 would take 22 years to double, about a generation.\textsuperscript{79}

6.12. Aid Dependency

Except in 2001, Afghanistan has been more aid dependent (measured as a ratio of aid to gross national income) than the averages for all three comparator groups\textsuperscript{80}. Contrary to international experience and worrisome for sustainability aid dependency subsequently has soared. It is now around 50 percent (according to data from the Organisation for Economic Co-operation and Development on official development assistance), which is extremely high relative to virtually all comparator countries. Moreover, estimates by World Bank staff of total aid and contracted international military expenditure in Afghanistan suggest aid shares much higher than those shown by the OECD data, mainly because these estimates include assistance to the Afghan National Security Forces\textsuperscript{81}.

6.13. World Bank and Bangladesh

From a precarious beginning, Bangladesh has achieved notable progress in economic and social development in about four decades. When it became independent in 1971 following a bloody war, many were skeptical about the country’s long-term economic viability. Some observers predicted a state of perennial aid dependence, while others referred to it as a “test case of development”\textsuperscript{82} implying that if a country with such gargantuan and myriad of development problems as Bangladesh could make development happen, then perhaps any country could.

Bangladesh is one of South Asia’s poorest countries, but it has sustained positive and accelerating growth for thirty years and made good progress in human development. Over the past three decades, per capita gross national income (GNI) grew at a compound rate of 4.9 percent a year, from an average of $25 in the 1980s to $913 by 2013. While growth in GNI in the 1980s and 1990s came almost entirely from growth in gross domestic product (GDP), remittances from workers abroad have emerged in the past decade as a significant source of income. GDP growth increased

\begin{itemize}
\item \textsuperscript{79} Afghanistan in Transition available at http://dx.doi.org/10.1596/978-0-8213-9861-6
\item \textsuperscript{80} Le Fort V., Guillermo, “Issues on IMF Governance and Representation”, (2005), p.342
\item \textsuperscript{81} Supra note 66, p.23.
\end{itemize}
from 3.7 percent in the 1980s to 4.8 percent in the 1990s and to 5.8 percent in 2000s\(^83\).

Despite the naysayers’ gloomy predictions and the widely shared pessimistic outlook, Bangladesh has made significant economic and social strides in the last three decades or so of its existence: it is no longer considered a basket case\(^84\). Notwithstanding its large population, the country has achieved a measure of food self-sufficiency (although the food-population balance remains precarious). In the face of low per capita incomes and widespread illiteracy, it has made successful strides toward demographic transition and reduced its population growth rate from 2.5 percent per year in the 1980s to less than 1.5 percent per year in 2005\(^85\). In a number of other social indicators, such as infant mortality, life expectancy, primary school enrolment, female enrolment in school, and adult literacy, Bangladesh has made considerable improvements over the years. With respect to many Millennium Development Goals (MDG) indicators, it now compares favourably with India even given the latter’s higher per capita income, higher growth rates, and higher social expenditures per capita (ADB, 2006). Nevertheless, despite this success, Bangladesh is still at a rudimentary stage of economic and social transformation\(^86\).

The World Bank is regarded as a source of high quality analysis on key development themes. In the past year, the Bank has produced a number of core analytic reports that were widely disseminated and well received by the government of Bangladesh, the development community, and local stakeholders. Launched in November, 2012 the Country Economic Memorandum “Bangladesh: Towards Accelerated, Inclusive and Sustainable Growth-Opportunities and Challenges” examined future sources of growth in the context of rapid urbanization. In order to reach sustain Middle Income Country status by 2021, a remittance rate of eight percent, and GDP growth rates of 7.5—8.0 percent must be achieved and sustained. To do this the report emphasized increasing investments in physical infrastructure and human development by managing rapid and unplanned urbanization, creating an

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\(^{84}\) During the liberation war of Bangladesh, Henry Kissinger, the then U.S. secretary of state, is said to have famously remarked that Bangladesh was going to be a “basket case” and be permanently dependent on foreign aid.


\(^{86}\) Moral and materials Progress in India : (1921), p.144,
enabling environment for expanding labor intensive economic activities, and promoting safe migration.\textsuperscript{87}

\textbf{6.13.1 Bangladesh Climate Change Resilience Fund}

Bangladesh is one of the most vulnerable countries to the potential impacts of Climate change. To address this challenge, Bangladesh launched its first Climate Change Strategy and Action Plan (BCCSAP) in 2009 to build a medium – to long - Term program for enhancing resilience to climate shocks and facilitating low carbon and sustainable growth. BCCSAP identified six main pillars: (i) food security, social safety, and health; (ii) comprehensive disaster management; (iii) infrastructure; (iv) research and knowledge management; (v) mitigation and low carbon development; and (vi) capacity building to address climate change impacts on various development sectors. To support implementation of BCCSAP, seven development partners established The Bangladesh Climate Change Resilience Fund (BCCRF), pledging about US$187 million to the fund so far.

The Bank currently acts as trustee, task team, and secretariat for the BCCRF. Sectoral ministries (cyclone shelters, agriculture, solar irrigation, forestation, food storage, community climate change, and capacity - building) are implementing or preparing seven investment projects (US$157 million in financing commitments), and implementing six knowledge reports. In the longer term, the Government of Bangladesh (GoB) and the funding development partners intend to build the GoB’s capacity so it can manage the BCCRF directly (except fiduciary functions, which will remain with the Bank). To achieve its objectives, a BCCRF secretariat was established at the Ministry of Environment and Forests (MoEF), with a view to transferring the secretariat functions from the Bank to MoEF in the mid -to long-term.

Expected Results:

- 61 new multipurpose cyclone shelters built in climate –vulnerable areas.
- 45,000 farmers provided with access to clean energy services.
- 17,000 hectares of land reforested or afforested.

\textsuperscript{87} Supra note 88, p.23.
Current Project Status Three of the seven projects the fund is supporting – Community Climate Change, Climate Resilient Participatory Forestation and Reforestation, and Capacity Building Project are stand-alone projects. Cyclone shelters are being co-financed with the Emergency Cyclone Restoration and Recovery Project. The first phase of the capacity building project for the Ministry of Environment and Forests is being implemented, and a second phase is in the pipeline.

6.13.2 Rural Water Supply and Sanitation Project

National rural water supply coverage in Bangladesh is estimated to be around 97%, but water quality issues and contamination by arsenic have effectively lowered this figure to around 83%. Arsenic is the single largest threat to safe water service provision in Bangladesh. The quality of sanitation coverage is another area of concern, with only 37% of the latrines being hygienic\(^88\). The poor infrastructure and facilities for water and sanitation services, along with increased demand, is making it difficult to provide reliable water and sanitation services. Built on the success of a previous World Bank project, BRWSSP aims to scale-up piped and non-piped water facilities, to provide safe and clean water to villagers in around 383 Union Parishads in about 33 districts with acute arsenic contamination and low coverage for safe water supply. The project also aims to provide hygienic sanitation facilities, thus bringing comprehensive improvement of water and sanitation in all the project target areas\(^89\).

The project is financing the construction of about 14,000 water point sources, mainly deep tube wells in hot spots where piped water supply is not geographically or economically possible\(^90\). The piped and non-piped water schemes, as well as hygienic sanitation facilities, will be implemented through local partnerships involving beneficiary communities, local authorities, NGOs, Community Based Organizations (CBOs), and private entrepreneurs. Furthermore, in selected disaster-affected areas, the project is supporting the GoB’s emergency Disaster response mechanism through expanded water supply services. Meanwhile, to fight the poor sanitation, BRWSSP aims to provide financial incentives for the poor to construct hygienic latrines; build local private sector Capacity so that markets can better react to rise in demand; and

\(^89\) B.B. Tandon and K. Kaur, p.370.
increase the GoB’s role in ensuring that latrines are maintained and accessible to all. An awareness-raising campaign will further support the program.

Expected Results:
• 1.65 million people to gain access to improved water sources.
• 20,000 community water points to be constructed or rehabilitated.
• 71,000 new piped household water connections to be provided.
• 1.7 million people to gain access to hygienic latrines.

Current Project Status
The project has already completed 21 months in its original five-year implementation period, yet most of the main project interventions have not yet started. The key technical assistance consultancies for community mobilization, detail design and construction supervision of major works packages including piped and non-piped water supply schemes have been mobilized. However, it is now estimated that achievement of the project objectives would require more time than the available project period given the initial delays in mobilizing the project preparatory activities including PMU establishment and procurement processing of key technical assistance packages.\(^91\)

6.13.3 Disability and Children at Risk Project
Disability in Bangladesh is estimated to cost the country $1.2 billion, or 1.74 percent of GDP per annum (2008 estimates). It is far less costly to invest in social care for vulnerable children during childhood than to reverse the effects of neglected human development in later years. To increase social cohesion and reduce poverty in Bangladesh, the quality of social care services and economic opportunities for people with disabilities and vulnerable children needs to be improved. This is particularly challenging in a weak capacity environment where implementing entities often lack the requisite technical skills and management tools.\(^92\) Disability and Children at Risk (DCAR) aims to expand coverage and improve the Quality of services for people with disabilities and children at risk by strengthening and scaling-up government service delivery systems. DCAR is supporting the Jatiyo Protibondhi Unnayan Foundation

\(^91\) Govt of India. Eight Five-Year Plan,(1992),pp.10-12.
in adding new Disability Service Centers (DSCs) to an existing GoB program, as well as supporting technical facilities upgrades, providing assistive devices to the disabled, enhancing outreach to remote areas of the country, and institutionalizing specialist training for service providers.

The project also aims to improve and expand the network of services for children at risk, and strengthen the institutional capacity of the Department of Social Services (DSS). Integrated Child Protection Service (ICPS) Centers have been established in seven divisional cities, and an additional four centers are planned, to provide crisis management services, referral services, psychosocial counseling, skills training and development, reintegration services, case management, and health and education services.

The project seeks to strengthen the Ministry of Social Welfare (MoSW), including by supporting the development and roll-out of a management information system (MIS) for key MoSW programs, including DSCs, child protection services, and several large social pension programs.

Results achieved:

- 57,929 people with disabilities and 1,980 children at risk are receiving services tailored to their needs as of December 31, 2013.
- 20 Disability Service Centers (DSCs) established in various district headquarters.
- Seven Integrated Child Protection Service Centers (ICPSCs) established in Divisional cities.

Current Project Status:

The project completed a level two restructuring in January 2014, which included a partial cancellation of $8.8 million and an 18 month closing date extension until June 30, 2016.

6.13.4 Employment Generation Program for the Poorest (EGPP)\textsuperscript{93}

The seasonal job drought hits the poorest the hardest, as they struggle to put Food on the table and meet the basic needs of their families. Reaching the most

Vulnerable has always been the greatest challenge for the GoB. The lack of effective targeting of government resources, transparency and accountability within the food distribution system, and reliable monitoring to ensure results are being achieved, are key challenges preventing resources from reaching these vulnerable populations. The project aims to provide short-term employment on community sub-projects to enable households to cope better with vulnerability, while strengthening programme implementation. EGPP is a new generation of safety net programs that sets aside part of the budget for improving transparency and monitoring. The World Bank only releases funding when agreed targets are met. This results-based approach creates incentives for efficiency and allows for innovation, making EGPP the dynamic programme it is today. For the first time in the history of Bangladesh, wages to manual labourers are being paid through banks, Minimizing leakage\(^\text{94}\).

EGPP targets the most vulnerable in society in a number of ways.

- A greater proportion of funds are channeled to the poorest upazillas (districts), especially along the coastal and northern regions.
- Only households with less than half an acre of land, and where the head is a manual labourer, are eligible.
- Wages are set at below-market levels to attract only those who need the money the most.
- One third of all beneficiaries must be women.

Results Achieved

Since Bank support to the programme began in 2010, EGPP has provided over 164 million employment days and distributed a total of US$363 million in wage income.

Other results include:

- 700,000 ultra-poor employed per year, of which over 230,000 are female.
- 95 percent of beneficiaries engaged in manual labour and own less than half an acre of land.
- 1,489,000 of beneficiaries are women-headed households.

\(^{94}\) IBRD Fifth Annual Report, (1949-50), p.27.
• About 54 million work days created per year\textsuperscript{95}.

Current Project Status

Recognizing its positive results, the GoB increased the allocation for EGPP in the last and current fiscal years, amounting to a 40% increase over the initial allocation of $125 million when the program started. The programme is expecting to reach a further 6,30,000 thousand people this fiscal year, and to deliver a further 24 million employment days\textsuperscript{96}. Bangladesh has received a sizable amount of foreign assistance over the years. Table 1 provides the data on total commitments and disbursements of foreign aid from 1971 through 2008. During this period, the country received about $48 billion of foreign aid, with an annual flow of aid that has ranged from about $1.0 billion to some $1.5 billion\textsuperscript{97}.

A number of features of the foreign aid inflow to Bangladesh may be noted. First, the composition of foreign aid has evolved over the years. Given the growth in agricultural productivity, the role of food aid has become virtually nonexistent as the economy has become more self-sufficient in food\textsuperscript{5}, a dramatic contrast from the period immediately after independence, when food aid played a significant role. However, because of the sizable pipeline from earlier commitments by donors, there is a flow of disbursements even in the absence of new commitments. Second, commodity aid was significant in the earlier post-liberation period. However, in recent years, both commitments and disbursements of commodity aid have fallen close to zero with no buildup of the pipeline. Third, in keeping with the general trend in international development assistance, policy lending—both at the macroeconomic and at the sectoral level—has become an important, established part of the assistance program, and in some cases has supplanted simple project lending. This development has been accompanied by increasing economic and sector work—the so-called knowledge products by the multilateral financial institutions. Nevertheless, despite the apparent increase in policy lending, data on policy lending are not readily available and the government is maintaining its old classification system that lumps both project and policy lending together under “project aid.” Fourth, given the lag between

commitments and disbursements of aid—partly reflecting slow implementation of projects—the country has accumulated a significant pipeline which is almost 15 percent of the total commitments of external assistance.98

Fifth, even though official development assistance is still a significant source of foreign exchange, its importance has declined over the years as other sources of foreign exchange, such as exports and workers’ remittances, have picked up. In 1990, the flow of foreign development assistance exceeded the corresponding earning flows from exports and workers’ remittances; in 2008, the situation has changed dramatically, with total export-earnings and workers’ remittances exceeding the flow of foreign assistance by a factor of 10 and 6 respectively.99

The multilateral international financial institutions are the principal source of aid for Bangladesh, although the role of bilateral sources such the governments of Japan, the United Kingdom, and Canada is also significant. In the early post-independence years, bilateral sources accounted for the bulk of the foreign aid the country received; however, by the early 1990s, the pattern began shifting in favor of multilateral sources, which now provide almost three times the amount of foreign assistance that bilateral sources offer.8 The two main sources of multilateral aid for Bangladesh are the World Bank and the ADB, which have provided assistance largely, though not exclusively, from their concessional windows. However, the terms and conditions of the International Development Association and the Asian Development Fund have somewhat hardened, and in addition, ADB is now classifying Bangladesh as a blend country a country that borrows from both concessionary and no concessionary sources which has contributed to the dilution the grant element of the foreign assistance it receives.100

Finally, as most of the foreign assistance the country receives is concessional, the buildup of debt has been slow. The total external debt, as of 2008, was slightly above US$20 billion, which was equivalent to about 26 percent of GDP and about 140 percent of export earnings (ADB 2009a). The majority of this debt more than 90 percent is long term, and total annual debt service as a proportion of export earnings

99 Id. p.338
was slightly higher than 5 percent in 2008. Compared with other developing countries, Bangladesh’s external debt is not high; it is well within prudential limits. It may be noted in passing that, as expected, debt indicators become somewhat worse when domestic debt is included in the calculus, although domestic debt has been relatively stable in the last few five years or so. \(^{101}\)

The World Bank is the largest as well as the most influential lender to the country. It is the coordinator of aid donors in Bangladesh. Since Independence, it has lent $12.5 billion to the country and played a critical role in shaping the country’s institutions and policies. For these reasons, the role of the World Bank is singularly important in any discussion of aid effectiveness in Bangladesh.

In the 1970s, during the initial phase of its operations, the World Bank concentrated largely on project lending for achieving food self-sufficiency, mobilizing domestic resources, improving social indicators, and enhancing project implementation. Even though over time the country attained varying degrees of success in all these areas, the pace of progress was slow in the 1970s\(^{102}\).

During the next phase of its operations in the late 1980s, the World Bank focused on policy reforms to create an environment conducive to private sector development. These reforms were addressed at removing the distortions in trade, pricing, credit allocation, and interest rates. Once again, the efforts yielded mixed success. In its evaluation report, the World Bank attributed these mixed results not to any deficiencies in its own program, but to the government’s failure to implement reforms. Indeed, the World Bank went so far as to argue that “a core constraint in the development process in Bangladesh was the government itself and its unwillingness to enforce the needed public sector reforms\(^{103}\).”

To address the governance issues, the World Bank imposed more stringent policy conditions in the 1990s, but yet again, according to the World Bank, the government was less than forthcoming in its effort to implement these reforms. No doubt, part of the vacillation on the part of the government had to do with political economy constraints facing the government. But no less important was the


widespread skepticism in the country, as elsewhere, regarding the intellectual basis of the reforms. While many of these reforms were discussed with the policymakers, they were unilaterally stipulated and imposed on the government\textsuperscript{104}.

6.13.5 Evaluation of Aid Outcome

The World Bank considers its assistance program to Bangladesh effective even though the evaluation statistics point to a mixed outcome. The Bank evaluation of the outcomes of the existing portfolio of projects in Bangladesh from 1995-2007 compares favorably with those for the Bank-wide average as well as for the South Asia region. This result contrasts with the results for the earlier period. According to the earlier country evaluation report the percentage of Bank projects that were deemed unsatisfactory was higher than the Bank-wide average.

With regard to sustainability, the performance of projects in Bangladesh was unfavorable, as many had negligible institutional impacts. Lending to Bangladesh was deemed inefficient, as loan-processing required more time than the Bank-wide average. This poor project implementation performance no doubt reflected the country’s capacity constraints, but at the same time, this was not entirely a domestic problem; some of the issues stemmed from the multiplicity of donors with diverse reporting and accounting requirements that made heavy demands on scarce domestic managerial capacity. Recent years have some improvements in the implementation capacity of the government as well as some harmonization efforts on the part of donors\textsuperscript{105}.

6.13.6 Bangladesh and ADB

The Asian Development Bank is the second largest lender to Bangladesh after the World Bank. Between 1973 and end of 2008, its total lending to the country amounted to about $10 billion, covering many sectors of the economy. However, the principal focus of ADB lending was in agriculture, energy, transport and education. In

\textsuperscript{104} Mirakor, Abbas, and Iqbal Zaidi. “Rethinking the Governance of the International Monetary Fund”, (2006), p.343.
many ways, the findings from ADB’s evaluation of its country assistance program are similar to those of the World Bank\textsuperscript{106}.

Like the World Bank, ADB (2003) considers its program to be relevant and successful in a number of areas. These areas include support to agriculture to achieve the objective of self-sufficiency in food. Similarly, ADB considers its assistance in the energy and transport sectors to have been beneficial and to have made a significant contribution to the growth of GDP in the late 1990s. However, it considers its initiatives in the areas of agriculture, forestry, and the social sectors-- particularly health and education-- have had little impact on poverty. Interestingly, ADB (2003) does not attribute this lack of success to the general slowdown in poverty reduction Bangladesh experienced in the 1990s (due to shifts in income distribution), but to the lack of alignment of its program with the so-called Partnership Agreement on Poverty Reduction.\textsuperscript{107}

Thus, from the donors’ perspective, aid effectiveness has been mixed in Bangladesh. Donors consider their investment projects to have been more successful than their policy loans. In the area of investment projects, the performance of Bangladesh has improved over the years, although there are persistent concerns regarding implementation delays and development impact. In the area of policy loans, the country’s failure to implement policies is not particularly unique to Bangladesh. However, many high-performing economies of Asia such as China and India have either totally avoided policy loans or have been highly discriminatory in accepting them. This reflects a desire to exert a degree of autonomy in formulating their own policies.

6.14. World Bank Aid to Pakistan

Pakistan has a population of about 148 million, and, based on new government estimates, gross national income (GNI) per capita was estimated at US$638 in 2003/04. After outpacing its South Asian neighbours in gross domestic product (GDP) growth over the first four decades of its existence, Pakistan began to trail them and has not fared as well on a number of key social indicators.

\textsuperscript{106} Id. p.87
The history of modern Pakistan has strongly affected its economic growth path. Due to regional tensions, military expenditures in Pakistan have consistently absorbed a significant proportion of the budget (about one-quarter to one-third of total revenue). Combined with interest expense that amounted to another 30–45 percent of revenue, there remained very little fiscal space for basic government or development expenditures. In addition, Pakistan’s international relations, particularly with the West and primarily the United States, have had a very large impact on its aid flows, which in turn have affected its macroeconomic performance\textsuperscript{108}.

During the Afghan-Soviet war in the 1980s, Pakistan received large inflows of concessional aid. However, aid declined after the war ended, and later, when Pakistan conducted nuclear tests in 1998, aid was cut sharply and sanctions were imposed that influenced the programs of multilateral institutions, including the Bank. Following the events of September 11, 2001, Pakistan’s cooperation with the West, especially with the United States, led to large amounts of aid from the United States and other bilateral donors\textsuperscript{109}.

Pakistan’s economic situation has also been affected by the complexities of domestic politics and weak management in fiscal expenditures. Major factors included periods of domestic political instability with shifts in government accompanied by reversals in major, system-wide economic policies by the different governments; widespread corruption; weak and uneven human resources development; law and order and other stability issues; and persistently low levels of domestic savings\textsuperscript{110}.

6.14.1 The Situation in the Early 1990s

Despite the relatively high growth rates leading up to the 1990s, poverty was still widespread, and social indicators were poor. Pakistan’s population growth rate of over 3 percent per year increased the pressure on the environment and on investment needs for future growth. Because of the low savings rate and productivity (poor quality of human resources), growth relied heavily on both domestic and foreign

\textsuperscript{108} The world Bank Annual Report, (1978), p.74
borrowing. Budget deficits of about 6 percent of GDP and dependence on foreign aid were the norm.

6.14.2 The Bank’s Strategy

Bank programs during the last decade were guided by country assistance strategies in fiscal years 1992, 1994, 1995, and 2002, as well as Country Assistance Strategy Progress reports (CAS PR) in fiscal years 1997, 1999, and 2001. While there was some variance among the documents, the dominant and consistent themes were (i) macro-economic stabilization, (ii) poverty reduction and social sector development, (iii) sustainable growth, and (iv) governance. In the early years of the review period, the Bank also identified the environment as a major area where assistance was needed, including water management, natural resource conservation, and developing solutions to urban pollution problems. However, the focus on environmental work faded over the course of the review period\textsuperscript{111}.

Following Pakistan’s nuclear tests in May 1998, economic sanctions were placed on the country; new bilateral and multilateral lending for non basic human needs was suspended; and investment flows as well as aid decreased sharply, leading to a severe foreign exchange crisis. The 1998 strategy progress report acknowledged large estimated financing gaps and relied on assumptions of financing support from multilaterals, as well as rescheduling of bilateral debt and commercial debt, but proposed that the volume of Bank commitments be linked to several factors: (i) the strength of Pakistan’s reform effort, (ii) the maintenance of macroeconomic stability, (iii) progress in the social sectors, and (iv) improvements in the country’s creditworthiness. The 1998 strategy progress report argued that the new government (elected March 1997) was truly committed to reform although the new Prime Minister had not sustained reforms during his previous administrations, and macro performance under his current government was mixed\textsuperscript{112}.

Despite the past history of failing to follow through with reforms, the weak macro environment, severely deteriorating creditworthiness, and minimal progress in the social sector, the Bank deemed Pakistan to be in the “high-base case” scenario, qualifying it for about US$750 million in annual lending. Thus, an immediate crisis

\textsuperscript{111} Supra note 87, p.34.
was averted. However, by spring 1999, “there were concerns that the government’s commitment to the reform program was faltering. In particular, resource mobilization and governance improvements remained weak” (World Bank 2001). In September 1999, the IMF formally suspended the Enhanced Structural Adjustment Facility (ESAF) program\(^\text{113}\).

In 1998-99, total debt to GDP was 92 percent; by 2000/01, it had increased to 108 percent. The Musharraf Government took power in October 1999. It inherited a very vulnerable macroeconomic situation and, given the weak reform performance by previous governments, difficult relationships with lenders and donors. With the deteriorated economic situation, Bank lending dropped to zero in fiscal year 2000. However, in November 2000, the government reached a new Stand-by Arrangement with the IMF and negotiated another Paris Debt Restructuring (US$1.8 billion) in January 2001. The Bank restarted lending in fiscal year 2001\(^\text{114}\).

The Bank CAS PR in May 2001 and the 2002 CAS had many of the same themes as previous CASs (fiscal improvement, governance, removing distortions that impede growth, improving service delivery). However, the 2002 CAS, perhaps because it was the first full CAS in seven years, made more use of lessons from past experiences to influence the program. The Bank would focus more on policy dialogue with the government and on the need for better implementation capacity not just at the federal, but at the provincial and district levels.

### 6.14.3 Portfolio Management

The Region initiated Country Portfolio Performance Reviews (CPPRs) in fiscal year 1990 to manage the portfolio and monitor its performance. In spite of efforts to improve project performance, problem projects increased from 7 percent of the portfolio in fiscal year 1994 to 34 percent in fiscal year 1998. In fiscal year 1998, Pakistan was ranked as one of the 25 worst performers Bank-wide, with more than 50 percent of projects and commitments “at risk.” In December 1997, the Bank, together with the federal and provincial governments, initiated an “aggressive portfolio improvement strategy” and a new portfolio and risk management process based on “outcomes, ownership, and good governance.” Quarterly national portfolio review

\(^{113}\) Government of India, Eight Five year Plan, p.307.

meetings and periodic provincial portfolio reviews were established and continue to be held. Problem projects are further reviewed at monthly portfolio meetings. Portfolio management functions were increasingly decentralized when the country management team, including the Country Director, was moved to the field in 1997.

Two portfolio improvement plans were developed in fiscal years 1999 and 2000. As a result of the portfolio improvement reviews, the number of projects in the portfolio declined from 44 in fiscal year 1993 to 13 in fiscal year 2003. Two actions in particular resulted in the closing of 32 projects and in few entrants to the portfolio: (i) a “no-extension” policy outside of force majeure; and (ii) enhanced selectivity and “quality at entry” criteria. At the end of fiscal year 2003, projects at risk were 8 percent of the portfolio, compared to 18 and 15 percent for the region and Bank-wide, respectively.

6.14.4 Bank Partnerships

Donor agencies and many nongovernmental organizations (NGOs) respect the World Bank, and felt that the World Bank played an important leadership role. There was also praise for a number of individual task managers or individual projects. The Bank has worked hard to develop complementary programs with other donors (e.g., focusing its provincial work on Sindh and the Northwest Frontier Province (NWFP), while the Asian Development Bank (ADB) focuses on Punjab and Baluchistan).

However, a number of donors felt that the respect was not always reciprocated, and the Bank was not always easy to work with. Among issues raised were failure to consult with other donors before making key decisions; lack of continuity of Bank staff interacting with the donors; intermittent participation of senior staff at donor meetings; and poor information flow to donors and NGOs. In addition, the Bank is perceived by many donors, NGOs, and members of civil society to be a poor communicator of its policy directions and recommendations and as not adequately involving stakeholders outside government in program/project design, monitoring, and evaluation. For example, several NGOs commented that they were presented with a fait accompli, rather than involved in substantive discussions. Some

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NGOs have instructed their staff not to attend Bank workshops, as the NGOs would be listed as participants, whether or not they felt their views had been adequately considered.

6.14.5 Poverty Reduction and Social Sector Development

Government statistics estimated poverty at 26.8 percent of households in 1992/93. The 1992 country strategy noted that the high poverty levels were due in large part to the limited access of the poor to productive assets and to inadequate public services. The high population growth rate and the neglect of human resources development resulted in some of the poorest social development indicators in the world: infant mortality of 91 per thousand, an adult illiteracy rate of 65 percent (World Bank 1995), and high malnutrition among children. Moreover, largely because of rapid population growth, landlessness increased, with the average size of farms operated by the poor also declining. The Bank noted that weak social development would affect the country’s long-term growth and human development.

Given the needs in poverty reduction and social sector development, it was appropriate that the Bank made improvement in these areas primary objectives. During the review period, the Bank’s country assistance strategies consistently listed poverty reduction as a priority. The 1992 strategy discussed a three-pronged approach: (i) support for the government’s Social Action Program (SAP); (ii) support for projects in agriculture and industry that expanded opportunities for small farmers and small to micro-sized enterprises and (iii) “a focus on poverty-reduction goals as part of the Bank’s macro-economic and policy dialogue,” including those factors that would affect the economy’s ability to grow and create new jobs, and fiscal issues that affected the government’s ability to meet infrastructure and human development needs.

The primary vehicles for implementing the first prong of the strategy were to be the SAP and ESW work on poverty, human resource development, and execution of an integrated household survey. Over the next few years, the strategy shifted to a focus on service delivery, mostly under the umbrella of the SAP, supplemented by focused service delivery projects. The 1998 strategy progress report kept the SAP as

the centerpiece of the Bank’s strategy but also introduced a discussion on targeting programs to help provide social protection, as well as the establishment of the Pakistan Poverty Alleviation Fund (PPAF; fiscal year 1999) to help provide microcredit (especially for women) and small-scale community infrastructure\textsuperscript{121}.

The 2001 CAS PR stated that the considerable support to SAP had not delivered commensurate results, that outcomes fell “far short of the SAP’s targets,” and that overall results in this area remain disappointing despite significant investments from the government and the international donor community including IDA-financed interventions. Primary education is by far the worst-performing, but the very poor governance (weak financial management, poorly motivated teachers with lax accountability for results) lack of leadership and resistance to mobilizing NGO’s help undermined efforts in health, family planning, and community infrastructure as well\textsuperscript{122}.

The government’s new strategy was to increase devolution and accountability at the local levels to improve implementation of service delivery\textsuperscript{123}. The Bank supported these initiatives with the Sindh and NWFP adjustment loans; a community infrastructure loan; and smaller, more focused health and education projects. Gender issues were consistently raised in the country assistance strategies and other documents. The lags in female literacy, school enrolment, and health indicators led the Bank and the government to design projects with a greater gender focus in service delivery. The Bank’s support of the government’s Lady Health Workers program, for example, sought to improve access of women to health care, particularly in the areas of family planning, prenatal care, and birth delivery assistance. Extra incentives were given to encourage girls to attend school, such as providing scholarships and free textbooks to school-girls. Extra resources were also devoted to improving girls’ school facilities and recruiting and training more female teachers\textsuperscript{124}.

6.14.6 Poverty Reduction and Social Sector Outcomes

The Bank, as well as many knowledgeable Pakistanis, refers to the 1990s as the “lost decade” for the poor, as little progress was made in the Bank’s objectives of reducing poverty and improving service delivery. The 2001 household survey (the latest available data) indicates that the percent of Pakistani households below the poverty line increased from 26.8 percent in 1992/93 to 32.1 percent in 2000/01. Although strong growth since then may have caused a recent decrease in poverty, preliminary data from a 2004 household survey suggest that poverty is still higher than it was at the beginning of the review period.\textsuperscript{125}

The government also has noted that quality of services is a problem, stating: The ability of the state to effectively deliver quality services to the citizens is very limited. For example, rural hospitals and dispensaries lack staff and facilities and do not have effective systems of supervision over the dispensation of publicly provided medicines. The hygienic conditions of even some of the best hospitals are inadequate. The staff is poorly motivated and badly managed. Neglect and malpractices are commonplace. Conditions in education, social welfare, environmental conservation, and population welfare programs are broadly similar (World Bank 2001).\textsuperscript{126}

6.15. Assessing the Bank’s Contribution

Although the environment for improving social services was hampered by the extremely limited fiscal space to increase expenditures aimed at the poor, the Bank’s strategy for poverty reduction and social sector development had its own weaknesses as well. First, the strategy was focused on service delivery rather than on the root causes of poverty reduction and on promoting income generating activities for the poor, particularly in rural areas. Outside of the social sectors, there was limited attention paid in the lending program to the impact of Bank interventions on poverty. Bank support for rural development, for example, was focused on irrigation and drainage, to the neglect of rain fed areas and livestock; within irrigation, little attention was paid to the access of the poor to water supplies, although Bank analytic work had identified land inequality and therefore unequal access to irrigation as a key issue affecting income inequality. As another example, Bank support in infrastructure

\textsuperscript{125} Supra note.34, p.34.
was concentrated on large power projects, with no support for rural electrification during the period under review\textsuperscript{127}. Second, although the Bank had identified over the years and in a number of analytic and strategic documents political economy issues and power relations that were relevant to development efforts these were largely ignored in lending or in project design. Thus, issues of female access to labour and factor markets and land inequality, for example, were not taken into account in the design of Bank programs\textsuperscript{128}.

Third, within service delivery, the Bank’s lending focus was mostly on SAP and within SAP on expanding the quantity rather than the quality of the services. Even as SAP wound down, most of the new social sector projects also focused on service delivery. Research in Pakistan had found that the demand for private education was growing, for example, indicating a willingness to pay for perceived quality of services. Nevertheless, SAP aimed at increasing expenditures on social services, with little attention to outputs or impact of increased spending. In addition, SAP suffered from a number of major problems, such as complex project design and large numbers of government units and donors involved, which in turn meant large administrative costs to appraise and supervise and inadequate fiduciary safeguards on the use of funds. Finally, it is not clear whether sufficient Bank effort was put into the critical buy-in to the SAP by provincial ministers, and thus the program was not owned by the subnational governments that were expected to implement it\textsuperscript{129}.

Beyond problems in the overall strategic thrust of the Bank’s program, the Bank failed to design a program that was realistic. The SAP projects were the most extreme examples of this failure, but the problems can be seen in other projects. Among the design issues were inadequate mechanisms to measure intermediate results or the effectiveness of spending and an overly complex project design. For example, although implementation completion reports stressed the need for focused projects with a limited geographical and administrative span, SAP involved 27 government units and numerous donors with mission teams of more than 20


\textsuperscript{129} Supra note 21, p. 87.
members\textsuperscript{130}. Another design problem was financial management requirements that did not reflect the capabilities of the counterparts. Weaknesses in financial and project management were common. Audit report of about 95 percent; the results were encouraging enough that a second PPAF of US$238 million was approved by the Board in 2003.

Beyond problems in the overall strategic thrust of the Bank’s program, the Bank failed to design a program that was realistic. The SAP projects were the most extreme examples of this failure, but the problems can be seen in other projects. Among the design issues were inadequate mechanisms to measure intermediate results or the effectiveness of spending and an overly complex project design. For example, although implementation completion reports stressed the need for focused projects with a limited geographical and administrative span, SAP involved 27 government units and numerous donors with mission teams of more than 20 members. Another design problem was financial management requirements that did not reflect the capabilities of the counterparts. Weaknesses in financial and project management were common. Audit reports by the Auditor General contained a large number of observations that pointed to major irregularities. Supervision reports and ICRs suggest that Bank staff and the other donors were aware of implementation problems but had difficulty addressing them. For example, following on the experiences of SAP I, the second phase of SAP laid a greater emphasis on issues of governance, quality, and community/NGO participation, but there was still an absence of indicators defining acceptable performance\textsuperscript{131}. Delivery of the program was also quite expensive. SAP I cost US$1.1 million to prepare and US$1.2 million to supervise. SAP II cost US$1.2 million to prepare and US$2.2 million to supervise. In addition, the Bank spent another US$1.3 million on other SAP-associated costs (dialogue and other related tasks). Altogether, delivery of the SAP program alone cost close to US$7 million\textsuperscript{132}.

6.16. Sustainable Growth

In the early 1990s, the state controlled most infrastructure, a number of large industrial companies, and most of the financial sector. Foreign direct investment


(FDI) was less than 1 percent of GDP, and gross fixed investment (both public and private) was about 17 percent of GDP. Pakistan had a limited production and export base, with agriculture contributing 26 percent of GDP but employing half the labor force and providing 70 percent of exports, including agriculture-based manufactured goods. Industry was concentrated in cotton processing, textiles, petroleum refining, and food processing and suffered from poor product quality, outdated technology, and an untrained labor force. In infrastructure, power outages were increasingly common, telecom density was less than 1 per 100 people (one of the lowest in the world), and the inadequate transport system (roads, railways, ports) delivered poor service levels at high costs\textsuperscript{133}.

The Bank’s overall strategy was to support a shift from public sector ownership and management to the private sector. This included trade reform, expanding and modernizing the financial sector, accelerating the government’s privatization program, improving inadequate infrastructure and a poorly trained workforce, industrial deregulation, deregulation of administered prices, and a more flexible exchange rate. Law-and-order issues were also highlighted as an impediment to attracting new investment. The 1992 country strategy identified specific areas to support growth: (i) diversifying and expanding the productive agricultural and industrial base; (ii) improving management of the country’s natural resources, particularly water and domestic energy resources, with increased attention to environmental concerns; and (iii) overcoming severe infrastructure bottlenecks, as manifested by energy shortages and inadequate transportation infrastructure. Over the course of the review period, this translated into programs that focused on (i) energy and infrastructure (18 percent of total lending), with an emphasis on power generation; (ii) finance (17 percent); and (iii) agriculture and natural resources management (9 percent), with an emphasis on irrigation and drainage. In addition, while there were no specific loans for issues such as trade, privatization, and investment climate, reforms were supported through AAA and conditionality in structural adjustment loans\textsuperscript{134}.

\textsuperscript{134} Government of India, Planning Commission, The Seventh Five Year Plan,1985-90, p.216.
6.17. Energy and Infrastructure

The Bank’s infrastructure strategy, in Pakistan and worldwide, shifted away from government owned and operated infrastructure toward greater involvement of the private sector. The Bank concentrated its initial efforts in Pakistan on the power sector, supporting an expansion of the role of the private sector (through the use of guarantees and other financial products), financing public sector investments, and promoting improvements in the operating efficiency of public enterprises. However, investment lending for energy disappeared in the late 1990s as a result of poor performance in power sector restructuring, poor progress in policy reform in other infrastructure subsectors, and the need to focus on other borrowing priorities. The Bank did maintain an active dialogue, supplemented with AAA and targeted TA\textsuperscript{135}.

6.18. Infrastructure Outcomes

Power Sector

The most notable progress in the power sector has been in terms of physical expansion. More than 5,000 megawatts (MW) of new private power generation capacity was installed in the 1990s, over one-third of current capacity, which helped ease the chronic shortages in generating capacity which Pakistan had experienced in the preceding decade. One power-generation company was privatized, the transmission system was upgraded to service the new generation capacity, and chronic supply shortages were reduced\textsuperscript{136}.

The sale of 73 percent of Karachi Electric Supply Company (KESC) was announced. On the other hand, the price of new generation capacity developed under the private power program was high. 25 serious allegations of corruption were raised related to awarding and negotiating contracts with private participants and the process of restructuring and privatization has been slow. Finally, the sector’s financial performance has worsened dramatically, so that in recent years losses at the Water

\textsuperscript{135} Dell’ Ariccia, G. “Learning by Lending, Competition, and Screening Incentive in the Banking Industry.” (2000), pp.77-81
\textsuperscript{136} Id. p 82
and Power Development Authority (WAPDA) and KESC have been some $500 million per year, amounting to 1 percent of GDP\textsuperscript{137}.

**OIL AND GAS:**

Pakistan has limited known reserves of crude oil but has exploitable gas reserves of about 27 trillion cubic feet (equivalent to about 25 years of production at current levels). Although the government’s stated policies were to emphasize private sector participation, through most of the decade the government tightly controlled the oil and gas industries. Starting in 1998, with support from the Bank, the government developed a new policy framework. Policy capacity was built up in the Ministry of Petroleum and Natural Resources. Fuel oil and liquefied petroleum gas markets were liberalized in 2000. A formula-based fortnightly adjustment of petroleum product prices, a new consumer gas price framework, and a new wellhead gas price framework were introduced in 2001/02. These reforms have helped catalyze more than US$1.3 billion in investment in the sector and a 50 percent increase in gas production in the last three years. Distortions in pricing remain, however, as shown by the huge discrepancies in gas pricing, with the fertilizer industry paying 37 rupees per thousand cubic feet (mcf) and commercial customers paying 205 rupees per mcf\textsuperscript{138}.

**Telecom:**

Although five mobile telecom licensees have increased competition and access, physical line density still remains low, at 2.84 lines per 100 inhabitants; this remains a constraint on economic development. However, regulation has improved, as the Pakistan Telecommunications Authority (PTA) has become more independent. The spectrum allocation/site clearance process has been reduced from more than four months to seven days. Installation of a national frequency management and monitoring system has improved those functions considerably. Pakistan Telecommunications Corporation, Ltd. (PTCL) has lost its monopoly status, and bids have been invited for additional fixed-line providers. The government has twice tried to sell a 26 percent stake in PTCL but has not yet succeeded, which may reflect

systemic problems such as overstaffing, restrictive labor practices, and regulatory and policy constraints\textsuperscript{139}.

Transport:

Pakistan’s transport sector has been characterized by poorly targeted investments, neglect of essential maintenance, inefficient labor, and noncommercial practices resulting in severe bottlenecks, high transport costs, poor safety standards, and low levels of service. In the roads subsector, maintenance spending covered less than 15 percent of stable network needs; meanwhile, major public expenditures were made to support expensive highway projects with no obvious economic return. Deferred and inadequate road maintenance leads to 16 billion rupees of road assets being lost each year. Recently, however, there has been a movement in policy reform. An integrated transport policy has been drafted, the National Highway Authority has been strengthened and downsized, the priority of maintenance over new construction has been re-established, and major progress has been made in mobilizing resources for sustainable maintenance\textsuperscript{140}.

6.19. Assessing the Bank’s Contribution

The Bank’s basic strategy of shifting the burden of providing infrastructure from public to private investment was reasonable. Though there were many designs and implementation issues global experience with private infrastructure provision was very limited in the early 1990s and much has been learned in the intervening period. Pakistan pioneered the Bank’s new energy policies (enunciated in 1992), which emphasized unbundling, competition, and privatization but, as a result, had to face the consequences of adopting an untested set of reforms. Indeed, the early “private energy” experience in Pakistan helped catalyze this change in Bank policy. The quality at entry of the Bank’s interventions was judged superior at the time, and both the strategy and the individual products designed to deliver it were regarded as highly innovative and responsive to the problems facing the country’s energy sector\textsuperscript{141}. The Bank also displayed considerable flexibility in using a variety of lending, guarantee, guarantee, guarantee,

\textsuperscript{139} Dorrance, G., \textit{“Would Loan Guarantees Undermine International Capital Markets?”} (1981), p.34
and nonlending instruments as well as conditionality in implementing the strategy. When progress in restructuring stalled in the mid 1990s (power and ports) or investment priorities became distorted (highways), the Bank appropriately refrained from investment lending and maintained the dialogue through adjustment lending (power sector), supervision (power, ports, highways), and (oil and gas, power). While formal sector work was limited, significant advisory services were delivered via supervision and project preparation/appraisal. Despite the overall coherence of the Bank’s approach, a number of problems emerged in the implementation of the infrastructure agenda, most notably in the power sector. Some of these were specific to the situation in Pakistan, while others related to the issues and problems associated with implementing the Bank’s global infrastructure initiatives, which were enunciated in the early 1990s.\footnote{Guzaman, M. “Bank Structure, Capital Accumulation, and Growth: A Simple Macroeconomic Model”, (2000). pp.421-455.}

On balance, outcomes for the objective of sustainable growth were moderately satisfactory. While there was progress in a number of key areas (banking, trade) and partial and promising reforms in others (power, oil and gas, highways), the low level of investment, slow progress in privatization and regulatory reform, and lack of a rural strategy that addresses fundamental problems, emphasize the fragility of progress.\footnote{Edelman, J., and Chenery, H.B., “Aid and Income Distribution in Bhagwati”, (1978), p.333}

Bank embarked on a series of strategies to support important and relevant challenges Pakistan faced. Outcomes were mixed, as changes in governments made it hard to find a committed reform partner who would see a sequence of reforms through.\footnote{Supra note 33, p.34.} Development outcomes were also affected by the severe fiscal problems the governments faced, due to poor policies and implementation, as well as exogenous shocks. The macroeconomic situation worsened through most of the review period. Although two near crises were averted, in part with Bank assistance, sustained reforms supported by the Bank were not implemented until the end of the review period; indeed, assistance packages appeared to do little but increase the country’s debt burden. The macroeconomic situation has greatly improved since 2000, both due to a consistent government reform program and favourable exogenous events. Debt is decreasing, reserves have increased to six months, and inflation has dropped to 4.1 percent. However, the situation is fragile. Total debt is still high (69 percent of GDP
according to rebased numbers), deficits excluding grants are still over 4 percent, and many reforms have not yet borne fruit, most noticeably revenue mobilization and improvements in expenditure management. Outcomes in this area are moderately satisfactory.\textsuperscript{145}

6.20. World Bank and Maldives

For much of the last three decades, Maldives has been a development success story. The Maldives consists of 1,192 small tropical islands that cross strategic shipping routes, and it has a richly diverse marine environment. With more territorial sea than land, marine resources have played a vital role in shaping the contours of economic development, with nature-based tourism and fishing being the main drivers of economic growth. In the early 1980s, it was one of the world's 20 poorest countries, with a population of 156,000. Today, with a population of more than 300,000, it is a middle-income country with a per capita income of over $6,300. Following 7.5% growth in 2011, real gross domestic product (GDP) growth was expected to slow to 3.6% in 2012, largely due to the slowdown in the tourism sector which has a high dependence on the crisis-stricken European segment. The country's fiscal position has been under much stress following the tsunami of 2004 and continues to weaken in the face of unsustainable high public expenditures. Despite the introduction of new tax measures in 2011, revenue efforts have been compromised by far-ranging import duty rate reductions.\textsuperscript{146}

Environmental sustainability is the fundamental development challenge in the country. Indeed, it is so critical to the future development and prosperity of the country that the new Constitution mandates the protection of the environment as a key human right. From an economic growth and development standpoint, the management of the country's natural resources and complex ecosystems will continue to determine the country's comparative advantage and growth prospects into the future. Biodiversity-based sectors contribute more than 70% of national employment, more than half of public revenues, almost the entirety of exports, and close to 80% of GDP. Both government and development partners realize the importance of environmental sustainability and are placing a high priority on work in this regard. Maldives'...\


vulnerability to climate change calls for innovative solutions on adaptation and mitigation. Maldives is particularly vulnerable to projected adverse consequences of climate change, including sea-level rise, increases in sea surface temperature, ocean acidification, and frequency/intensity of droughts and storms. These impacts in turn pose serious challenges in areas such as water security, biodiversity conservation, and coastal erosion that call for adaptation solutions. On climate change mitigation, Maldives is not a major emitter of greenhouse gas emissions, but it is committed to achieve energy security through a low-carbon development path. The government has declared its intention to fight climate change over the next decade, including a vision to cut carbon emissions to become a carbon-neutral nation.

6.20.1 Institutional reforms

This World Bank Group Country Assistance Strategy (CAS) aligns a joint IDA/IFC assistance program behind the Government of Maldives' development strategy for the next five years through FY12. The Bank Group's overarching objective is to contribute to policy and institutional reforms that help maintain the country's successful development trajectory of the last two decades. While the country context has changed considerably since the last CAS was discussed by the Board in 2000, the Maldives remains a strong performer. Nevertheless, at this time of change, the country faces three serious challenges: (a) the sustainability of its fiscal policies, (b) the completion of ambitious governance reforms, and (c) adaptation to global climate change. Applying the principle of selectivity and taking into account the changing country context and challenges facing the Maldives, the proposed World Bank Group assistance program seeks to further three strategic development outcomes: (a) a well-managed economy attracting increased investment; (b) increased quality of education in support of a better skilled workforce; and (c) improved capacity to manage the country's pristine, but fragile, natural environment. The CAS is designed to mitigate the risks that could reduce the effectiveness of the World Bank Group's operations and to further develop the ability to monitor the impact of interventions. A low lying archipelago with more territorial sea than land, the Maldives is exposed to the risks of intensifying weather events. Sea level rise

represents an existential threat to the country. With future sea levels projected to increase in the range of 10 to 100 centimeters by the year 2100, the entire country could be submerged\textsuperscript{149}.

\textbf{6.20.2 Climate Change}

Climate change and environment degradation has emerged as an important priority in the Bank’s deepening engagement in promoting responsible stewardship of global public goods\textsuperscript{150}. The coral reefs of Maldives stand as the first line of defense against storms and sea-level rise. Poor solid waste management remains the most visible threat to the reefs. An estimated 248,000 tons of solid waste was generated in the Maldives in 2007 and this figure is predicted to rise by 30\% to 324,000 tons over the next five years. In addition, around 510 tons of medical waste is produced in the Maldives each year\textsuperscript{151}.

Current arrangements for solid waste management on inhabited islands are inadequate. Most waste is dumped onto the island foreshore and burned at low combustion temperatures. This uncontrolled disposal is a threat to the coastal, marine and coral reef ecosystems and a blemish on the pristine marine landscape expected by tourists\textsuperscript{152}.

A World Bank-financed project aims to reverse this alarming trend. A key objective is to enhance stewardship of the assets that protect communities. Through the Maldives Environment Management Project, a $13.5 million IDA credit, the Bank is working with the Government of the Maldives to effectively manage environmental risks to fragile coral reefs and other marine habitats\textsuperscript{153}. The project has three main components that are targeted to the most immediate environmental needs:

- Solid waste management;
- Capacity building for environmental management; and
- Technical assistance for monitoring and management of key natural assets.

\textsuperscript{150} Supra note 84, p.45.
\textsuperscript{151} F.J. Wright, An Introduction the Principles of Economics, (1965), P.147.
6.20.3 Environment Management Project

The objective of the Environment Management Project is to provide the Republic of Maldives with the capacity to effectively manage environmental risks and threats to fragile coral reefs as well as marine habitats resulting from tourism development, increased solid waste disposal, fisheries and global climate change. There are four components to the project. The first component is the regional solid waste management program. Solid waste is the most visible environmental threat to the tourism and fishery industries. In a recent survey, solid waste was identified as the most important environmental issue by 24 percent of respondents. The management of solid waste is especially challenging in the Maldives, even more so than other small island states. With a population spread across numerous islands, there is little scope for harnessing economies of scale. Thus, the costs of service delivery are high. The second component is the capacity building for environmental management. The project is designed to at least partly fill the staffing gaps and capacity needs as they relate to the Project itself. It is apparent that it would be nearly impossible to build a large, permanent cadre of environmental specialists with a reach extending over the entire archipelago and across all sectors. The third component is the technical assistance for strengthened environmental management and monitoring and a pilot regional strategic environmental assessment. The primary objective of this component is to expand the knowledge base regarding critical natural resources on which the Maldives ecosystem and economy depend. Recognizing that there are insufficient resources in the project envelope to fill all the information gaps, this component selectively targets issues and information gaps where assistance is most urgently needed and promotes activities designed to stimulate discussions and policy deliberations that would lead to greater community awareness and better decision making. Finally, the fourth component is comprised of project management and communications.

The International Development Agency extended a credit of US$13.15 million for the 40-year project. The Environment Management Project aims to support the Government of the Republic of Maldives development of capacity to effectively manage environmental risks and threats to fragile coral reefs as well as marine habitats.

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habitats resulting from tourism development, increased solid waste disposal, fisheries and global climate change\textsuperscript{155}. There are four components to the project. The first component is the regional solid waste management program. The second component is the capacity building for environmental management. The project is designed to at least partly fill the staffing gaps and capacity needs as they relate to the Project itself. The third component is the technical assistance for strengthened environmental management and monitoring and a pilot regional strategic environmental assessment. Finally, the fourth component is comprised of project management and communications.

\textbf{6.20.4 Mobile Phone Banking Project}

The objective of the Mobile Phone Banking Project in the Maldives is to significantly increase the use of banking system transactions for effecting or receiving payments for labor, goods and services nationwide through the implementation of a national inter-operable payments system that facilitates access to financial services and allows users access to their bank account using any mobile phone operator and cashing through any banking agent. The closing date for the project will be extended from June 30, 2012 until December 31, 2013. The extension is necessary to overcome implementation delays due to the political turmoil in the country over the past few years, which hampered the decision making process\textsuperscript{156}.

The extension will allow the completion of critical components of the mobile payment system and of the automated clearing house, as well as further capacity building for the Maldives Monetary Authority (MMA) staff and implementation support to ensure smooth functioning of the system after its launch. Once implemented, the project will also provide learning experience for the Bank to replicate in other similar geographically challenged countries. In order to achieve the completion of activities and supporting the implementation during the initial implementation stage, an 18 month extension is requested to the closing date. The recipient has an action plan to implement the project during the extension of the project. This will be the first extension of the project\textsuperscript{157}.

\textsuperscript{155} Government of India, Sixth Five-year Plan, p.304.
The World Bank approved a USD7.7 million credits to Government of Maldives designed to improve access to financial services by allowing users to access any bank account using their mobile phone. The Mobile Phone Banking Project will create a single currency payment system which offers a set of mobile telephone-based accounts. The system will enable subscribers to transfer funds to and from bank accounts and to and from telephone-based accounts. In addition, the project aims to build an enabling environment and the capacity to support successful mobile phone banking systems. The target group that will most directly benefit from this project is people who live and work in the widely dispersed islands. Their remoteness from formal bank outlets forces them to carry significant amounts of cash and travel long distances to collect payments, pay bills, or transfer funds to relatives, friends, or suppliers.

Collaboration between the Maldives Monetary Authority (MMA) and the microfinance industry body CGAP (Consultative Group to Assist the Poor) was initiated to develop a concept and proposal that provided the basis for the project. As part of the project, CGAP will provide parallel funding of US$1.5 million to the project to provide policy advice to the Maldives Monetary Authority on the establishment of a regulatory framework for mobile banking. The Mobile Phone Banking Project is consistent with the government's Country Assistance Strategy objective of improving access to finance to enhance private sector development in the Maldives. The USD7.7 million credits from the International Development Association, the World Bank's concessionary lending arm, have 40 years to maturity with a 10-year grace period.

6.21. Argentina and the World Bank

With a Gross Domestic Product (GDP) of more than US$510 billion, Argentina is one of the largest economies in Latin America. On the international front, Argentina enjoys good relations with most of the countries in the region, particularly Brazil and Venezuela. The country also has a leading role in advocating the region's policy stance, as it represents Latin America at the G-20, jointly with Mexico and Brazil. Argentina's economy is characterized by its valuable natural

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resources, leading the country to be one of the main producers of food, thanks to agriculture and cattle breeding. Argentina is one of the largest exporters of beef in the world and the top world producer of sunflower crops, *yerba mate*, lemons, and soybean oil. The opening of the Chinese market represents a boost in the consolidation of an export profile.

6.21.1 Adaptation Fund

The development objective of the Increasing Climate Resilience and Enhancing Sustainable Land Management in the Southwest of the Buenos Aires Province Project for Argentina is to contribute to reducing climate and man-made vulnerability of the agroecosystems in the Southwest of the Buenos Aires Province by increasing adaptive capacity of key local institutions and actors and piloting and disseminating climate resilient and sustainable land management practices. The Adaptation Fund (AF) was established to finance concrete adaptation projects and programs in developing countries that are parties to the Kyoto protocol and are particularly vulnerable to the adverse effects of climate change. On December, 2012 the proposal submitted by the International Bank for reconstruction and Development (IBRD) to the AF Board seeking access to resources in support of the 'Increasing Climate Resilience and Enhancing Sustainable Land Management in the Southwest of Buenos Aires Province' project in Argentina, was approved. On February 25, 2013, an agreement was signed between the AF Board and the IBRD, in order for the latter to serve as the project's multilateral implementing entity. The project will be funded by the AF for a total amount of US$ 4,296,817, of which US$ 336,617 correspond to the project cycle management fee available to the IBRD. The AF covers the financing of full adaptation costs.\(^\text{160}\)

6.21.2 Provincial Public Health Insurance Development Project

The objectives of the Provincial Public Health Insurance Development Project for Argentina are to: (a) increase utilization and quality of key health services for the uninsured target population; and (b) improve institutional management by strengthening the incentives for results in participating provinces and among others.

authorized providers. There are three components to the project, the first component being supporting provincial public health insurance. This component includes financing to assure capitation payments by National Ministry of Health (MSN) to participating provinces on a declining basis. The health service package will contribute to improving the quality of services as well as extending coverage on a per capita basis. Results will be monitored using supervision protocols and information systems, and will be verified by an independent technical auditor. The second component is the institutional and management strengthening of the national and provincial ministries of health. This component will provide the health ministry's at the national and provincial levels with the tools and information they need to improve governance and their organizational or stewardship capacity.

Bangladesh is not formulating its own reform rather it is rely on the IMF and the World Bank's imposed reform program and this study identified that as the constraints also since its establishment in 1947, IMF has undergone numerous changes to become the pioneer of economic and trade labialization. However, the consequences of IMF policy prescription have been devastating. Entirely driven by U.S foreign policy, Washington based IMF has failed to meet the expectations of developing nations As pointed in this essay gigantic IMF has fallen short of the intended objective of poverty reduction. Moreover, the IMF’s moral integrity in dealing with the developing economies is constantly being questioned by various groups in the civil society.

Inappropriate and Mismanaged lending have largely contributed towards the current debt crisis in the developing world. Conditionality is viewed as a central feature of IMF lending where it infringes with the country’s national sovereignty to use loans independently. Furthermore, illegitimate debts made to dictatorial governments have further worsened the debt crisis. As a responsible organization, IMF should evaluate the creditworthiness and legitimacy of the receivers before making any loan arrangements. In the case of illegitimate debt, the problem is not

necessarily with borrowers, but with lenders the accountability of the IMF still remains a big question in the wake of global debt crisis.

One of the central problems of the IMF operations is that developing nations are marginally represented in the administration level. The developed nations who act as lenders are bestowed with enormous power that can easily overturn the proposals of weaker countries. Scholars have repeatedly stressed that decision making in IMF should be based on a democratic framework where by developing nations are duly recognized in the funds hierarchy. Another major criticism against the IMF is the economic reforms forced on debtor countries. These structural adjustment programs are a complete failure as declared by the intellectuals and the owners (World Bank) of the policies. IMF as one of the largest multilateral organizations should reinvent itself by revising the policy making and implementation. Current policies are no longer applicable in the developing world as they have largely failed with disastrous consequences. Apart from that, the leading policies of the IMF and the World Bank do not provide development aid to the Third World, but fill the pockets of dictators and western corporations while threatening local democracies and forcing cuts to social programs.

6.22. Indian Perspective

The World Bank started its lending operations for reconstruction and development on June 25, 1946 and Indian joined the Bank in 1945 itself. The Bank lending to India started in 1949 when the first loan of $35 million was approved for the Indian Railways. The first decade of the Bank’s lending to India (1949-59) saw just about 20 loans for a total amount of $611 million.

During the years 1960-69, overall lending to India from the Bank rose to $1.8 billion, about three times the level in the previous decade. Between 1970 and 1979, there was a large increase in the absolute volume of IDA lending and the IDA share in total Bank assistance reached a high of 80 percent in this decade. However, in the

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1980s, Indian’s share in total IDA declined to 25 percent and was updated by the more expensive World Bank lending. The volume of the WB lending raised to $14.7 billion during 1980-89, almost 10 times the level of $1.5 billion in the previous decade\textsuperscript{166}.

The aggregate of the Bank’s lending for the period of 50 years (1944-1994) was approximately $42 billion. India is the single largest borrower of World Bank and IDA. India has claimed about 15 percent of total World Bank lending – 9 percent of WV and 28 percent of IDA commitments.

The 50 years of relationship between the Bank and India clearly shows certain trends. In the early years of relationship, the Bank involvement was not direct and visible as compared to 1980s and 90s. In the initial years, the Bank closely collaborated with the more active USAID to force policy changes. In fact, an unholy alliance of USAID, the Bank, and the IMF and Transnational corporations worked hand in hand to pursue economic changes. However, after the 80s, the Bank along with the IMF has started a direct and visible role in India’s policy making\textsuperscript{167}.

Nevertheless, there has been continuity in the basic philosophy and ideology of the Bank over the past 50 years. The philosophy of diluting the basis of economic planning, dismantling of public sector, encouragement to private sector (both national and foreign) and greater emphasis to market forces has been forcefully articulated by the Bank since the 1950s. The Bank has been proceeding in a methodically manner to force India to accept its philosophy.

The Bank created conditions so that the Planning Commission (now dismantled and replaced by the Neeti Aayog) was relegated to the background in the late 1960s. During the oil shocks of 1973 and 1980, the Bank was able to push forward its ideology of market forces with great impetus. By 1990, the entire economic development was made conducive for foreign capital to clay a lending role in tapping emerging markets of middle class consumers in India. And the foreign exchange crisis of 1991 provided the opportunities to the Bank to clinch this objective through structural adjustment programme. The past 50 years of the Bank operations in India clearly reveals that the Bank has exploited the foreign exchange crisis periods.

\textsuperscript{166} Indian and the Bank, World Bank Publication, Washington DC, October 1966, p.1
So far, India has faced five major foreign exchange crises (1957, 1966, 1973, 1980 and 1991). In each crisis period, the Bank did not miss the opportunity to force its ideology on the government of India\textsuperscript{168}.

The Bank was influential in India’s policy making right from the early years of Independence. In 1949, the Bank set its first mission to survey the potentialities of Indian economy. Following this, Prime Minister, Jawaharlal Nehru submitted a special policy statement on foreign capital to Parliament on April 6, 1949. It remains the only document where the role and place of foreign capital in India is stated in explicit terms. It also marked a retreat from the Industrial Policy Statement of 1948.

Meanwhile, the World Bank began to intervene in Indian economic affairs in a significant manner. A second World Bank mission visited India in the mid-50s. On the basis of its instructions to facilitate the close integration of private capital with foreign capital, the Nehru Government established the Industrial Credit and Investment Corporation of India (ICICI) in 1955.

However, the government announced the Industrial Policy in 1956. This policy was a major departure from the early industrial policy of 1948. The form in which the World Bank wanted foreign capital to participate in Indian economy was made clear when the government had sought the Bank’s assistance for financing the Rourkela Steel Plant in 1956. The Bank insisted that German collaborators supplying technology should have more leverage that had been offered. The negotiations fell through and evidence suggests that the reason for the Indian government to adopt a strong position at that juncture was due to availability of adequate foreign exchange\textsuperscript{169}.

It is not farfetched to see the post-1980 period of the Bank’s loans and aid was one preparation for the grand and royal entry of foreign capital. By building up infrastructure—power generation, mining and exploration of new reserves, proper roads and rail facilities, trained technical manpower, etc. In fact, the Bank and the IMF’s inspired policies have facilitated a new phase of the operation of foreign capital in India. This phase of economic liberalisation began in 1980 with the SDR $5 billion

from the IMF. It weakened the real economy, created the preconditions for export orientation and facilitated the recomposition of the industrial sector in subordination to world capital. This was followed by another wave of liberalization which included devaluation, lifting of barriers and greater impetus to foreign capital and market forces in India.

6.23. Conclusion

Criticisms of World Bank and IMF SAPs are based in a variety of conceptual approaches, ranging from world systems and development theory to political ecology and social equity. The World Bank’s claims of the successes of adjustment have been subjected to fierce scrutiny by the United Nations Economic Commission for Africa (ECA) and the United Nations Children’s Fund (UNICEF), among others. In particular, ECA’s critique of SAPs cast doubt on the wisdom of several of the major SAP policy components. The ECA claims that the selectivity and inconsistency of World Bank studies lead to misleading conclusions. Another critique comes from a study examining the results of ESAF programs in sub-Saharan Africa. The developing countries participating in ESAF not only experienced lower economic growth than those not participating, but that neither IMF-mandated macroeconomic policies nor the Highly Indebted Poor Countries (HIPC) Initiative have sufficiently reduced these countries’ debt burdens. The key to reconciling the contradictory assessments of SAPs is in recognizing the very different perspectives that proponents and critics bring to the evaluation. For example, one liberalist’s assessment would focus on macroeconomic indicators because that is what the neoliberal view characterizes as being important. As a result, issues of equity or environmental impacts are ignored. This is not necessarily done intentionally, but by the way the problem is being framed. The following section discusses how structural adjustment lending has evolved in response to growing criticism.

There is a clear contradiction between the Bank’s efforts to address on the one hand the debt and macroeconomic growth of developing countries, and on the other

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hand, its purported goals of poverty alleviation and increased attention to environmental concerns. Perhaps, then it is not surprising that over the years, there have been many critics of SAPs. According to Killick, a long-standing constraint about IMF’s policies toward developing countries is that its programs are too short-term to be able to cope with the often deep-seated nature of the countries’ payment weaknesses\textsuperscript{172}. This is one of the most common criticisms of World Bank and IMF SAPs. There is a clear tension between the need to address immediate debt and stability problems on the one hand, and long-term prosperity and development on the other. The lender tends to overlook the impacts of conditions beyond the control of the borrowing country’s government, such as global market prices for goods. 3. Failing to reduce poverty. Many critics say that SAPs fail to create conditions for wealth generation\textsuperscript{173}. The lack of ownership of adjustment programs by a country’s government means that the measures may not be tailored to a particular country’s unique context, and further, government officials may not feel a strong commitment to making it work because it was forced. According to Bello since SA measures covered so many dimensions of macroeconomic policy, agreeing to a SAL was virtually turning over control of a country’s economy to the World Bank\textsuperscript{174}. The recipients of adjustment loans had to renounce important parts of their national sovereignty, basically agreeing to revamp their economies into foreign exchange-earning, export-oriented machines, often to the detriment of long-term domestic social and environmental needs.

Many countries shell out more in debt than they do on social expenditure. Thus debt hurts the poor by diverting funds from social and human development programs like literacy, sanitation, health and nutrition. Moreover, social expenditures are already on a squeeze in countries that are following the structural adjustment programs\textsuperscript{175}. So money that could have been spent on vaccinations or schools goes to foreign countries. Countries draw more and more heavily on their environmental resources, compromising the future quality of life for generations to come. The

poorest countries have seen the highest rates of deforestation. The cut in spending also adversely affects the government’s ability to uphold environmental laws and/or promote conservation efforts, as is the case in Brazil, Russia, Indonesia and Nicaragua. Not least are the political cost, the instability and the violence when citizens protest against the measures.

It has been alleged that without impact assessments it is hard to justify the loans and programs of the Brettonwood Institutions. Like any other development project, one needs to gauge the social, political and environmental impact of loan programs. A mere quantitative/scientific or technical analysis is not enough to ensure that a program is sustainable and acceptable by the communities involved, even though what is scientific has always laid a claim to being what is legitimate.) Thus SIAs (Social Impact Assessments) or EIAs (Environmental Impact Assessments) can be viewed as tools for more effective decision-making and public participation.

The WB has been widely criticized in the past for ignoring the social, human and environmental costs of large development projects. The Sardar Sarovar dam in India, which the WB continued to fund for many years despite the fact that it would displace a million people, is one example of the Bank’s insensitivity to the human cost of such projects. It was not until 1989 that environmental review procedures gained importance in the WB’s lending program and became mandatory for certain kinds of lending. The Bank now requires all projects to undergo EIAs at the project, regional and sectoral level. However, it still does not give adequate weight to social effects. Social assessments, even today, are not mandatory for ANY sort of lending. The WB started a discussion on social assessment policy in December 2000, but it could be a long time before any such policy is in place and begins to be implemented.

Moreover, unlike for projects, structural lending has never in the past required conducting impact assessments. While one WB report calls for an increase in structural lending, the current Bank operational directive says that such lending should be fewer than 25% of total lending whereas in recent years it has been over 60%. In 1999, EIAs were extended to sectoral adjustment lending, but not to

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176 (http://www.foe.org/international/imf/page1.html)
countrywide adjustments. Recent reviews observe that less than 20% of the adjustment loans have any sort of environmental assessment.\textsuperscript{179} Moreover, it has been alleged that EIAs, rather than acting as a basis for change in policy, are simply shelved by WB staff.

It is interesting that there have been calls for radical reform or outright abolition of the BWIs, especially the IMF, from different quarters for different reasons. Developing countries, long subject to the tyranny of the conditionality of structural lending, have voiced their criticism of the BWIs’ policies, staff arrogance, and lack of transparency, highhandedness and limited Northern perspective. Republicans in the Bush administration like the top economic advisor Lawrence Lindsey, on the other hand, oppose the IMF as an instrument of intervention because they do not believe in intervention but in the free market\textsuperscript{180}. They are against using what they refer to as American taxpayers’ money for bailing countries out of trouble that they got themselves into. Orthodox economists cite the Asian financial crisis, corruption and collapse of financial systems as evidence of how the IMF has actually promoted global macroeconomic instability, and call for its abolition or radical downscaling. The IMF has also been accused of creating a situation of moral hazard; encouraging unsound practices by creditors who know the IMF will rescue them if things get hairy.

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\textsuperscript{179} http://www.foe.org/international/imf/page1.html
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