CHAPTER – III
WORLD BANK AND DEVELOPMENT: INSTITUTIONAL AND LENDING DIMENSIONS

While the previous chapter examined the themes and trends in development aid, the present chapter dealing with the World Bank takes a look at one of the most important players in the field of development assistance. As an established international organisation, the World Bank group with 184 countries as its members, has attained universal recognition as an active analyst, promoter and co-ordinator of development finance and policies. Its expansion into the field of international development is largely unparalleled. From a modest beginning in 1946, the Bank has more than 9,500 development projects to its credit. Beginning with work in traditional sectors of development such as industry and infrastructure, Bank lending today extends across a wide spectrum of operational sectors, making the Bank a veritable knowledge house of development. The Bank today not only gives loans and acts as a co-ordinator for all aid flows through the consultative aid consortia that it chairs; it also co-ordinates the work of a number of facilities and funds on a varying number of subjects. The present chapter takes a look at the history, structure and the institutional dynamics of the organisation, and attempts to analyse the influence that it exercises over national governments and other institutional bodies internationally.

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1 The World Bank is composed of five different units. Namely, the IBRD and four affiliates: the International Development Association (IDA), the International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID). All five together constitute the World Bank Group. The new affiliate institutions were added gradually to the original IBRD in the following years: the IFC in 1956, the IDA in 1960, the ICSID in 1966 and MIGA in 1988.
THE IDEA OF THE BANK AND ITS INCEPTION

It was during the concluding phase of the Second World War that the idea of having an international bank was mooted by the Western Allied powers. A senior United States official, Harry White, proposed the idea in 1941. White’s proposal was given a formal shape in April 1942 in the document titled, “Proposal for a United Nations Stabilization Fund and a Bank for Reconstruction and Development.” This document served as the basis for all subsequent discussions on the subject. In its introductory section, it highlighted the three main concerns of the United States in the post-war scenario.

To prevent the disruption of foreign exchanges and the collapse of monetary and credit systems; to assure the restoration of foreign trade; and to supply the huge volume of capital that will be needed virtually throughout the world for reconstruction, for relief and for economic recovery.2

In November 1943, in a document titled “Preliminary Draft Outline of a Proposal for a United Nations Bank for Reconstruction and Development,” the United States initiated extensive discussions on its plans for a new post war economic order. A preliminary meeting of a few select countries was held at Atlantic City (USA) to discuss the draft and prepare the agenda for a final round of deliberations to be held at Bretton Woods (USA). Though seventeen countries attended the meeting, it was the United States’ Government that did almost all the preliminary work. The participation of other countries remained perfunctory. The final draft that was presented before the delegates at Bretton Woods was largely

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based on the U.S. proposal with the incorporation of a few suggestions from the British delegation.

Forty-four countries attended the final Conference at Bretton Woods. John Maynard Keynes, the famous British economist served as the chairman of Commission II of the Bretton Woods Conference, which concerned itself with the formation of the Bank. At the Conference the World Bank surprisingly was relegated to a secondary position, as compared to the attention given to the International Monetary Fund. “I suppose if one measured the time spent during those fourteen days of work at the Bretton Woods Conference, the Bank probably didn’t take more than a day and a half....it was put together as a kind of clip and paste job at the end of the day at Bretton Woods Conference.” Those who showed particular interest in the Bank were the delegates from the twenty-seven developing countries, along with a number of European countries whose economies had been damaged badly by the War.

The international bank that emerged following the agreement at Bretton Woods, was a unique creation, in the sense, that it obviously lacked some of the elementary aspects associated traditionally with banks. It did not receive deposits; it made loans only to governments, or to public and private entities on the basis of

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3 The participant countries were: Australia, Belgium, Bolivia, Brazil, Canada, Chile, China, Columbia Costa Rica, Cuba, Czechoslovakia, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, French Committee of National Liberation, Greece, Guatemala, Haiti, Honduras, Iceland, India, Iran, Iraq, Liberia, [contd.] Luxembourg, Mexico, the Netherlands, New Zealand, Nicaragua, Norway, Panama, Prague, Peru, Philippine Commonwealth, Poland, Union of South Africa, Union of Soviet Socialist Republics, United Kingdom, United States of America, Uruguay, Venezuela, and Yugoslavia.

a government guarantee of repayment; four-fifths of the subscribed capital was not paid in but was to be used as a guarantee fund against losses; its principal function was intended to be the guarantee of private investment; it was not to lend or guarantee loans to any borrower capable of borrowing on reasonable terms from other sources. Speaking about the novelty of the newly created institution, Georges Theunis, the reporting delegate from Belgium, made the following comment:

So novel was it, that no adequate name could be found for it. In so far as we can talk of capital subscriptions, loans, guarantees, issue of bonds, the new financial institution may have some apparent claim to the name of Bank. But the type of shareholders, the nature of subscriptions, the exclusion of all deposits and of short term loans, the non-profit basis, are quite foreign to the accepted nature of a Bank.

For those questioning the feasibility of the unique experiment, there were roughly two possible precedents, justifying the creation of the IBRD. One was the Bank for International Settlements established in 1930 and the other the Inter-American Bank proposed in 1940. The latter was in many respects closer to the new Bank, than the former. Shares in the Inter-American Bank for example, were to be held primarily by governments, and each country was to have a member on the Board of Directors, while voting power stood in proportion to the stocks held.

At the Bretton Woods Conference, a number of suggestions were offered revolving around the exact title of the new Organisation – Bank, Association, Corporation etc., keeping in mind its unique characteristic. Whereas the American

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5 Mason and Asher, n.2, p.12.
7 The Bank for International Settlements was created primarily to handle transfers from Germany under the Young Plan.
suggestion was to establish a “Bank for Reconstruction and Development”\(^8\), the British suggested the title, “The International Corporation for Reconstruction and Development”\(^9\) and the Russian, “The International Guarantee and Investment Association.”\(^10\) In the end, a compromise was reached and the title “The International Bank for Reconstruction and Development” was chosen.

**STRUCTURAL DYNAMICS**

The Bank’s organisational and operative framework is spelt out briefly in its Articles of Agreement. Given the haste and brief span of attention at Bretton Woods, it is not surprising that the articles adopted provided just the bare essentials in terms of framework, leaving the interpretation of many clauses entirely at the discretion of its future generation of managers. One such area of contending interpretations constituted the very first article of the Charter itself, highlighting the fundamental purposes of the future institution. Article I (1) of the *Articles of Agreement* which highlights the objectives of the Organisation mentions as one of the principal purposes:

> To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.\(^11\)


\(^11\) *Articles of Agreement of the International Bank for Reconstruction and Development*. The blueprint for the institution’s future operations was provided for in the clauses of its Articles of Agreement. Binding on all those countries who agreed to be members of the new organisation, the Articles constituted an important source, highlighting and reflecting both the functional philosophy, as well as the institution’s structure and organisation.
At Bretton Woods, the question of organisational priorities it may be noted was left flexible. At the conference, there was a clear divergence of views amongst the representatives regarding the main purposes of the new organisation. The European countries quite naturally stressed on reconstruction. The Russians in particular, asserted that the primary purpose of the Bank should be to assist in the reconstruction and restoration of economies destroyed by the war. The less developed countries on the other hand, “feared that if too heavy an emphasis was put on reconstruction, the Bank would never get around to development.” Mexico for example, proposed a version giving first priority to economic development and second to the purpose of reconstruction of territories of member countries ravaged by war hostilities.

Given the backdrop of the large-scale devastation caused by the War, aid towards reconstruction was an obvious priority. However, for countries that had not directly borne the brunt of the war, development constituted the most important purpose. What is important from the point of history is that the Bank that was created at Bretton Woods was seen as an Organisation which could at the multilateral level work to provide aid for both reconstruction and development purposes, to a wide number of member countries. Although in the sequence of its nomenclature, reconstruction was given prior mention, in the Bank’s articles, the two purposes were never really pitted against one another. It is because of this

13 Mason and Asher, n.2, p.22.
flexibility in interpretation that reconstruction in albeit different scenario still constitutes a priority issue before the Bank.

At Bretton Woods, it was universally accepted that one of the primary functions of the Bank was to guarantee private investments. The Bank could make or facilitate loans as per Article IV (1) in any of the following ways:

i. by making or participating in direct loans out of its own funds,

ii. by making or participating in direct loans out of funds raised in the markets of a member, or otherwise borrowed by the Bank,

iii. by guaranteeing in whole or in part loans made by private investors through the usual investment channels.

The specifications under which the Bank could guarantee or make loans were that it could guarantee, participate in or make loans to any member or any "political sub-division" and any business, industrial and agricultural enterprise in the territories of its members, provided:

- that the Government of the member of country fully guarantees the repayment of the principal and the payment of the interest on the loan,
- the Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan,
- the project has been recommended by a competent committee,
- the charges made are reasonable in the Bank's opinion,
- the schedule of repayments is appropriate,
- the borrower is creditworthy.
in guaranteeing a loan the Bank receives suitable compensation for its risk and,

that loans made or guaranteed by the Bank shall “except in special circumstances” be for the purpose of specific projects of reconstruction or development.

A most interesting innovation was made regarding the clause governing membership. Membership to the Bank it may be noted was made conditional to membership of the International Monetary Fund (IMF). This was made deliberate as the founding fathers had envisioned joint programmes and policies, facilitated greatly by a rule of joint membership of the two Bretton Woods institutions. Technically, both the IBRD and the IMF qualified as “specialised agencies” of the United Nations, but their unique status rendered them a special place within the UN system. The Bank’s relations with the United Nations, was in fact one of the areas where there was a considerable amount of foot-dragging. There were fears that having too close an association with the United Nations, which was a political body would hurt the credit ratings and confidence levels of the financial community on whom the Bank depended. The final agreement between the Bank

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15 Following the end of the Second World War, major importance was given to the task of international collaboration between organisations working in different economic and social fields. Organisations such as the International Labour Organisation, Food and Agriculture Organisation, World Health Organisation, bestowed with specific functional responsibilities, were classified as specialised agencies of the United Nations. The arrangement represented in the words of a noted scholar “a full-fledged experiment in the application of the functional theory to international affairs.” The Economic and Social Council of the UN was given the responsibility of co-ordinating the work of such agencies. Inis Claude Jr., *Swords into Plowshares : The Problems and Progress of International Organization* (Delhi, Indian edn., 1987), p.393.
and the United Nations was nothing short of a "declaration of independence", giving the Bank a leading edge over other existing international organisations.  

The text of the agreement between the United Nations and the Bank emphasised that "by reason of the nature of its international responsibilities and the terms of its Articles of Agreement, the Bank [was] required to function as, an independent international organization." The agreement also stressed upon the right of the Bank to withhold confidential information "which would otherwise interfere with the orderly conduct of its operations." The agreement gave the representatives of the United Nations limited representation within the Bank, restricting their attendance to the meetings of the Boards of Governors of the Bank and the Fund. In terms of operational and financial agreements, the agreement once again provided for complete autonomy treating the above as "matters to be determined by the independent exercise of the Bank’s own judgement."  

The capital of the Bank it may be noted was divided into shares of $100,000 each, amongst the members of the Bank. The members were divided into two categories – namely donors and borrowers. The donor countries, who did not need to borrow were referred to as Part I countries, and those who did, mainly belonging to the developing world, were classified as the Part II states. Member countries were required to purchase shares but pay in only about 20 percent of the cost of those shares, the remaining 80 percent of capital was "callable" serving as a

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16 The World Bank's proposed suggestions seeking special exemption were roundly attacked before the UN Economic and Social Council (ECOSOC) and its General Assembly. At the ECOSOC, apart from the Soviet Union, the more disturbing non-communist attack came from Norway when its representative cast a negative vote stating that the grant of special privileges undermined the authority of the United Nations. Mason and Asher, n.2, p.58. 
17 Ibid., p.58.
guarantee. The voting power of each member was determined proportionately by the amount and number of shares held and a system of weighted voting i.e., voting power on the basis of shares subscribed, was brought into being. An inherent hierarchy reflective in the structure and functioning of the Bank was thus created, between Part I and Part II countries. In sharp contrast to the UN norm of one-country-one vote, the Bank’s weighted voting system admittedly gave the richer countries a greater say in decision-making.

Together as group the G-7 countries control approximately 43 percent of the votes, whereas countries of Sub-Saharan Africa, control 5 percent of the total IBRD vote share. In the soft loan affiliate, the International Development Association (IDA) similarly the relative share of G-7 countries is 47 percent while the share of the Sub-Saharan countries is 7 percent. Not only is there a big asymmetry between regions and groups, but there is also a huge visible divide between individual shareholders. While the United States has the highest voting power, the Republic of Palau it may be noted has the smallest number of shares in both the IBRD and the IDA, and its voting power in the two institutions is 0.02 percent and 0.005 percent respectively. Thus nominally in the United Nations while each member country enjoys equal membership rights, in the Bank a clear hierarchy based on economic prowess seems to be the governing principle. Figure 1 on the next page presents a glimpse of the organisational structure of the Bank.

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18 In the initial years, the United States controlled 35 percent of the votes, and the United Kingdom 14 percent. The voting share of these two shareholders has subsequently seen a reduction, with new economic powers such as Japan and Germany increasing their shares significantly. Catherine Caufield, Masters of Illusion: The World Bank and the Poverty of Nations (London, 1996), p. 43.
A Governor, usually the Finance Minister of the country, represents each member of the Bank. The Governors as a group constitute the Governing Body and meet once a year. All the major powers and responsibilities of the Governing Body are delegated to a Board of Executive Directors, comprising 24 members. The five big shareholders belonging to the Part I states are given the right to nominate their own Executive Directors, while elections are held every two years for those representing the rest of the states. Countries have the option of forming their own groups and electing an Executive Director to represent them. India for example has chosen to be grouped together with Bangladesh, Bhutan, and Sri Lanka. The four countries together elect an Executive Director every two years to represent their constituency. China, Saudi Arabia and Russia are however single country constituencies.

Policy matters are decided by the Executive Directors, based in Washington, responsible for approving operational and administrative budgets, and overseeing the sanction of loans for specific purposes to client countries. Day to day decisions requires a simple majority on the Executive Board. However, for any changes or amendments in the Articles of Agreement the approval of at least three-fifths of members and 85 percent of the total votes is mandatory. And given the distribution of votes, this inevitably means that the richer countries with their share of votes theoretically have the power to exercise the prerogative of veto as a collective. However, exercise of veto power it may be noted has been rare, with big shareholders

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20 The initial number was 12, but it was increased to 24, as membership of the Bank increased through the years.
preferring compromises. Consensual decision making is the preferred mode of operations and the practice of putting things to vote is clearly avoided.

Theoretically, each Executive Director is expected to give priority to the overall interests of the Bank, than his/her constituency. However, in practice, most often Directors operate almost entirely under instructions from their capitals. In the working of the Board of Executive Directors, informal groups of directors are always in continuous session. A group of 9 for example, consisting of Executive Directors from Part II countries meet from time to time to exchange views and co-ordinate their positions. Similarly the G-7 Directors also meet to co-ordinate their responses. A larger group of 10, representing all Part I countries too meet alternately to exchange views on matters before the Bank. This apart, a Group of 24 consisting of representatives of Part II countries, formed in 1972, meets usually in conjunction with Bank/Fund ministerial meetings, to determine the developing countries’ positions for these meetings and related matters.

Though the Executive Directors occupy an important place in the organisational hierarchy, it is the President who by virtue of being the Bank’s chief executive officer is the more conspicuous. While the Executive Directors are rarely in public view, it is the President who is the main emissary of the Bank. Literally

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21 The first no vote cast by the United States was in 1971 for a proposed World Bank loan to Guyana. The US, as part of its policy condemning expropriation of US private property opposed the loan. The US single handily does not have the number of votes needed to veto a loan, and since 1971, although the US has voted against or abstained on more than 120 World Bank loans, such loans have been cleared nonetheless.

22 The Group of 24 is the organ of the Group of 77 charged with formulating positions on developmental and monetary issues. The Group’s members are: Algeria, Argentina, Brazil, Colombia, Cote d’Ivoire, Egypt, Ethiopia, Gabon, Ghana, Guatemala, India, Iran, Lebanon, Mexico, Nigeria, Pakistan, Peru, Philippines, Sri Lanka, Syria, Trinidad and Tobago, Venezuela and Zaire.
speaking, the history of the Bank is divided along the time periods of specific Presidents. Unlike the UN Secretary-General, the President is not only the chief of the administrative staff, but is also the Chairman of the Executive Directors and in combining the dual roles, he serves as an important intermediary between the political and the administrative wings of the Bank. Theoretically, the Board of Executive Directors chooses the President but in practice by an informal agreement, the selection is limited and fixed in favour of the nominee of the United States, that is a US national. There have been nine Presidents to date. The point to be noted is that first hand knowledge of economic development has never been a determining consideration in the selection of the President. None of the Presidents selected till now, has had any practical exposure to the problems of the developing countries before coming to the Organisation.

The institutional history interestingly shows the relationship between the President and the Board of Executive Directors to be a tenuous one. Though the Board is responsible for administrative affairs, including approval of all loans and operations, the President’s office plays no less a role in defining the policies of the Bank. The history of the Bank shows that personal dynamism of the incumbent of the office of the President plays a great role in determining the relationship between the President and the Board of Executive Directors. George Woods the fourth President of the Bank, to whom credit may be given for introducing social sector lendings into

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23 By an informal agreement, the President of the Bank has been from the United States of America, and the Chief Executive of the Fund has been always an European.

the Bank’s portfolio, had this important observation to make about the relationship between the office of the President and the Board of Executive Directors. Woods interestingly was ready to accept that the members of the Board played an important part in establishing the policies of the institution, but he also recognised that they had their “own axes to grind”, and he thought it was his role as President “to resist these self-serving interests of the board and to keep his eye on the overall good of the membership.”

An interesting and noteworthy example of the contradictions between the President’s office and the Board of Executive Directors refers to the rift between the two concerning the introduction of structural adjustment lending in the Bank’s programmes. It may be noted that the Executive Board did not share President McNamara’s enthusiasm for structural adjustment and in fact was hostile to the suggestions he made. It was only after a great deal of persuasion that the Executive Board agreed to the suggestion of introducing policy-based lending on a regular scale in the Bank’s programmes. A similar situation existed too in the case of the Bank’s lending to the social sector. Here once again, it was the senior management that had to take the main initiative in persuading the Executive Directors to agree to the introduction of education and health projects in the Bank’s operational portfolio.

The Board of Executive Directors including its chairman the President, has a huge staff base to support it, in its day to day functionings. There are six regional vice-presidencies : Africa, East Asia & Pacific, Europe & Central Asia, Latin

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America & the Caribbean, Middle East & North Africa and South Asia – that look into the specific requirements of each geographical region. This apart there are six network vice presidencies – environmentally & socially sustainable development; financial sector; human development; operations policy & country services; poverty reduction & economic management and private sector development & infrastructure; dealing with specific operational themes connected with the Bank’s work. Thirteen other vice-presidencies look after several other aspects of the Bank’s operations such as legal affairs, resource mobilisation and co-financing, treasury, external affairs & relations with UN, human resources etc.

The World Bank today has nearly 101 branch offices located over different geographical areas. Whereas previously in the fifties and sixties there was a lot of centralised decision making, in terms of that majority of loans were processed in Washington itself; recently the trend has been somewhat reversed. The Bank has begun to shift resources, relocate work, and devolve authority and decision-making to its field offices. Projects are now therefore increasingly being supervised from the field with local Resident missions undertaking the responsibility of processing and overseeing the implementation of loans. Nearly 40 percent of the Bank staff are now based in country offices.

Organisationally speaking the entire activity of loan processing is a complex one. A specific country programme is drawn up for each client state in consultation with the country officials, the parameters of which define the contents and design of project/programme loans. There are briefly four main types of loan that the Bank processes. These four types of loans are coordinated in practice, particularly since the Bank reorganised in 1987, to provide a much stronger “country focus.” These are:
Project loan: this is the classic Bank loan given for coal plants, fisheries, agriculture projects, dams, power plants etc. The loan money is strictly restricted to the project concerned.

Sector loans: these loans carry conditions determining the policies and programme content for specific sectors. For example, loans given to the agriculture sector to help the sector diversify from domestic consumption to large-scale export-oriented production.

Institutional loans: the Bank lends in order to reorganise government institutions, promoting capacity building and institutional strengthening of government regulated bodies.

Structural adjustment loans: these loans carry conditions applicable to the entire economy. Their aim is to bring about basic alterations in policy frameworks governing the country as a whole.

LENDING: PROCEDURES AND PROCESSES

The life of a typical World Bank project, from identification of need, to completion of work, and evaluation of results, is termed as the project cycle. Each loan typically goes through a series of six stages, which form an integral part of the operative chain for both the Bank and the borrower for all projects funded.

- Identification – In close collaboration with World Bank staff country officials identify needs that can be addressed in projects suitable for World Bank financing. The projects are then incorporated into the lending programme of the Bank for a particular country.

• **Preparation** – The time taken for preparing the project outlines, normally ranges from one to two years, during which time the country officials examine all aspects related to the technical, institutional, economic and financial (assistance) aspects of the identified project.

• **Appraisal** – Refers to the review process of all aspects of the project by the World Bank staff. The time taken for the review ranges from three to five weeks, including the time involved in a field survey study. An appraisal report is prepared and sent to the headquarters at Washington DC.

• **Negotiations and Approval** - This stage involves discussions with the borrower on the terms and conditions for financing the programme. The agreements reached are embodied in loan documents. The project is then presented to the Executive Directors of the Bank for approval. After their approval the loan agreement is signed.

• **Implementation and Supervision** - The borrowing country is responsible for implementation of the project that has been agreed upon. The Bank is responsible for supervising that implementation, through progress reports from the country and periodic field visits. An annual review of Bank supervision experience on all projects underway serves to continually improve policies and procedures. Procurement of goods and works for the project must follow official Bank guidelines for efficiency and economy.

• **Evaluation** – It follows the final disbursement of Bank funds for the project. An independent department of the Bank, the Operations Evaluation Department, reviews the completion report of the Bank’s projects staff and prepares its own audit of the project, often by receiving
materials at headquarters, though field trips are made where needed. This ex-post evaluation provides lessons of experience which are built into subsequent identification, preparation or appraisal work.\

Essentially for every loan that is processed there are three main organisational units involved. One, the concerned regional vice presidency, second the operational network unit and third the concerned country office. The interaction of the Bank is limited not only to the government departments concerned but extends also of late to the private representatives from the business community and the non-governmental sector. The Bank in consultation with concerned parties then decides upon the specific country strategy that determines the overall framework governing the sanction of loans and projects. The Bank by virtue of being a co-ordinator of several aid consortiums also facilitates the agreement of co-financing arrangements between aid agencies on a number of Bank projects.

With respect to projects in the social sector, it is the Human Resources Development and Operations Policy that is the focal point of the Bank’s social sector lendings. Established in 1993, the importance of this office has gradually grown through the years, with the number of client states desiring Bank funds having increased. The office is responsible for not only scrutinising applications for loans but

Paul Mosley, Jane Harrigan and John Toye, in their book, *Aid and Power: The World Bank and Policy-based Lending*, n.26, p. 69, provide an interesting alternate description of the above process. The Bank’s loan procedure or the “conditionality game” as they call it may be divided up into three main periods or acts: Act 1 - an initial negotiating process in which recipient countries and the Bank try to agree on conditions that are to be attached to a development loan - if successful this process culminates in agreement on a set of specific actions to be taken by the government and monitored by the Bank; Act 2 - an implementation process in which the recipient country decides how far to honour the promises made; Act 3 - where the Bank oversees the performance of the borrower and takes a decision to continue financing the loan or not.
also coordinating the work of several other international agencies working towards human resource development worldwide. Two sector departments – Education and Health and Poverty and Social Policy coordinate all the work of the vice presidency. Each department has a team based management structure, and the work programmes of each are organised into eight thematic areas. The first four are along conventional sectoral lines: education and training, health, population and reproductive health, and nutrition. The other four deal with cross cutting interlocking issues: poverty and social safety nets, social security and labour markets, gender analysis and policy, and early childhood programmes. A third department, within the vice presidency, the Operations Policy Department, is responsible primarily for portfolio management functions, issuance of operational directives, procurement activities, technical assistance, oversight, Bank relations with non-governmental organisations, participatory development, public sector management and governance, work related to the Development Committee, and coordination of Bank-UN Relations.

THE BANK AND ITS CRITICS

Notwithstanding its supra-national stature, there are certain identifiable organisational strengths and weaknesses that the Bank possesses that make it susceptible to criticism. The Bank’s financial mandate to expressly provide loans for development to countries gives it a leading edge over other international agencies, working in the field of development world-wide. Its role as a development advisor and more recently as a “knowledge bank”, contributes to the Bank’s overwhelming presence in nearly all spheres of development co-operation. The weight of its professional staff, the research budget and the leverage from its lending means that
the Bank's potential to influence is profound, and it "cannot be seen as just one of a number of fairly equal actors in the world of development economics."^{29}

The Bank's influence extends beyond the realm of resources. The financial clout of the Bank vis-à-vis other actors, and its ability to mobilise necessary resources, determines its power to also decide as to how its loans shall be spent. Though the Articles of Agreement explicitly prohibit the Bank from engaging in any "political" agenda, the Bank in the course of its career has often overstepped the line drawn. Its concern of late with public service reform and issues of good governance are a relevant case of point of the Bank's role as the arbiter of politics and economics in the Southern states.

Critics of the Bank fall into broadly three main ideological categories: the Centrist, the Left and the Right. Criticism of Bank aid is similar in tone to the criticism made of development aid. The centrist view for example emphasises chiefly the Bank's role as a development organisation. The Bank in such a view is seen largely in terms of a consultant, engaged in a dialogue of development diplomacy with a "realistic give-and-take in the art of the possible in development lending."^{30} For many developing countries, since recipient countries share in its overall control and management, the Bank appears to be more professional, to be less suspect of political motives, less foreign than many bilateral aid programmes.

For scholars belonging to either the Left or the Right however, the World Bank's activities form very much a part of the problem on poverty rather than the

solution (though for entirely different reasons). The points traditionally highlighted by the Left include: (a) that the World Bank is irrelevant rather than central to the goal of eliminating global poverty, (b) the Bank is driven by the interests of key political and economic institutions in the G-7 countries—particularly, the US financial interests and (c) the dynamics of the Bank’s growth derive not so much from the external demands of poverty alleviation or promoting growth but to the internal imperative of bureaucratic expansionism or empire-building. Perpetuating colonial relationships in a post-colonial world, the Bank through its different categories of lending, project, sectoral, structural etc., is identified largely as a mammoth institution serving to strengthen the hold and power of the rich countries over others less developed.

On the surface, [the Bank’s programmes of] structural adjustment may appear to be a package of technical measures and this is what the Bank always claims. A closer look at both the analytical techniques and the recommendations that follow from them shows, however, that they result in freezing countries in existing patterns of productions which are, on the whole, the ones left over from colonialism....The imposition of structural adjustment worldwide is a profoundly ideological choice, not only because it harms nature and the poor as the NGOs claim, but also because it casts the New World Order in stone. This New World Order turns out to look uncommonly like the old one and has been instated in little over a decade without firing a shot. The only troops deployed have been the battalions of uniformed economists. 31

Scholars on the Right too are largely critical of what they regard as the Bank’s inefficiency and squandering of hard-earned tax-payers money in development projects in the developing world.

IDA appears to be a black hole into which taxpayers pour billions of dollars for bad projects and pork-barrel contracts for a few American firms.... Project failures are now legion... IDA-funded projects, from massive road-building and colonization projects in the 1980s to monstrous dam projects in the 1990s, have left a trail of

poverty and destruction in their wake. Contrary to bank claims, projects like these are not exceptions in an otherwise beneficial or even benign project portfolio; they are evidence of the bank's chronic failings that continue to this day. When the costs of IDA membership are examined alongside the dismal development record of IDA projects, little justification for continued IDA funding remains. IDA projects have caused untold harm to the people, environments, and economies of many Third World societies, all the while draining the pocketbooks of donor country taxpayers.\textsuperscript{32}

The picture that is drawn of the World Bank is that of a massive institution that is driven to lend more by institutional imperatives than actual need in the recipient countries - that is burdened by high failure rates both in its project lending and its programme lending - that has poor monitoring capabilities of the sustainability of its projects – and that competes with rather than supplements the regional development banks.\textsuperscript{33}

Organisationally the Bank it must be recognised has several structural limitations. The Bank’s position is limited by a number of external and internal factors. The Bank for example is dependent for a large part of its functioning on the good will of the financial markets, and the political patronage of its big shareholders. The case of IDA replenishments serves as a relevant case in point. For donors, the criterion of economic productivity constitutes often the most important consideration. IBRD loans and IDA credits in other words must appear to be economically productive with high rates of return for donor states. A point to be noted in this regard, is the fact that of the total disbursements of IBRD/IDA resources, paid as

\textsuperscript{32} John G. Thibodeau, \textit{The World Bank's Procurement Myth}, Cato Foreign Policy Briefing, No. 43 (Washington DC, 1996).

procurement costs, the United States of America receives the largest share, 11.14 percent.\textsuperscript{34}

The relationship between the staff and senior management personnel, constitutes another relevant example of institutional shortcoming. The organisation according to the noted Bank consultant Michael Macooby suffers from poor management, where managers behave in a feudalistic manner acting as “dukes, running their departments or offices like fiefdoms.”\textsuperscript{35} The Executive Directors, who are charged with policy making, have been observed to share a most tenuous relationship with senior management personnel.\textsuperscript{36} And though several attempts at reorganisation have removed a few hierarchical layers, yet the Bank remains highly bureaucratic.

**LENDING FOR DEVELOPMENT: CAUSES AND EFFECTS**

The Bank, it must be noted, has never been an ideological monolith. Behind the official public version, there have always been arrays of opinion, many of which contradict the official view. The dynamics of interaction between those supporting change and those interested in maintaining a status quo, have guided the pace of development, historically. The shift has been “natural and organic”, more

\textsuperscript{34} Italy with 9.04 percent comes next after USA, followed by Germany 8.43 percent, the United Kingdom, 7.37 percent, France - 6.94 percent and Japan 5.39 percent. Source: *Annual Report of the World Bank, 2000* (Washington DC, 2000), pp. 138-140.

\textsuperscript{35} Michael Macooby as quoted by Dr. Michael Irwin, *Banking on Poverty: An insider’s look at the World Bank*, Cato Foreign Policy Briefing No.3 (Washington DC, 1990). Dr. Michael Irwin, it may be noted worked as the acting Vice President for personnel for a year before resigning from the Bank in 1990.

\textsuperscript{36} Dr. Irwin, cited above, in his article mentions the testimony of Robert Picciotto, Vice President for Corporate Planning and Budgeting, regarding the “mushroom approach” adopted towards the Executive Board. -“keep it in the dark, and feed it garbage”, to illustrate the contemptuous attitude of senior staff members towards the Board.
evolutionary than revolutionary. The section below takes a look at the evolution of the Bank’s operational portfolio, identifying the main improvisations and extensions made in its agenda, through the years.

Early Response: Away from Reconstruction to Advisory Role in Development

In the late 1940s and early 1950s, when the Bank started its operations, the task of lending to countries was relatively new. The founders of the Bank as well as its first few Presidents had vivid memories of the pre-war economic situation, especially in connection with the loans granted during the 1920s and 1930s. The founders of the Bretton Woods system were therefore determined not to repeat this experience, and this gave rise to the “project approach” to lending. The intention was to insure that funds were well used, and the founders sought to do this by tying funds to projects.

It may be recalled that one of the fundamental purposes behind the creation of the Bank, was the demand for reconstruction of the war-torn economies of Europe. The Bank’s first three loans provided in the late 1940s to fund projects in France, the Netherlands and Denmark were made naturally for reconstruction purposes. However, with the onset of the Cold War and the US launching of the Marshall Plan to aid the European countries, the demand for Bank’s funds eased and the Bank subsequently

38 During the 1920s a large amount of bonds had been sold for general purpose financing, mostly by Latin American and European municipalities. The proceeds had not been well applied, and nobody had made any attempts to evaluate the performance nor the creditworthiness of these economies before selling bonds. The result was large-scale defaults in the 1930s.
scaled down its activities in reconstruction. According to President Black, “it rapidly became apparent that the task [of reconstruction] was far beyond the Bank’s resources and not capable of being handled on a bankable basis.”

With the result, the salience of development as an objective relative to reconstruction began to grow fairly early in the Bank’s career. “We came to feel that, as the banker to a country, we ought to evolve into the role also of a development adviser”, stated Senior Vice President Operations, Burke Knapp. The consenting nod from one of its biggest shareholders, the United States of America was important. “If we lend money for a rail road, or a coal mine, or a power plant, we wish to see that it is used for that purpose so that we may be able to satisfy ourselves and our investors that it was so employed.” Taking cognisance of the American influence and control in the running of the Bank’s operations, the Bank management had to reassure the latter that the funds sanctioned would be put to proper use meeting the desired project objectives. Nevertheless, the American support to the Bank’s interest in development work seemed to be “more hesitant and conditional.” once the Bank embarked upon development.

In the early 1950s, keeping in mind the topicality of development and its link with economic growth, the principal development goal for the Bank was largely the

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40 In March 1950, Poland expressed its displeasure at the Bank’s subservience to the Marshall Plan and the intended subordination of Europe to the US, by withdrawing from the Bank.
42 J. Burke Knapp, Senior Vice President Operations, n.37.
expansion of the aggregate growth rate of countries concerned. Projects to develop electric power and transport facilities were thus accorded priority in the Bank’s lending and operational portfolio. For example, soon after Japan joined as a member of the Bank in 1952, in October 1953, the Bank approved three loans amounting to US$ 40.2 million, all for power generation in that country. The primary condition for development according to the Bank was an adequate complement of public overhead capital: railways, roads, power plants, ports and communication facilities. In line with the thinking of a section of economists, the Bank felt that market incentives worked inadequately in the developing countries, making it necessary to complement the development needs of capital, with governments playing a major role in the determination and allocation of finances and investments.

The “country” approach to development became an established hallmark of the Bank’s strategy in development. The Bank’s financial mandate to expressly provide loans to countries for development gave it a leading edge over other international agencies.

There were other agencies who offered that kind of advice and counsel but they didn’t have the money to back up their ideas and advice; that’s where the World Bank, as a financial institution held a great advantage over other types of institutions in providing development advice. It could marry up its advice with financing and this gave it a leverage, if you like, an entrée into relationships with countries that was denied to other institutions equally anxious and perhaps, equally competent to provide advice but lacking the resources to follow up.45

The “mission” approach constituted another relevant innovation. Teams of personnel designated specially by the Bank to study the needs, potential, and requirements of countries of the developing world, became the operative norm.

Many of the more sophisticated developing countries; at least, were rather resistant to entering into a discussion with the Bank about their economic and financial policies

45 J. Burke Knapp, Senior Vice President Operations, n.37.
or even their broad economic development plans. They felt that this was none of the business of a bank which was simply looked upon as a source of finance for projects. The concept of an economic partnership, or the concept of bringing the Bank aboard with them as economic adviser and counsellor, took a lot of persuasion and even from the Bank side, some insistence.46

The first comprehensive country economic survey was carried out for Colombia between July and November 1949. In 1950, the Bank carried out its first sectoral study with the FAO of the Uruguayan agricultural economy. As the banker to a country, the Banksought to evolve into “the role of development advisor, especially in the light of the concept that the creditworthiness of the country depended upon the broadest analysis of its economic plans and economic potential.”47 The Bank’s own researches boosted this role, whereas its financial bargaining power helped establish its leadership in the capital market.

Soft Loans and Basic Needs Approach

The late 1950s and the early 1960s witnessed the creation and formation of two new affiliates of the IBRD, the International Finance Corporation (IFC) and the International Development Association (IDA). The IFC was an affiliate, directed towards encouraging the growth of private enterprise in client countries.48 The IDA on the other hand emerged as the “soft window” of the Bank, responsible for financing for projects in the developing world, on concessional terms.49 India, in fact may be given the credit for the creation of the IDA as it was on its suggestion that the

46 Ibid.
47 Ibid.
48 The IFC has helped many transnational corporations to establish themselves in developing countries.
49 See IDA in Retrospect: The First Two Decades of the IDA (Washington DC, 1982) for a review of the early history.
idea of having a special agency providing concessional resources for development was established.50

The history of the IDA negotiations provides an interesting case study of the tussle between the UN and the Bank. In 1949, a UN economic development agency funded by donors was proposed, which would make low-interest loans for a variety of development purposes. The idea was given a concrete shape in the form of a Special United Nations Fund for Economic Development (SUNFED) in the early 1950s. However, for most part, the above design was rejected by the Bank, in particular the United States of America. The search for alternatives led finally to the establishment of the IDA in 1960. It may be noted that though most of the industrial countries supported the creation of a body like SUNFED, they were wary however of it being controlled directly by the United Nations - an IDA type of institution under the control of the Bank, served a better purpose.

The "soft" character of IDA credits was evident in the 50-year period allocated for repayments and the 10 year grace period given to governments before they started to repay. There was also no interests that were charged except for the 0.75 percent service charge to be paid annually. For borrowers the attraction of IDA's concessional loans was therefore considerable. The creation of the IDA, boosted significantly the Bank's potential to intervene in the field of development. The first IDA credit totalling $9 million was awarded to Honduras for a programme meant to develop and maintain motor highways. The IDA was financed largely out of the replenishments provided by the Part I countries, and several donor countries during this period sent in

50 The suggestion regarding the IDA was made by the noted Indian economist V.K.R.V.Rao in the report of the Sub-Commission on Economic Development set up by the UN Economic and Social Council (1949-50).
specific requests to the Bank to have missions visiting countries that had previously been under their control.\textsuperscript{51} The mission approach combined with soft lending from the IDA proved useful, and many countries, including even those slightly hostile, opened up to the idea of seeking Bank's assistance for development.\textsuperscript{52}

It was during this period that the Bank took its first steps towards lending to the social sector. Under the presidency of Eugene Black, in 1962 the Bank made its first ever loan towards education. Social sector lending till then had been generally viewed as a non-bankable proposition. However, shortages of skilled labour in the developing countries, made the Bank rethink on education accepting loans for education to be a worthwhile investment towards growth. The share of education to begin with was small, around 1.6 percent of the total, but having once started lending, the gateways were gradually opened within the Bank for projects in the education sector.\textsuperscript{53} Though it must be admitted that traditional sectors within the Bank continued

\textsuperscript{51} "This [was] particularly the case with the United Kingdom. Not that U.K. couldn't organize a mission that was just as good as any we could organize, but if they did it and sent it out the local government was likely to think the report of the mission was made for the benefit of U.K. rather than for the benefit of the colony. So U.K. decided that they would like to have these developing country missions come from the Bank."- Richard Demuth Director of Operations, IBRD, in conversation with Robert Oliver, August 1961, Oral History Research Office (Columbia University, 1969).

\textsuperscript{52} "When Tunisia joined the Bank, the Tunisians regarded themselves as revolutionaries. They didn't trust the Bank, but we had a series of small Bank missions there, getting acquainted with Tunisians, educating the Tunisians, and starting off with very small loans in sectors, where we could make some kind of contribution. And gradually the Tunisians got to know us, to trust us, and we got to know and trust the Tunisians and it built up into a substantial lending programmes over the years."- Andrew Kamarck, Director Economic Department, IBRD in an interview given to Robert Oliver on 12 July, 1986, The World Bank/IFC Archives Oral History Programmes.

\textsuperscript{53} An interesting anecdote told by Roger A. Chaufournier, , Economist in the Department of Operations, highlights the changing mentality within the Bank: "one day I met George[Woods, the President] in the elevator and he said, 'where does the project stand?'"- El Chocon hydroelectric project in Argentina. I said, "Well, Mr. Woods, the return is still around six percent." And he said, "Little people only think
to receive the bulk of the operational funds. In 1963-64, under George Woods's presidency, for example, nearly 38 percent of the resources, was devoted towards transportation, followed by 34 percent towards power. Agricultural lending, and water supply projects for example, made up for just 3.8 percent and 5 percent of the total respectively.\(^{54}\)

However disenchantment with the growth models in the late 1960s, coupled with the ascendancy of the basic needs approach, saw the Bank substantially reorient its development thrust. The Bank under the presidency of Robert S. McNamara, moved beyond the question of economic growth to more deeper issues of equity, distribution, and needs.\(^{55}\) The McNamara years (1968-1981) saw vast flow of financial resources from the Bank to the developing countries and a significant reorientation in the kinds of projects that the resources financed. In terms of total lending, particularly after 1973 the Bank diversified the sectoral allocation of its funds away from an almost exclusive concern with funding projects of infrastructure towards projects devoted explicitly to the alleviation of poverty in less-developed countries.

In 1970 the first loan agreement for population planning of US$ 2 million, was approved and forwarded to Jamaica, and the year following that another first time loan for controlling river pollution of US$ 15 million was made to Sau Paulo. This period also saw a noticeable increase in the total amounts allocated for development in rates of return." - Roger A Charfournier in an interview given to Robert Oliver on 22 July, 1986, The World Bank/IFC Archives Oral History Programmes.


\(^{55}\) "It was McNamara with his crusading zeal and his rich imagination of how to transform the Bank more into the direction of a development institution....it was a case rather of the institution needing to go in certain directions and finding the leadership for it." - J. Burke Knapp, Senior Vice President Operations, IBRD, n.37.
purposes. In 1972, for example, for the first time the Bank crossed the US$ 3 billion mark. In 1979, the Bank crossed the US$ 10 billion mark in terms of total lending. In 1980, its authorised capital too saw a tremendous increase, to stand at US$ 85 billion. In sum, the Bank under McNamara became the most publicised antipoverty agency in the world as the international development community entered an era of poverty-oriented development projects.

**Lending for Policy Adjustments**

As already noted in the previous chapter, the above approach to development proved to be short-lived. By the end of the seventies, a new model focussing on the need to adjust gained prominence. McNamara first proposed in April 1979 long-term non-project assistance in return for structural adjustment at the UNCTAD meeting in Manila, and in March 1980 the Bank made its first such loan to Turkey, to the tune of US$ 200 million. The loans made under structural adjustment were roughly of two kinds. One, called structural adjustment loans (SALs) itself, and the other sectoral adjustment loans (SECALs). Whereas the first category took care of macro-level reforms, the latter set of loans governed adjustment or policy changes in any one sector of the country's economy, such as energy, agriculture, industry etc.

The conditions that the Bank laid down for policy reforms were included in the very structure of loan agreements. Governments had to adhere to the conditions either prior to the release of the first tranche of resources or in the course of subsequent release of resources. An analysis of 91 SALs and 154 SECALs by the Bank revealed a total of 11,078 conditions of which 3,386 were conditions associated with tranche release. Also almost 100 percent of the SALs and almost three-quarters of the SECALs had conditions for rationalising government finance and
administration. For IDA and Sub-Saharan African borrowers, 90 percent of all loan agreements were reported to have such conditions.56

A new trend of "policy-based lending" characterised thus the Bank's operations.57 As per the Articles of Agreement, the Bank is prohibited from making loans "except in special circumstances" other than the project type.58 A judicious interpretation of the "special circumstances" clause by the Bank management legalised thus the change from the traditional project type to a more policy-based lending programme.59 For the Bank, the experience of policy lending was relatively new - a brief experiment in 1964-65 in the Indian context served as the only known case of policy reform. The decision to move towards policy lending was largely a result of the Bank's own assessment of its declining effectiveness. McNamara and his small group of senior officials took the lead and made structural adjustment the top of the agenda programme.

The Executive Board as already mentioned elsewhere in the chapter was hostile to the suggestions made.

Some of the scepticism was undoubtedly the consequence of the lack of preparation or persuasion of the board on the merits of the new SALs. A major policy shift was presented abruptly, with a minimum of argumentation. This manner of doing business provoked

57 The change was best symbolised in the Bank's report in Accelerated Development in Sub-Saharan Africa (Washington DC, 1981) The recommended strategy of development consisted of the retreat of the State from economic life and the opening up of economic activity to the free play of market forces.
58 Article 4(vii) states : "Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction and development.
59 "It is remarkable that this evolution has taken place without any significant changes in the Articles of Agreement which was written at the time of the Bretton Woods Agreement in 1944, with primarily a bank- a financial institution – in mind, and yet the Agreement has proved flexible enough to encompass the major changes which have taken place in the character of the institution." - J. Burke Knapp, Senior Vice President Operations, IBRD, n.37.
resentment and informal dissent....The Board certainly did question the rationale for combining non-project assistance with conditions requiring major policy changes. They accepted the policy of restricting programme lending to countries whose policy environment was, in the Bank's assessment, favourable. But they did question why countries which had not yet succeeded in creating the "right" policy environment should be given loan finance. What function did loan finance play in the process of getting major policies right? Unlike a physical investment project, policy reform did not require money: either policies were reformed, or they were not....The Board did not want to use loans to "buy" policy change, to persuade reluctant developing countries to undertake reforms...using loans for leverage in this way was meddling in developing countries' internal politics: it would damage the Bank's stance of political neutrality and, to be successful, it would require political skills which the Bank did not possess.60

The commission of structural adjustment lending raised a number of questions. Divisions remained within the Bank on questions of leverage and the effectivity of such loans. During the Clausen Presidency (1981-86), 37 such loans of a total value of US $ 5259 million were made.61 The changes suggested were crucial and very shortly within a span of six years that Clausen headed the Bank, the practical limitations of the suggested policies started to appear. Sufficient evidence and pressures over growing poverty and social neglect began to build up, leading to a process of rethinking on adjustments and reforms, within the Bank.62 During the latter half of the eighties, increasing debt burdens and the problematic relationship of adjustments vis-a-vis the poor, constituted the main reasons of worry. The Conable presidency (1986-1991) saw a softening of the orthodox approach and the emergence of a number of new initiatives complying with the demand for adjustments with a human face.

60 Mosley, Harrigan and Toye, n. 26, pp.34-36.
61 Ibid.,p.39.
62 The World Bank's own Task Force on Poverty report published in 1983 for example, showed that discussion about structural adjustment loans largely ignored issues of poverty alleviation. "Poverty issues" noted the report had seldom featured significantly in such dialogues, and the analysis of structural adjustment programmes had rarely considered who would carry the heaviest burden of adjustment."
Attention to Social Costs of Adjustment

The “Programme of Actions to Mitigate the Social Costs of Adjustment” in Ghana constituted one such intervention. The PAMSCAD initiative as it came to be called, exemplified the desire of the Bank to supplement the programme of adjustments with a set of complementary social sector programmes. Forced to take cognisance of cut backs in health and education, the Bank offered additional resources to create a large number of public employment programmes to check further deprivation and misery. The Bank around the same time also co-sponsored along with the WHO and the UN Fund for Population, a conference on Safe Motherhood in Nairobi, to draw attention to the health needs of women.

A related initiative the Debt–Reduction Facility started in August 1989, with the objective of easing the burden of external commercial debt of countries, saw the Bank also enter into debt relief. Initially the Bank believed that the “debt crisis” amounted to a liquidity problem, which could be resolved by a package of financial flows and short-term debt relief. However, by the late eighties and early nineties, it became increasingly clear that such packages were not sufficient for the heavily indebted low-income countries. In 1989 therefore, the Bank set up a facility with the initial transfer of US$ 100 million from the Bank’s net income, towards the reduction of commercial debt arrears of countries heavily indebted.

With growing poverty levels across the world, the early nineties turned out to be a turbulent period in the history of the Bank. In 1991, the Bank under the presidency of Lewis Preston, instituted a first ever in-house committee to survey the

63 In January 1990, the biggest ever IBRD loan in nominal terms US$ 1,260 million was made to Mexico towards this purpose.
overall performance of its *entire* loan portfolio.\textsuperscript{64} The Task Force reviewed about 1800 Bank projects in 113 countries, and concluded that about 20 percent of the projects surveyed, presented major problems. Furthermore, the Task Force report revealed that the proportion of troubled projects had in fact increased from 11 percent in the early 1980s to 37.5 percent for projects in 1991 in areas such as telecommunications, power, industry, poverty, environment etc.\textsuperscript{65} The report also questioned the conventional wisdom regarding the relationship between staff time and loan quality in its assertion that the longer the time taken by the Bank staff to prepare projects, the less successful the projects tended to be. Above all, the lack of borrowers' commitment and the high degree of non-compliance by countries of loan agreements were diagnosed as one of the main reasons for the poor performance of Bank projects.\textsuperscript{66} The Wapenhans report created quite a stir at the level of the Board of Directors and for the very first time in its history, the Bank, was forced to admit of major failures.\textsuperscript{67}

\begin{footnotesize}
\textsuperscript{64} Headed by Will Wapenhans Vice President Administration, the Task Force submitted its report in 1992.
\textsuperscript{65} In 1991, for example 18 percent in telecommunications, 22 percent in power, 17 percent in industry, 28 percent in poverty, 30 percent in environment and 23 percent in private and public sector reform projects qualified as problematic.
\textsuperscript{66} Wapenhans Report as quoted in Susan George and Fabrizio Sabelli, n.31, p.224.
\textsuperscript{67} Though the Wapenhans Report was never made public, excerpts of it however got leaked outside from different sources. A leaked memorandum of Lawrence Summers, the Bank’s Chief Economist, for example gave vivid details of the report, and needless to say, critics of the Bank widely and liberally distributed this. The memo read : “Wapenhans recorded over 400 pages of anonymous testimony which slammed the Bank for ignoring local input in favour of policy mandated from Bank headquarters, that was not even consistent. One borrower said that Bank staff insisted on as many conditions as possible, some of which reflected insensitivity about the political realities of the country....Another borrower said that the Bank staff “take a negotiating position not a consulting position- they know what they want from the outset and aren’t open to hearing what the country has to say,” while a third said that they felt “psychologically pressured” to take it or leave it, and the country then ends up with conditions that it has no way of honouring and a contract that cannot be
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Reform and Renewal

The revelations of the Wapenhans Report undoubtedly called for a new strategy and style of functioning on the Bank’s part to enhance its effectiveness and performance. Under the presidency of Lewis Preston, the Bank experimented with several new approaches. Six broad principles were laid down to enhance the Bank’s effectiveness. These were: first, greater selectivity – a more sensible sharing of tasks within the international system; second, increased collaboration between partners - from the private sector to non-governmental institutions; third, deepening client relationships – country ownership of projects and programmes; fourth, measuring success by results; fifth, cost-effectiveness and lastly excellent financial management. 68

Preston’s tenure as President saw a number of noteworthy changes within the Bank. The reduction of poverty following the brief impasse of the structural adjustment phase became once again the overarching objective of Bank operations. Alongside, an in-house reorganisation became necessary. In 1992, three new offices of Vice President dealing with (1) Human Resources Development and Operations Policy, (2) Finance and Private Sector Development, and (3) Environmentally Sustainable Development, were created. In addition for the first time in its history, the Bank established in 1993 an independent Inspection Panel with the explicit mandate to receive and investigate complaints against the Bank itself.

The Bank under James D. Wolfensohn, offered its outlook in the following phrases: "cost-effective, responsive, and flexible institution able to deliver timely, high quality advice, supported by financing for the implementation of programs and projects." Four main points underlined the approach: (1) a new compact between donors, investors and recipients, (2) the integration of social, cultural, and institutional issues with development; (3) the Bank to serve as a knowledge organisation; and (4) to revitalise the Bank's quality. Global poverty had registered an increase, and it was acknowledged that much of it stemmed from the reform programmes being advocated by the Bank. At the Bank, though it was acknowledged that there had been huge social and human costs associated with adjustment, yet adjustments per se were thought to be "better for the poor than non-adjustment." Political opposition to the reforms agenda, required thus a more cautious approach on the part of the Bank. The Washington Consensus that had provided the ideological backing in the eighties had encouraged a hard-headed approach. The new Washington Consensus on the contrary, spoke of a more level-headed access, focussing on issues such as equity, democracy and sustainability, previously neglected. The problem of falling ratio of successful interventions, coupled with potentially charged political opposition to its reforms agenda, underlined the need for a softer and more flexible approach. For the Bank, the best defence that it could put forth in the face of growing criticism was evidently that of reforming itself. For

69 Ibid., p.10.
71 Herman Daly, Senior Economist in the Environment Department of the World Bank who resigned after six years of work at the institution in January 1994, had an interesting point of advice for the Bank staff in his farewell speech: "My prescriptions will be of two kinds, internal and external. First, a few antacids and
those donor nations critical of its falling standards and showing hesitancy towards contributing resources, the Bank put up a determined case of appearing to be more stringent and particular about the efficiency and quality of its interventions. For those making the charge that the Bank was too "elitist, resistant to change, reluctant to listen to criticism and reluctant to acknowledge its mistakes", the Bank professed to be putting the past behind, and forging a new working relationship based on principles of partnership and ownership.  

The Bank must change if it is to be effective in the rapidly changing global economy—where private capital flows are five times greater than official assistance, where many different actors (from multilateral banks to NGOs) now play a much greater role in development, and where technological change has revolutionized the way business is done. The Bank has been slow to respond to these changes—with overly bureaucratic processes, weak capacity in key areas (e.g. the social sectors, institution-building, banking), and insufficient impact from the projects it supports.

The "Strategic Compact", a plan for fundamental reform and renewal of the Bank, announced in 1997, laid down the basics of the change agenda. The Compact identified four broad areas of action for reforms. These were: (1) refuelling current business activities, (2) refocusing the development agenda, (3) retooling the Bank's knowledge base and (4) revamping institutional priorities.

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72 In this context it may be noted that in September 1995, the Bank announced the establishment of two Bank-wide working groups on Change Agenda: one to focus on the issue of professional excellence, and the other on how to develop a culture of client responsiveness, results and accountability.

73 The speech as available on the website www.whirledbank.org.

74 The "Strategic Compact: A Summary Note" (www.worldbank.org).

The Compact called specifically for the following few measures: (1) shifting resources from overhead and administration to front-line operations (with the goal of achieving a 60:40 front-line to back-line ratio, compared to the current ratio of roughly 50:50), (2) developing a new range of financial products and advisory services—with the emphasis on relevance and timeliness for clients, (3) eliminating
For the Bank, the choices of activities were predetermined in a way, by the endorsement internationally of a specific definition of poverty and development. Human capital development for example, became a sector of priority in the Bank’s anti-poverty lending. The Bank was agreeable to investing both time and resources into the concerned sectors of health, education and social security. The Bank also broadened the horizon of its debt relief work by accelerating such activities under the Heavily Indebted Poor Countries (HIPC) initiative adopted in 1996. Similarly the relevance of sustainable models of development led the Bank to increase also substantially its resources and diversify the thrust of its environmental portfolio. The emphasis on equity and democracy led it to similarly champion “second-generation reforms” dealing with intricate issues such as good governance, the creation of independent and effective regulatory agencies and reforms of the existing public services in client states.

All these operations were in a way new. The Bank’s advocacy had previously never extended to such domains. Even during the eighties, its reforms programmes had extended primarily to that governing policy changes at the economic level, with

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cumbersome, inefficient processes to make the Bank quicker, leaner and more cost effective, (4) rebuilding technical expertise in key areas of development, and expanding the Bank’s focus in those areas-with the social sectors, institution-building and the private sector immediate priorities, (5) further decentralising activities to the field in order to better customise country assistance strategies, design more appropriate conditionality, and build local ownership of development programmes, (6) strengthening the Bank’s information management system to collect, synthesise and disseminate the best in development thinking, (7) reforming the Human Resources system to create a more flexible, performance-based, and diverse institution, and (8) creating new and stronger partnerships with other organisations to enable the Bank to be more selective and specialise in those areas where it has a comparative advantage.
social policy being largely excluded from the realms of the Bank’s operations. However, advocacy of the above agenda now served a special purpose. For the Bank, significantly, it lent credence to the notion of a “different Bank”, doing business differently.

In 1998, the Bank announced a new “Partnership for Development” initiative. The initiative was essentially a fallout of two visible trends within the Bank. One, a reassessment of the effectiveness and the role of aid in response to declining aid budgets. Second, a realisation that conditionality had not been effective for inducing reform and that instead governments and civil society must “own” the reform process.

The initiative stressed significantly on four different points. These were (1) government ownership, (2) partnership with civil society and the private sector, (3) donor coordination and (4) selectivity.

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76 The Bank’s own Assessing Aid document had highlighted that efforts to “buy” policy improvements in countries where there was no movement for reform, by contrast had usually failed. Assessing Aid: what works, what doesn’t and why? (Washington DC, 1998), p.2.
77 Government ownership: The proposal put developing country governments and their people at the centre of the development process, by requiring governments to develop their own national development strategies. Partnership with civil society and the private sector: The approach highlighted the crucial role played by the participation of civil society and the private sector in the design and implementation of the development strategy. The government was to be responsible for consulting with national agencies on the contents of the plan to be drawn. Donor Coordination: The lack of coordination between donors meant that each donor has a different game plan for the country concerned. This it was felt overburdened borrower governments, and thus the approach called for an integration of donor strategies and coordination between agencies in support of the country’s development. Selectivity: The partnership initiative highlighted two dimensions to the selectivity question, One, whether the country was willing and able to develop and take the lead in implementing its own strategy and two, the selective option exercised by donors as to what projects to fund.
The Bank’s “Comprehensive Development Framework” (CDF) announced in 1999 further refined the above Partnership initiative. The CDF with its emphasis on a “holistic approach” and a “transition from donor-led development assistance strategies to the development of a country strategy led by the country itself”, constituted an important landmark in the Bank’s operational history. Unlike the previous emphasis on minimising the functions of the State the Bank now acknowledged a major role for the State in a system of market-led growth.\textsuperscript{78} Participatory development and related issues of good governance took centre stage. The Bank actively formalised operational collaboration between NGOs and the Bank in nearly every area of the Bank’s operations, and more so in the most sensitive sectors such as adjustment lending.\textsuperscript{79} In terms of an organisation, whose mandatory obligation lay towards the “promotion of private foreign investments”, the CDF proposal was perhaps the most comprehensive plan of action that the institution could summon, to manage the integration of free market systems world-wide.

However, one need not be over enthused with the positive trappings of the CDF. There are on closer analysis several undercurrents of tensions. That the national

\textsuperscript{78} The 1997 World Development Report, titled “The State in a Changing World,” provides a comprehensive review of the changes. The report lists out five fundamental tasks for the government. One establishing a foundation of law, second maintaining macroeconomic stability, third protecting the environment, fourth protecting the vulnerable and fifth investing in basic social services and infrastructure. Given the broad responsibility, the report however goes on to clarify the significantly important point that the state alone need not carry all the responsibility of providing the above services. According to it, although the state has a central role in ensuring the provision of basic services, i.e., education and health, “it is not obvious that the state must be the only provider, or a provider at all. The state’s choices about provision, financing, and regulation of these services must build on the relative strengths of markets, civil society, and state agencies.” World Development Report 1997: The State in a Changing World (New York, 1997), p.27.

\textsuperscript{79} NGO involvement in adjustment lending in fact increased substantially as the latter set of programmes registered an increase in the late nineties. Various issues of the Bank’s Progress report of Cooperation between the World Bank and NGOs.
governments enjoyed the right to formulate their own development plans under CDF did not mean, for example, that the supervisory role of donor agencies in determining largely the nature and scope of development policies was to be abandoned. Operationally the CDF provided enough leeway for the Bank to continue determining policy agendas, without actually appearing "aggressive." The criteria of selectivity for example, determined largely by the government's track-record with reform and in the case of a new country the willingness of that government to carry out reforms, ensured availability of loans to only those countries embracing the Bank's set agenda of reforms. Notably, the CDF proposal also did nothing to rework the Bank's practice regarding conditionalities. It may be noted that the Bank has always attached conditions to aid given. In the past these conditions were specific to the projects, whereas since 1980s the character of conditionalities changed and programme conditionalities became the more common and frequent instruments. The CDF interestingly made no significant break from the past.  

The adoption of the CDF paradigm instead, posed a number of challenges. The resolution of tensions where Bank interests and government priorities conflicted remained unclear. Second the option of selectivity presented the danger of governments drawing up development strategies to fit the Bank's preconceptions. Third, the challenge of being neutral in the selection of NGOs. Who would choose which organisations were to be consulted? What would be the criteria of selection? Furthermore, the challenge of achieving coordination amongst donors? The Bank's involvement in the Special Programme for Africa involving other donors has been

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80 See Angela Wood and Matthew Lockwood, The 'perestroika of aid'?: New perspectives on conditionality (London, 1999), for a summary of positions on the conditionality debate.
poor. As the SPA experience has shown the Bank still regards itself as the dominant partner. And finally the Bank’s credibility in internalising what it recommends to others, regarding democracy, transparency and accountability remains a moot aspect.

The Commission or Global Governance has rightly drawn attention to the fact that the governance issues concerning the World Bank are not simply those about money.\(^{81}\) Leadership inevitably involves the assumption of certain responsibilities. The Bank in order to retain its position must demonstrate its capacity to bring about changes commensurate with its responsibilities as a premier development agency. The Bank’s primacy in the coming decades will actually depend largely upon how well and how quickly it is able to adjust and respond to the changing situations and needs of the developing countries.