EXPANDING ROLE OF THE WORLD BANK

Dissertation submitted to Jawaharlal Nehru University in partial fulfilment of the requirements for the award of the Degree of
Master of Philosophy

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CERTIFICATE

Certified that the Dissertation entitled **"Expanding Role of the World Bank"** submitted by **Shalini Chawla <u>nee</u> Punhani,** in partial fulfillment of the requirements for the award of the degree of **Master of Philosophy**, is her bonafide work to the best of our knowledge. We recommend this Dissertation be placed before the examiner for evaluation.

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CONTENTS

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Preface

After the end of the Second World War, there was a need felt for a co-ordinated effort for the rehabilitation and development of the war-shattered economies. It was considered essential to develop a phased programme of economic development in order to facilitate reconstruction and development in these economies. There was a desire for lasting peace. Also, the nations which had just attained independence were in need of economic assistance for the much needed improvement in their standards of living. This was considered a prerequisite to sustain peace.

The Bretton Woods Conference held in 1944 resulted in the establishment of the "International Bank for Reconstruction and Development" (IBRD) for the twin purposes enumerated in the name. During the past fifty years, IBRD (World Bank) has grown bigger in size, membership, and has also expanded its functions to turn into the biggest financial organisation of the world.

Over the years, the Bank has displayed an increasing tendency to respond to the growing needs of the developing world. This has led to the creation of its affiliates, namely International Development Association (IDA), International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA).

Since its inception, the Bank has not kept its lending patters constant, and its efforts have been largely in the direction of solving the problems of underdevelopment. Over the years, enhancement in the Bank's mandate has been observed, and in the present decade, the Bank operates with a holistic approach embracing a more comprehensive understanding of development. It now also concerns itself with issues relating to human rights as well as Governance. Today, the Bank's effort is in the direction of institutional development for better implementation of development policies.

The Bank has gone beyond finance to involve itself in an increasing variety of advisory roles based on its work on countries' economies and their key sectors. It has contributed in different ways to building capacity for development. Today, the Bank is also influencing governments as it recognises that political stability and good governance are essential for the development of economies. The working of the World Bank influences the International Monetary Fund as well.

Thus, the Bank is playing an increasingly important role in the present world. The importance and appropriateness of a study of the expanding role of the World Bank in the present day world influenced me to choose this as the topic of my study. The study attempts to analyse how the Bank, in its struggle for economic development, has expanded its mandate or rather gone much beyond its mandate, what effects its changing lending policies have had on developing economies and it also attempts to suggest some steps that could be taken by the Bank in the future.

INTRODUCTION

The International Bank for Reconstruction and Development (IBRD) recently celebrated 50 years of its existence. It is an evolving and learning institution and has built on its successes and mistakes. It came into being to reform the global economic system, which had failed miserably during the depression, and to lay the foundation for a new era of growth with stability, through a process of intergovernmental co-operation. The post second world war era presented a very depressing economic picture and a lot needed to be done to get the international economy moving again. The economic scenario was marked by the domination of the United States while the European and the Japanese economies were in ruins. Colonialism, non-existence of democracy or existence of infant democracies were also features of this period.

International economic co-operation became a necessity and thus, delegates from 44 countries , at Bretton Woods in July 1944, envisioned a global institution, "to assist in the reconstruction and development of territories of members -- and the encouragement of the development of productive facilities and resources in less developed countries, thereby assisting in raising productivity, the standard of living and conditions of labour in their territories.

Over the last five decades, the world has changed dramatically and so has the IBRD (World Bank). The Bank has moved from purely a lender to projects to various other activities, including policy lending. It has also emerged as an intellectual thinktank on developmental issues.

In order to accommodate shifting developmental priorities, new affiliates were added to the Bank - the International Finance Corporation (IFC) in 1956, the International Development Association (IDA) in 1960, and the Multilateral Investment Guarantee

Agency (MIGA) in 1988. As a result, the World Bank has become the World Bank Group.

The objective of this study is to improve the understanding of the expanding role of the World Bank, how the Bank has changed learning from its experiences, enhancing its understanding of the development process and recasting its analytical and financial support to help its borrower/ member countries. The study attempts to analyse and provide a comprehensive understanding of how the Bank has expanded its role to such an extent that it has gone much beyond its professed mandate. The study also attempts to provide a critical analysis of the Bank's organisation and its lending in successive periods.

The Bank came in with mainly two objectives - to help the war torn countries by providing long term credit for reconstruction, and to provide long term financial assistance for developmental purposes of the developing countries (Article 4 of the World Bank forbids it from involving itself in the political affairs of countries and restricts its lending to the government and government guaranteed projects). Although the World Bank began as a financier of post war reconstruction, it has changed its lending priorities over a period of time and, today, it does not confine itself to these objectives. In fact, it can be safely said that its fifty years of experience has validated the Bank's fundamental objectives today.

This study is framed under four heads:

Chapter I - "Basic objectives of the World Bank" deals with the birth of the institution. It talks about how it came into being due to consciousness and efforts to fight the twin problems of reconstruction and development. It also enumerates the basic objectives underlying the institution as announced in its charter.

Chapter II - "World Bank - its Organisational Structure", elaborately discusses the organisational structure of the Bank. It also discusses the financing of the Bank and lending by it.

Chapter III - "Changing Lending Policies of the World Bank", discusses the shifts in the lending policies of the Bank.

The Bank began as a financier of post war reconstruction in Europe in the 1940s. In the early 1950s, it shifted to conservative lending for what were considered "Bankable projects" and much of the lending focused on basic infrastructure development. Article 4 was later interpreted differently and it became a full blown development agency in the 1960s.

Under the presidency of Robert McNamara in the 1970s, the Bank was transformed in a number of ways. What was significant in this period was not only the increase in lending but the increase in attention to poverty alleviation and human resource development. Although from the beginning itself, the Bank had considered poverty reduction to be an essential part of development, what really changed in this period were its views about the best way to achieve that goal. Thus, there was a great expansion in lending to rural areas, especially agricultural lending.

In the 1980s, the Bank shifted its attention to policy reforms for the improvement of the prospects of development. The policy reforms were recognised by the Bank as the prime need of the time. Long term finance and structural adjustment policies to make economies more efficient and outward looking also assumed importance. Thus, the World Bank started making structural adjustment loans tied to policy reform.

In the 1990s, the Bank has adopted a more holistic approach. It is placing emphasis on human resource issues and the environment.

Chapter IV - "Beyond Lending Issues", is devoted to the activities of the Bank which go beyond lending. It dwells on areas such as Governance, human rights, etc.

The scope of this study is primarily limited to the World Bank and covers its affiliates only if considered necessary in a particular context.

CHAPTER I

Basic Objectives of the World Bank

The world has changed dramatically since 1944 when the International Bank for Reconstruction and Development (IBRD) came into existence. These fifty years of experience have observed a change in the Bank's policy as well as in its posture. The Bank's fundamental objectives have been validated.

In July 1944, the delegates from forty four countries arrived at Bretton Woods New Hampshire to shape the institutional structure of the postwar economy and lay the foundation for the two major institutions, the World Bank and the International Monetary Fund[1]. It was not an auspicious moment to sign an international agreement. Fighting continued in Europe, the Middle East and Asia. The outcome of the war was still uncertain. There was widespread anxiety about inevitable political and economic changes that could come with peace.

There were also suspicions about American and Russian ambitions[2]. The United States dominated the world economy. The economies of Europe and Japan were in ruins. Africa was still under a colonial power and much of Asia was emerging from colonialism. In most developing countries democracy was either nonexistent or in its infancy and the cold war was on its horizon[3]. This was the background against which the forty four delegates gathered to reform the global economic system that had failed miserably during the depression and through the process of intergovernmental cooperation, lay the foundation for a new era of growth with stability.

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1 The World Bank Group, *The World Bank Group: Learning from the past, embracing the future.* (Washington, DC July 1944) p.8.

2 K. Sarwar Lateef, *The Evolving Role of the World Bank: The First Half Century: An Overview* (The World Bank, Washington, D.C. 1994) pp 37.

3 The World Bank Group, n.1, p.8.

It was obvious from the membership that the conference was called primarily to establish the International Monetary Fund (IMF) and that the World Bank was a secondary issue. Most of the developing countries were still colonies and only a relatively few, mainly independent nations of Latin American were invited. The political power lay with the United States and Britain and from the outset it was apparent that issues of development were not to be on the Bretton Woods Agenda[4].

Lord Keynes wrote in a dispatch to the British Treasury about the countries invited to Bretton Woods, "twenty one countries have been invited which clearly have nothing to contribute and will merely encumber the ground, namely, Colombia, Costa Rica, Dominica, Ecuador, Salvador, Guatemala, Haiti, Honduras, Liberia, Nicaragua, Panama, Paraguay, Philippines, Venezuela, Peru, Ethiopia, Poland, Iran, Iraq, Luxembourg. The most monstrous monkey-house assembled for years. To these might perhaps be added: Egypt, Chile and (at present circumstances) Yugoslavia"[5].

Even India shared a close partnership with the Bank since its inception. India was one of the 17 countries which met in Atlantic City and one of the 44 countries which signed the final Agreement that established the Bank. In fact, the name "International Bank for Reconstruction and Development (IBRD) came up first as a suggestion by India to the drafting committee[6]. The Indian delegation to Bretton Woods was led by Sir Jeremy Raisman, Finance Member of the Government of India. This very distinguished delegation played a leading role in Bretton Woods in pressing the case of the developing countries generally, and of India in particular.

[4] Gerald M Meier and Dudley Seer, ed., *Pioneers in Development* (Oxford University Press, 1984) p 9.
[5] Donald Moggridge, ed, *The Collected Writings of John Maynard Keynes* (London : Macmillan and Cambridge University Press, 1980) Vol. 26, p.42 as cited by Gerald M Meir and Dudley Seer, n.4.p.9.
[6] The World Bank, *The World Bank in India*, (Dots Print India Pvt. Ltd., New Delhi 1993) p.4.

"At Bretton Woods, the developing countries tended to view themselves merely as new, raw material producing nations and less as countries with general development problems. Comprehensive strategies of development and policies to accelerate national development were yet to be identified. The Brazilian delegation introduced a draft proposal for an international conference to promote stability in the international prices of primary commodities, claiming that 'fluctuations in the prices of primary products during the inter-war period were as much of a curse as recurring large scale unemployment'. For the successful attainment of the objectives pursued by the IMF and the World Bank, it was thought necessary to promote stability in prices of raw materials and agricultural prices. Cuba endorsed a conference to promote the 'orderly marketing of staple commodities'. The delegation from Columbia urged that future agreements on commercial policy should consider the 'need for enlarging the consumed markets for foodstuffs and raw materials, the prices of which before the war were notoriously far out of proportion to the prices of manufactured articles' that primary producing countries 'were obliged to buy from the great industrial nations'. Bolivia was concerned about 'cooperation in the organisation and implementation of international commodity agreements designed to maintain fair and stable prices and provision for the orderly distribution of raw materials throughout the world'. But these proposals came to naught as did a consolidated resolution for 'orderly marketing of staple commodities at prices fair to the producer and consumer alike' proposed by Peru, Brazil, Chile, Bolivia and Cuba"[7].

Before the meeting, much work had been done in preparing the framework of the institutions. But plans for the World Bank were less advanced, so tentative in fact, that

[7] Gerald M Meier and Dudley Seer, n.4 pp.10.

invitations to the forty four countries represented at Bretton Woods described the meeting as "one intended to formulate definite proposals for an International Monetary Fund and possibly a Bank For Reconstruction and Development" without the goodwill of the delegates at Bretton Woods, it would have been impossible to draft the Bank's charter in so short a time. In Keynes' words, the delegates had to perform simultaneously the "tasks appropriate to the economist, to the financier, to the politician to the journalist, to the propagandist, to the lawyer, to the statesman, even ..... to the prophet, and to the soothsayer"[8].

Proposal for the World Bank

The Bank was initially proposed by the United States, but its name and coming into being were in doubt until almost the last minute. Almost all the preliminary work on the proposed bank had been done within the US government and until the meeting in Atlantic city of the Committee that was to shape the agenda for the Bretton Woods, the participation of other countries had been perfunctory[9]. US first gave expression to its thoughts on an international bank in November 1943. A memorandum was sent to associated governments by Secretary Morgenthau titled "Preliminary Draft Outline of a Proposal for a United Nations Bank For Reconstruction and Development". No comment was received from the British on this document until April 1944 and if so it was not in an inspiring fashion. The main emphasis in British Council was on the importance of reconstruction as well as development and the US technicians had no difficulty in agreeing. They said, "the proposed Bank is intended to facilitate the provision of capital

8 K Sarwar Lateef, ed *The Evolving Role of the World Bank; Helping meet the challenges of Development* (World Bank, Washington, DC, 1995) pp.34-38.

9 Edward S Mason and Robert E Asher, *The World Bank Since Bretton Woods* (The Brookings Institution Washington, D.C., 1973) p.p. 12.

for reconstruction in the immediate post-war period as well as for development purposes"[10].

The Bank was essentially a US proposal but contribution of the British delegation was sizable enough not to be ignored. At Bretton Woods Lord Keynes served as Chairman of Commission II, concerned with the Bank. He said in his opening remarks "I believe we have before us a proposal, the origins of which we owe primarily to the initiative and ability of the United States Treasury conceived on sound and fruitful lines"[11].

Preparatory Work on The World Bank

In the case of US proposal too, which later developed in the form of these two institutions, Henry White was a central figure. White commanded a great deal of influence on Secretary Henry Morganthau and was also a dominant figure among the technical experts in Washington, who during the war were working on post war economic policies.

Of course, it was not only White who was concerned with post war planning and was chasing the possibilities of an international bank. Luther H. Gulick, President of the Institute of Public Administration and Professor Alvin H. Hansen of Harvard University, who had been sent to London on a mission by a US Department of State, proposed in January 1942, the establishment of an International Development Corporation[12].

[10] In a memorandum of May 25, 1994 as cited by Mason and Asher n.9 pp 13.

[11] Proceedings and Documents Vol.1 p.88 as cited by Mason and Asher pp.13.

[12] J Keith Horsefield, Chronicle, Vol.1 of Horsefield (ed), The International Monetary Fund, 1945-1965: Twenty Years of International Monetary Cooperation (International Monetary Fund, 1969) pp.13-14 as cited by Mason and Asher pp.14.

The idea of an international Bank was prevailing in the minds of several experts who were busy with their efforts in the direction. US experts from the Departments of State and the Treasury, the Board of Governors of the Federal Reserve System, and the Federal Loan Agency had worked out a proposal for an Inter American Development Bank, which was accepted in February 1940 by the Inter American Financial and Economic Advisory Committee[13]. White had been one of these experts and his version was issued in April 1942 as a "Proposal for a United Nations Stabilization Fund on a Bank for Reconstruction and Development of the United and Associated Nations."

The two possible precedents on the feasibility of an International Bank were, the Bank for International Settlements established in 1930, and the Inter American Bank proposed in 1940 but which had never came into existence. The creation of the former was basically to handle reparations transfers from Germany under the Young Plan but later became mainly an agent for European central banks in handling gold flows. The Inter American Bank, on the other hand, even though it had not come into existence, had important similarities with the institutions envisaged in the White proposal and in some respects foreshadowed the Articles of Agreement of the IBRD[14].

White's proposal of April 1942 for the Bank for Reconstruction and Development of the United and Associated Nations was influenced by the technical discussions concerning

[13] Mason and Asher, pp 14-15.

[14] Bitterman, *Negotiating History of the Bank* pp 4-11, as cited by Mason and Asher pp. 15.
The proposed Inter American Bank combined the functions of intergovernmental bank, an international stabilization fund and an ordinary commercial bank.
Shares in the Inter American Bank were to be held by the governments, valuing was supposed to be held in proportion to the stock holding. Every country had a member in the board of directors. As far as its functions are concerned they included assistance in stabilizing the currencies, functioning as a clearing house for international payments, making loans, buying and selling the securities of any of the member governments, their political subdivisions or any private entities, and other normal banking functions too.

the Inter American Bank. The statement of objectives by White, clearly presented that he contemplated a far reaching instrument. Among these objectives were - *To help strengthen the monetary and credit structures of the member countries by redistributing the world gold supply. To help stabilize the prices of essential raw materials and other important commodities, [and] to provide for the financing and distribution of foodstuffs and other essential commodities needed for the relief of populations devastated by war conditions*[15].

The proposal indeed embraced functions later shared by the World Bank, the Fund, and the United Nations Relief and Rehabilitation Administration (UNRRA). But certain elements of the proposal clearly foreshadowed provisions in the Articles of Agreement of the IBRD. For e.g.- *The servicing of the loan is fully guaranteed by the national government. The loan is to be made only after a careful study by a competent committee on the merits of the project and the loan. Whenever possible the Bank should guarantee loans made by private investors instead of making loans directly (this provision, however, was greatly qualified)*[16].

Secretary Morgenthau circulated Whites' proposal to other interested agencies of the US government, reported the results to the White House, and in May 1942 was authorised by President Roosevelt to pursue these discussions in the Cabinet Committee served by a technical committee of which White was the Chairman. It was this technical committee that drew up the US proposal circulated in November 1943 to other governments and that provided most of the US technical personnel for the Bretton Woods Conference. The preliminary draft outline of November 1943 was discussed and

[15] Mason and Asher, pp 16.

[16] Bitterman, *Negotiating History of the Bank* p10, as cited by Mason and Asher pp. 16.

studied carefully. In general, we can say that the Banks proposal received substantial approval.

The intention of the frames of the preliminary draft was to establish an institution that would facilitate the international flow of private portfolio investment. The preamble said, "the Bank is intended to cooperate with private financial agencies in making available long term capital for reconstruction and development and to supplement such investment where private agencies are unable to meet fully the legitimate needs for capital for productive investment"[17].

Atlantic City

The representatives of a number of countries met in Atlantic City to prepare the agenda for Bretton Woods The countries represented in Atlantic City were Australia, Belgium, Brazil, Canada, Chile, China, Cuba, Czechoslovakia, France, Greece, India, Mexico, the Netherlands, Norway, the USSR, the United Kingdom and the United States. The US delegation went to Atlantic City but was not sure that the proposal was advanced enough to be put on the agenda for Bretton Woods.

The United Kingdom presented the document worked out by the delegates assembled on the transatlantic liner, Queen Mary, and it came to be known as "Boat draft". The draft indicated in general, substantial agreement with the US proposal though it suggested a number of substantive changes. It proposed a recognition of the subjects

[17] Mason and Asher, pp 18.

covered in a form very similar to that of the final Articles of Agreement and also rephrased a number of provisions[18].

The most important change in the US draft dealt with the Bank's capital structure.[19] A number of suggestions were offered by the United Kingdom and by other delegates at Bretton Woods. These suggestions were taken into consideration and both the proposals were amalgamated into a statement to be placed before the delegates at Bretton Woods.[20]

At Bretton Woods

The draft of Articles presented to the delegates at Bretton Woods was in its general outline quite similar to the Articles of Agreement that emerged from the conference. The titles of the articles and the order of their arrangement were left untouched, with minor changes. The substance of each article, however, was presented in different versions- the US version, the UK version, new material and material taken from the draft of the Monetary Fund proposal. Delegates were asked to submit new suggestions and proposals.[21]

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18 *Ibid* pp.20.

19 In US version, 20 per cent of each country's capital subscription was to be paid in "initially" with the assumption that the share might be increased overtime. The UK draft emphasised a limit of 20 per cent to be paid in, not more than one-fifth of which would be payable in gold. The 80 per cent reserves were there to meet losses.

20 Several Latin American countries wished to have the Bank authorised to make loans for agricultural development and they also desired the Bank to make local currency loans. The United States gave these suggestions due consideration.
US technicians opposed the demand of number of countries to have the bank make loans in gold for currency reserves.
US technical advisors opposed the suggestion of some of the occupied countries which favour a reduction in capital subscriptions for countries that have suffered substantial damage from enemy action on occupation.
US technicians also did not object the suggestions of the United Kingdom for calling in of only a small proportion of the capital subscription i.e., 20 per cent.

21 Mason and Asher pp 21.

The initial work at Bretton woods was devoted totally to the Fund's discussion. But the delegates from many of the developing countries, a number of European countries whose economies had been damaged by the war were more interested in Bank than the Fund and therefore a group was designed to work on the Bank. Lord Keynes took a great interest and attended many of the working meetings. The Bretton Woods creation was to serve the purpose of both reconstruction as well as development. But which purpose could have priority? The European countries naturally stressed reconstruction. The Russians in particular asserted that the primary purpose of the Bank should be to provide assistance in the reconstruction and the restoration of economies destroyed by the hostilities. Developing countries on the other hand, feared that if too heavy an emphasis was put on reconstruction the Bank would never get around to development[22].

There was no restriction on the World Bank regarding the priority of its purposes. It was completely left on the institutions discretion by the draft of Articles. "The resources and the facilities of the Bank shall be used exclusively for the benefit of members with equitable consideration to projects for development and projects for reconstruction alike"[23]. But some sections directed the Bank to pay attention to the war devastated economies.

Articles III sec 3, (of the Agreement) provided that, "the total amount outstanding of guarantees participation in loans and direct loans made by the Bank shall not be increased at any time, if by such increase the total would exceed one hundred per cent of the unimpaired subscribed capital reserves and surplus of the Bank." The question of maximum lending capacity had been left open at Atlantic City. But earlier US

[22] *Ibid* pp 22.

[23] *IBRD Articles of Agreement* Article III Section 1 (a).

pronouncements had suggested that the Bank might commit up to two or three times its total capital subscription.[24]

The Bank's capacity to lend in the first few years of its existence was determined by the size of the US 20 per cent commitment, the 2 per cent from the other countries and obviously what could be borrowed in the New York market where the only guarantee that was considered worth anything was the US guarantee. The specification of conditions under which the Bank could guarantee or make loans closely followed the earlier US proposal. The borrower government should fully guarantee the payment of principal and interest, the merits of the proposals should be studied, the Bank should be satisfied that the money is not available from other sources on reasonable terms etc.

The World Bank is directed by its charter to "impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members".[25] Universal expectation of the founding fathers of the Bank laid in its primary function which was to guarantee private investments. The most important contribution of the Bank to capital flows has been its direct lending.

There was stress from the side of developing countries for the permission of the Bank to lend for the costs of projects paid in local currency as well as the foreign exchange costs and so Article IV section 3 (b) says "the Bank may in exceptional circumstances where local currency required for the purposes of the loan cannot be raised by the borrower on reasonable terms, provide the borrowers as part of the loan with appropriate amount of that currency".

[24] "Questions and Answers", Question 2 as cited by Mason and Asher pp 23.

[25] Article III Section 5 (a).

In general, the World Bank had complete discretion in setting terms on loans and guarantees, but Article IV section 4 provides that during the first ten years of its existence the Bank shall charge a commission of not less than 1 per cent and not more than 1.5 per cent on the outstanding portions of loans made out of borrowed funds, and Article IV, section 5, includes the same limitation with respect to guarantees.

Articles IV section 10 says "The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations, shall be weighed impartially in order to achieve the purposes stated in Article I." The institution was intended to be free from political consideration and this was an effort towards making it a economic institution in true sense.

BASIC OBJECTIVES OF THE WORLD BANK

The World Bank came in with mainly two objectives, to help the war torn countries by giving long-term credit for reconstruction, and secondly, for development purposes of the developing countries, long term financial assistance to be given. Article I of the

Agreement clearly enumerates the purposes of the Bank.[26] Reconstruction and Development were the basic objectives underlying the birth of the institution.

Finally by December 31, 1945, approval to the articles was granted by the governments with requisite number of votes and the United States called the first meeting of governors of the Bank and the Fund to be held in Savannah, Georgia in March 1946.

CRITICAL ANALYSIS

The World Bank come into existence due to the US initiative and efforts. Since the time of its birth the institution was conceived by the United States. At Bretton Woods it was conceived basically as a Western Club and it couldn't be termed truly international at that moment. It was the time when most of the developing countries were colonies or in the process of emerging from colonialism. There was no significant participation from the side of developing countries. Moreover, even when the suggestions came from these countries, they remained immaterial.

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[26] Article I

Purposes:

i. 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.

ii. To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

iii to promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labour in their territories.

iv. To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

v. To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in brining about a smooth transition from a wartime to a peacetime economy.

The Bank shall be guided in all its decisions by the purposes set forth above.

The absence from the Bank of the Soviet Union, the Eastern European States on the one hand, and the predominant position of the United States and other rich capitalist countries on the other, gave rise to misgivings about the Bank in a number of important developing countries.[27] These misgivings impeded the creation and maintenance of feeling of mutual confidence between the World Bank and its low-income, developing members that was essential to the full success of the Bank's operations. Thus a sense of security in these nations didn't emerge by the creation of the Bank.

Apart from this it has also been argued that the Bank's mandate was not sufficient to meet the needs of the time. Prof. Muchkund Dubey argues that as the Bank was created to assist in reconstruction and development "by facilitating the investment of capital for productive purposes" and encouraging the development of developing countries, it was supposed to intermediate in the capital markets of the world to raise resources for carrying out its mandate. But the Bank had no role according to its Articles of Agreement, in formulating or influencing global macro-economic policies. Its original mandate did not even cover raising resources for concessional funding for development purposes.

The criticism of the Bank even took a very harsh shape claiming, that the Bank was established by the world monopoly capitalism to centralise foreign investment so that the Third World could be exploited without aggravating inter-imperialist rivalries to capture markets for profit motive[28].

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[27] Escott Reid, *Strengthening the World Bank* (Chicago, Illinois, The Adlai Stevenson Institute, 1973) pp 179.

[28] C P Bhambhri, *World Bank and India*, (Vikas Publishing House Pvt. Ltd., New Delhi 1980) pp 18.

Though the institution was blamed for being undemocratic and a tool for the capitalist countries, its creation was a step in the direction of universal economic cooperation. It came up as a practical shape of consciousness and efforts to fight the problems of reconstruction and development.

CHAPTER II

World Bank -- its Organisational Structure

The IBRD, founded in 1944, has a mission to help developing countries, promote development and reconstruction. In a way its goals seem much the same as those of many governments' development assistance programmes. But, unlike such aid programmes the Bank lends money to developing countries and the loans are repaid.

"The Bank is comparable to a global co-operative which is owned by member countries".[29] The IBRD and its sister institution the International Monetary Fund (IMF) were founded as a part of a new framework for international co-operation. Explaining the founders vision for the two institutions Fred M Vision, then United States Secretary of the Treasury, wrote in the July 1946 issue of Foreign Affairs Magazine "It must be remembered that these are not ordinary institutions with ordinary stockholders. They are cooperative enterprises of government and their chief business is with governments...... while they must be operated so as to conserve their assets and allow the most fruitful use of their facilities, they are not profit making institutions."[30]

The Bank's founders trusted the spirit and power of cooperation and so they drafted the institution to be governed by its shareholders. But here, unlike other commercial corporations the shareholders are sovereign nations, not private investors. The size of a member country's shareholding is determined by the size of the country's economy relative to the world economy.

29 *The World Bank; A Global Partnership for development*, Questions about the World Bank (The World Bank, 50th Anniversary, 1995).

30 "How the World Bank is Governed, "*World Bank Information Briefs* (The World Bank, Washington, D.C., A.06.8-93).

ORGANIZATIONAL STRUCTURE OF THE WORLD BANK

The institutional framework of the Bank is established by the Bank's charter, known as the Articles of Agreement.

Membership

Article II Sec (a) and (b) state that only members of the IMF can become members of the World Bank. Each country is represented by a governor (usually that country's Minister of Finance or Governor of the Central Bank) and an alternate Governor. Membership of the Bank comes to an end either through withdrawal from the Bank by the members themselves or suspension of the membership by the Bank in case a member fails to fulfill any of its obligations to the Bank or in case a member ceases to be member of the IMF.

The Banks founders envisioned a global institution the membership of which would eventually comprise of all nations, shortly after the Bretton Woods meetings, however it became apparent that the spirit of international cooperation had been supplanted by an ideological split extending to the structure of economic systems. The Soviet Union, although it had sent delegates to Bretton Woods, did not become a founding member of the Bank. The countries within its sphere of influence that were original members of the Bank soon withdrew and thus the power block's tension has been prevalent since the inception of the institution.[31]

[31] *The World Bank Annual Report, 1991* (Washington, D.C.), pp 12.

There has been rapid expansion in the membership of the Bank. By mid 1947, forty five countries were members of the Bank. A substantial net gain in membership was registered during the first decade, at the end of which there were 60 members, ten of the fifteen new ones being Asian countries. During the second decade, membership rose spectacularly to a total of 106 due to an influx of newly independent African nations 32 of the 46 new members were African countries. In 1991 the number rose to 155 and at present in 1996, IBRD is owned by the governments of 178 countries that have subscribed to its capital.

Over the past decades the Bank grew in size and scope, but in the absence of the Soviet Union it never fulfilled its founder's intention of becoming a truly global institution. It was only at the beginning of the 1990's, as political and economic change swept through the 15 republics of the Union of Soviet Socialist Republics, the Soviet government indicated its interest in participating in the international financial system and sought membership in the IMF and the World Bank.[32]

On July 15, 1991 Soviet President Mikhail Gorbachov formally applied for membership for the still intact Soviet Union in the IBRD and its three affiliates, the International Finance Corporation (IFC), the International Development Association (IDA), and the Multilateral Investment Guarantee Agency (MIGA). In December 1991, the Soviet Union ceased to exist and the successive states filed applications for membership with the Bank individually. By June 1993 all 15 republics of the former Soviet Union become members of the World Bank, thus making it a universal organisation.[33]

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[32] "The Former Soviet Union and the World Bank," *World Bank Information Briefs* (The World Bank, Washington, DC, J.01.8-93).

[33] *Ibid.*

Voting

The IBRD follows the principle of weighted voting. Shares of capital are allocated according to a formula based on member country's quotas in the IMF and voting is weighted in proportion to a country's shareholding.

Article V Section 3(a) and (b) respectively state that each member shall have the hundred fifty votes plus one additional vote for each share of stock held and "except as otherwise specifically provided, all matters before the Bank shall be decided by a majority of the votes cast."

Together, the largest industrial countries (the Group of Seven or G-7) hold about 45 per cent of the shares in the World Bank so they generally carry great weight in international economic affairs. It stands true that the rich countries have a good deal of influence over the Bank's policies and practices. The United States has the largest shareholding about 17 per cent, and this gives it the power to veto any changes in the Bank's capital base and the Articles of Agreement. Virtually all the other matters including the approval of loans are decided by a majority of the votes cast by all members of the institution.

Fluctuation in Voting Power

Member Country	1975		1979		1983		1987		1991		1995	
Developing Nations	***No of votes***	***% of total***	***No of votes***	***% of total***	***No of votes***	***% of total***	***No of votes***	***% of total***	***No of votes***	***% of total***	***No of votes***	***% of total***
Bangladesh	1,317	0.46	1,492	0.46	1,492	0.28	2,945	0.40	2,974	0.25	5,104	0.34
India	9,250	3.23	11,583	3.58	22,883	4.37	24,085	3.24	38,494	3.23	45,045	2.99
Kenya	650	0.23	650	0.20	650	0.12	1,565	0.21	2,711	0.23	2,711	0.18
Nigeria	1,402	0.49	1,402	0.43	3,191	0.61	7,016	0.94	7,352	0.62	12,905	0.86
Somalia	400	0.14	439	0.14	439	0.08	439	0.06	802	0.07	802	0.05
Developed Nations												
France	13,042	4.55	13,042	4.03	23,817	4.55	39,197	5.27	69,647	5.84	69,647	4.62
Germany	13,903	4.85	17,862	5.52	34,597	6.61	40,882	5.49	72,649	6.09	72,649	4.82
UK	26,250	9.15	26,250	8.12	26,250	5.01	39,197	5.27	69,647	5.84	69,647	4.62
US	64,980	22.66	69,481	21.48	102,489	19.58	144,516	19.42	206,507	17.32	255,840	16.98

Source: The World Bank Annual Reports, 1975, 1979, 1983,1987, 1991, 1995

Board of Governors

The authority to conduct the general operations of the Bank is delegated to the Board of Governors with one of the Governors as Chairman of the Board. The Board which is resident at the World Bank's headquarters in *Washington, D.C.* represents all the members.

Article V Section 2(a) of the Agreement states, "All the powers of the Bank shall be vested in the Board of Governors consisting of one Governor and one alternate appointed by each member in such a manner as it may determine. Each Governor and each alternate Governor shall serve for five years, subject to the pleasure of the member appointing him and may be reappointed. No alternate may vote except in the absence of his principal. The Board shall select one of the governors as Chairman."

Though the Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board but certain other powers are reserved for the Board as, the power to admit new members, increase or decrease the capital stock, suspend a member, decide appeals from interpretations of this agreement given by the Executive Directors or make arrangements to cooperate with other international organisations (other than informal arrangements of a temporary and administrative character).[34] The Board also has the exclusive right to take the decision to suspend permanently the operations of the Bank, distribute its assets and determine the distribution of the net income of the Bank.[35]

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[34] Article V Section 2(b).

[35] *Ibid.*

The Board of Governors also determines the remunerations to be paid to the Executive Directors and the salary and terms of the contract of service of the President. The Board of Governors hold an annual meeting. The Board gives every member the opportunity to discuss and debate the policies and practices of the Bank. And Bank's cooperative spirit is projected by the fact that voting is a rare phenomenon and consensus is a preferred way of making decisions.

The Board of Executive Directors of the World Bank functions in continuous session at the Bank's headquarters in Washington, D.C. and meets as often as the business requires.

The Board of Executive Directors is responsible for the conduct of the general operations of the bank and performs its duties under powers delegated to it by the Board of Governors. As provided in the Article of Agreement, five of the twenty four Executive Directors are appointed by five member governments having the largest number of shares, the rest of the Board is elected by the other member governments, who form constituencies in the election process every two years.[36] The members themselves decide how they will be grouped. Usually they are grouped on the geographic, political and cultural lines.

The Executive Directors consider and decide on the IBRD loan and IDA credit proposals made by the President and they decide policy issues that guide the general operations of the Bank and its directions. The Executive Directors are also responsible for presentation to the Board of Governors at its annual meetings of an audit of accounts, an administrative budget, and the Annual Report on the operations and policies of the

[36] *The World Bank Annual Report 1995*, (Washington, D.C.) pp.15.

Bank as well as any other matter that requires a submission to the Board of Governors.[37]

"In addition, most of the Executive Directors serve on one or more of five standing committees, Audit Committee, Committee on Development Effectiveness, Budget Committee, Personnel Committee and Committee on Executive Directors Administrative Matters. The Executive Directors' steering committee, an informal advisory body also meets regularly."[38]

Apart from the meeting, the Executive Directors also visit borrowing countries in order to acquire first hand knowledge, inspect and advice the Bank's financial projects and also seek information regarding the special problems and country circumstances.

The Executive Directors' role covers virtually all the activities of the Bank. They consider the initiatives proposed by the President and also exercise an important role in shaping the Bank's policy and its evolution as they work for changes and improvements in the Bank's results. And this role of the Directors represents the shareholder governments of the Bank as well as their changing perspectives regarding the Bank. Its also a reflection of needs perceived by shareholders and involves a process of consensus building both among Directors and with the Bank management.

The World Bank policy has embraced a number of changes gradually over a period of years due to the initiatives taken by the Directors; such as unceasing emphasis on the environmental issues, governance, role of private sector in development, the discussion by

[37] *Ibid.*

[38] *Ibid.*

the Board of the Bank, Country Assistance Strategies (CASS) and the renewed interest in lending for both infrastructure and human resource development.

The creation of the *Independent Inspection Panel* in 1994 is a rapid result of initiatives taken by the Executive Directors. The Bank is the first multilateral organisation to establish this panel to consider outside complaints that the Bank has not followed its own policies and practices.

For some years, the Executive Directors have been encouraging the Bank to become more efficient and show more accountability as an institution while encouraging more accountability by staff and management.[39] Task Force on Portfolio Management was appointed under President Lewis Preston and this step definitely led a major policy shift for the institution towards result oriented supervision and an increased emphasis on the quality of projects and operations. The Director's efforts to improve the Bank's accountability have been shaped by the creation of Committee on Development Effectiveness (CODE) which became a reality in 1995. The mandate of the new committee involves dealing with issues related to the effectiveness of on-the-ground results of the Bank's operations.

Executive Directors are also involved in the budget process of the Bank and various aspects of the Bank are discussed by the Directors' budget committee.

[39] *Ibid.*

President

Article V, Section 5 (a) of the Agreement states, "The Executive Directors shall select a President who shall not be a governor or an executive director or an alternate for either". He "shall be Chairman of the Executive Directors, but shall have no vote except a deciding vote in case of an equal division". The President of the Bank is "chief of the operating staff of the Bank" and is supposed to conduct "under the direction of the Executive Directors, the ordinary business of the Bank".[40]

The President is selected by the Bank's Board of Executive Directors. The articles do not specify the nationality of the president. But by custom the United States' Executive Director makes a nomination and by a long-standing, informal agreement, the President of the Bank is a US national, while the Managing Director of the International Monetary Fund is an European. The initial term of the President is five years; a second term could be five years or shorter. There is no mandatory retirement age for him.

He is responsible for the day to day business of the Bank and is subject to control of the Directors for its organisation and for the appointment and dismissal of staff. He is assisted by three Managing Directors who observe specific areas.

Bank Staff

The Bank seeks to recruit personnel on as wide a geographical basis as possible. Professional competence, merit and experience are the controlling criteria for appointment. The President heads a staff of thousands of employees from more than 100

[40] *Article V, Section 5 (b).*

countries. "The President, officers and staff of the Bank in the discharge of their offices, owe their duty entirely to the Bank and no other authority".[41]

HOW OPEN AND ACCOUNTABLE IS THE BANK

The World Bank being an open partnership between 178 countries, today publishes a huge amount of information and is publicly accountable to its member countries. Sharing of information stimulates debates and produces understanding of development which is indispensable for effective and sustainable development. It also enhances the quality of work and fetches public support. The Bank has substantially expanded the range of documents prepared for operational purposes that are made available to the public. Public Information Centre has been established which anyone can visit.

The institution also issues about 400 research, policy and other publications every year. It also produces an Annual Report and a number of newsletters, fact sheets etc. Also, the Independent Operations Evaluations Department receives bank financed projects and reports directly to the Board on the results of these evaluations.

LENDING BY THE WORLD BANK

Regarding the operations of the Bank what is significant is that it does deal exclusively with governments, but also works closely with people and private enterprise in developing countries. The extensive dealing with governments is because of two reasons. First, under the Bank's Articles of Agreement,. the Bank can only lend to a member government or under a member government's guarantee. Second, governments have much of the

[41] *Article V, Section 5 (c).*

information that the Bank needs to carry out its work, and their laws apply the Bank's operations in their jurisdiction.[42]

Article III and IV of the Agreement talk about the provisions and methods relating to loans and guárantees. The articles bind the Bank to use its resources and facilities "exclusively for the benefit of members with equitable considerations to projects for development and projects for reconstruction alike".[43]

It is also specified in Article III section 4 (vii) that "Loans made or guaranteed by the Bank shall, except in special circumstances, be for purposes of specific projects of reconstruction or development." Decision to loan money for a project are one part of the intensive dialogue between the Bank and country on several development issues. Bank imposes no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members but "it shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted".[44]

The interest rate on IBRD loan is changed every six years. The cost of the Bank's own borrowings determine the floating interest rate and it lends only in the currencies in which it borrows and closely matches the currencies of its retained earnings to those of its loans. All the Bank loans include a small commitment fee on undisbursed balances.

But the Bank does a lot more than just lend money. It also includes technical assistance in projects. Each year a few projects are devoted exclusively to providing expert advice

[42] *The World Bank: A Global Partnership for Development* n 29.
[43] *Article III, Section 1 (a).*
[44] *Article III, Section 5 (b).*

and training. The Bank's Economic Development Institute trains people from borrowing countries how to create and carry out development programmes.

(Chart on following page)

Range of World Bank Lending Instruments

Instrument	Objective	Focus and content	Use of loan proceeds	Disbursement period[a]
Specific investment loan	To create new productive assets and economic and social infrastructures, to restore them to full capacity, or to ensure their maintenance.	Focuses on technical, financial, economic and institutional viability of a specific investment and its maintenance, and on those aspects of the sector policy framework that bear directly upon the productivity of the investment (for e.g., input and output prices, operational efficiency of enterprises). Assists in the design of investments and in preparing management and training programmes. Investment proposals are appraised by Bank staff. Requires agreement on viability and specifics of investment.	Presidential equipment, materials, and services, and civil works for specific investments.	Four to nine years.
Sector Operations				
Sector - investment and Maintenance loan	To bring sector investments in line with economic priorities and ensure they are efficiently operated and maintained.	Focuses on sector expenditures, especially balance between new investments and rehabilitation and maintenance, and on institutional capacity to plan, implement and monitor investments. Requires agreement on well - designed sector program to meet priority development needs, as well as on specific measures to strengthen management and policies, and a sector institution capable of carrying out the program using agreed appraisal criteria for individual parts of programme.	Broad categories of equipment, materials, services, and civil works related to the whole, or a time slice, of the sector programme.	Three to seven years.
Financial intermediary loan	To provide funds for enterprises and small and medium - size farmers through an intermediary within a competitive environment.	Focuses on categories of clients, types of investments, service levels, and cost of capital. Requires agreement on criteria to select sub - borrowers and appraise their needs, on on - lending rates and on specific actions for institution building.	Credit for investment and working capital needs of sub - borrowers selected in accordance with agreed criteria.	Three to seven years

Instrument	Objective	Focus and content	Use of loan proceeds	Disbursement period[a]
Sector - adjustment loan	To support comprehensive policy changes and institutional reforms in a specific sector.	Focuses on major sectoral issues and investment programmes, especially incentive framework (tariffs, prices, taxes), and institutional capability. Usually either in countries lacking administrative and political capability to formulate and implement comprehensive economy wide structural adjustment programmes, or not requiring such comprehensive programmes, or as follow-up to stabilisation programmes to deepen reforms in a sector. Requires agreement on monetorable action programmes in these areas on specific schedule and on investment prrogrammes for the sector.	Mainly imports required for sector, with actual users either pre-identified or to be selected following agreed criteria.	One to four years
Structural adjustment loan	To support, through a series of loans, specific policy changes and institutional reforms to achieve efficient use of resources and contribute to a sustainable balance of payments in the medium and long term, while maintaining growth.	Focuses on major macroeconomic issues, as well as on major sectoral issues covering several sectors, especially trade policy (for e.g., tariff reform, import liberalisation, export incentives), resource mobilisation (for e.g., role of parastatals, budget policy, interest rates, debt management), efficient use of resources, (for e.g., public - investment programme criteria, pricing, incentive system), and institutional reforms, economy wide and in specific sectors. Requires agreement on effective stabilisation programme with monetorable policy modifications in these areas on specific schedule.	General imports subject to negative list of prohibited imports.	One to three years

Instrument	Objective	Focus and content	Use of loan proceeds	Disbursement period[a]
Technical Assistance loan	To strengthen local institutions concerned with (I) designing and adopting policies, strategies, and institutional approaches promoting further development in a sector or in the economy as a whole, or (ii) preparing, implementing, or operating specific investments, or to carry out specific tasks related to the preparation, implementation, or operation of investments.	Focuses on capacity (e.g., organisation, management, staffing, methods, physical or financial resources) or institutions directly concerned with sector or economy wide policies and strategies or with investments, and on specific gaps (studies and personnel) preventing efficient investments. Requires agreement on specific time - bound action programmes to strengthen institution through technical assistance and training, on appointment of local counterparts, or on the carrying out of studies with agreed terms of reference.	Specialised consultants and services, studies, and training.	Two to six years
Emergency reconstruction loan	To support rebuilding activities and rapid restoration of physical structures and productive activities after disasters.	Focuses mainly on restoring pre - disaster situations with emphasis on strengthening institutions to handle reconstruction effort and prepare them for future.	Broad positive list related to reconstruction needs.	Two to five years.

a. This is the normal range of expected disbursements. There may be a small number of exceptional cases where the disbursement period is shorter or longer than shown.

Source: *The World Bank Annual Report, 1985* (Washington, D.C.) pp 50 - 51

FINANCING OF THE WORLD BANK

The World Bank too, like any financial institution, needs a capital base. The sources of the Bank funds include shareholders capital, retained earnings and money raised on the world's financial markets. The Bank's equity consists of paid-in capital from the member countries and retained earnings in about equal parts. The Bank opts to retain its earnings to support additional lending and has never paid dividends to its members. The members buy shares, but actually pay in only a small portion of the value of each share. The unpaid balance is "on-call" to protect the bond holders and other creditors of the Bank. The Bank has never called on this capital, and never expects to, but its availability helps to maintain the Bank's high credit rating.

In addition to its equity, the Bank's resources come from borrowing. A reasonable percent of the Bank's debt is held by banks and governments who hold its obligations as part of their foreign exchange reserves. Borrowing is also on private markets all over the world and the Bank assures that its private debt is highly diversified by country, currency, source, maturity and technique of borrowing. The World Bank does not take currency risks at its borrowing.

An unusually high proportion of the Bank's assets are held in liquid cash-balances which have consistently earned profits, being invested at higher returns than the cost of borrowing. These also add to flexibility in the Bank's borrowing. The Bank raises most of its money on the world's financial markets. It sells bonds and other debt securities to pension funds, insurance companies, corporations, other banks and individuals around the world.[45]

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[45] "How the World Bank Finances Development", *World Bank Information Briefs* (World Bank, Washington, D.C., A.03.8-93).

The Bank has reported profits every year since its inception, but definitely its not a profit maximising institution. The Bank's prudent financial policies increase its effectiveness as an intermediary between private capital and developing country governments.[46] By its careful money management, the Bank ensures that it's securities are among the world's safest.

The portion of the Bank's loans that still have to be repaid is not allowed to exceed the total of its paid-in and on-call capital, retained earnings and surplus. In contrast, commercial banks typically put at least ten times their capital at risk.[47]

The objective of its borrowing and liability management strategy are to ensure long term availability of funds to the IBRD for lending and liquidity and to minimize the costs of funds for the IBRD and its borrowers.

The Bank has also been innovative in raising money. "It took little imagination to choose the World Bank as the *Borrower of the Decade*" said the International Financing Review in a retrospective look at financial markets during the 1980s. "From its first Eurobond in 1980, to the hugely successful global issue in 1989, the super national made an enormous contribution to the development of the international capital markets, identifying and opening new sectors and sponsoring innovative concepts".[48]

"The IBRD seeks to minimize the cost of borrowed funds by using among other things, currency swaps to obtain cost savings, compared with the cost of direct borrowing in target

[46] *Ibid.*
[47] *Ibid.*
[48] *Ibid.*

currencies, structured financing committed to conventional liabilities using over the counter financial derivatives; the use of short term and variable rate instruments; and prepayments on market repurchases of borrowings, which by varying margins, exceed the cost of refinancing".[49]

THE WORLD BANK AND ITS AFFILIATES

When the World Bank was founded it consisted solely of one institution - the IBRD. In later years three affiliates were added.

International Finance Corporation

The International Finance Corporation (IFC) was founded in 1956 for the purpose of promoting private enterprise in the developing world. It differs from the World Bank, as unlike it, IFC lends to private companies and does not accept guarantees from host country governments. IFC is the single largest intergovernmental source of direct financing for private sector projects in developing countries.[50]

International Development Association

The International Development Association (IDA) came into being in 1960 to grant concessional assistance to the world's poorest countries. IDA has the same staff as the IBRD, and the President of the World Bank is also the President of IDA. The fundamental difference between the institutions is the way they obtain the funds and lend to the developing countries. It is the largest single multilateral source of concessional lending to

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[49] *The World Bank Annual Report 1995* (Washington, D.C.) pp 133.
[50] "The International Finance Corporation", *World Bank Information Briefs*, (World Bank, Washington D.C., A.05.8-93).

low-income countries. IDA financing helps these countries build the human capitals, institutions and physical infrastructure required to bring about equitable and sustainable economic development.[51]

Multilateral Investment Guarantee Agency

Private foreign capital is very important for developing countries. The Multilateral Investment Guarantee Agency (MIGA) was established in 1988 which helps smooth the flow of foreign investment by insuring investors against non-commercial risks and providing investment advice and promotion services.[52]

Each affiliate was established with different aim and each has its own character and separate membership. The President of the IBRD is the President of each affiliate; the Executive Directors also for the IBRD, the IDA and the IFC are same but MIGA has a separate Board of Directors, most members of which are IBRD Executive Directors.

CRITICISMS

The overall organizational set up of the Bank can be criticised on the ground that it is a highly centralized institution, in which decisions are made in Washington rather than in the field of operation without much delegation of authority to intermediate levels in the headquarters. The regional offices of the Bank should be shifted to their respective regions and strengthened by the addition of staff from the Bank's economic and legal developments, this will also lessen the burden of the Bank. Regional Offices would

[51] "IDA: The International Development Association", *World Bank Information Briefs*, (World Bank, Washington D.C., A.05.8-93).
[52] "The Multilateral Investment Guarantee Agency", *World Bank Information Briefs*, (World Bank, Washington D.C., A.07.8-93).

continue to bear their present responsibilities for planning and executing technical assistance programmes of the Bank in their respective areas.[53]

Weighted voting in the World Bank generates criticism and the institution is claimed to be undemocratic. The provision of weighted voting gives a leading role to the capitalist countries in the decision making. But, on the other hand we can also say that in a financial institution, where the shares differ substantially, guaranteeing of equal status definitely becomes difficult.

Another proof of the leading role played by the capitalist countries in decision making of the Bank is their acceptance of a convention, dating back to the Savannah Conferences, that the President of the Bank would be from the United States and the Managing Director of the IMF would be an European who is acceptable to the American Government.[54] According to Susan Strange, acceptance of such a convention at the Savannah Conference was based on a recognition that "the World Bank president (was) needed to be from United States, so that the Bank could float successful bonds in United States markets...."[55]

The Bank can also be criticised on the question of its approach - it is lending primarily to the government. But the World Bank, as a main financial institution, should be lending a reasonable percentage to the private sector.

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[53] Mahendra Pal, *World Bank and the Third World Countries of Asia* (with special reference to India), (National Publishing House, New Delhi, 1985) pp 10-11.

[54] C.P. Bhambhri, n 28 pp 51.

[55] Susan Strange, "IMF: Monetary Managers," in Robert Cox *et al., The Anatomy of Influence: Decision Making in International Organisations*, Yale University Press, New Haven and London, 1973, pp 286 as cited by C. P. Bhambhri n 28. pp51.

Another criticism is levied with regard to reverse transfer. The World Bank has received back more than it has lent to developing countries.

CHAPTER THREE

Changing Lending Policies of the World Bank

The evolution of the World Bank's lending can be categorized into several phases. It has made through a continuous process of change and stands before us now, different from the one created at Bretton Woods. The Bank, in the process of lending has expanded its role and, in fact, in the nineties has gone much beyond its mandate. In the past five decades, we observe the Bank's lending embracing new issues.

THE BANK AND RECONSTRUCTION

It was indeed a courageous leap by the Bank when it announced its first loan to Europe in 1947. This was the time when Europe's dollar shortage was at its worst, the United States post war loans had been spent, and Marshall plan funding was still uncertain. But the low expectations from the Bank led some of its members to believe it as nearly dead issue. With the appointment of John McClay as the Bank's second President in February 1947, the institution marked the start of true operations.

The Bank's First Loan :

The $ 250 million loan to France was the Banks' first. It was an act of faith for several reasons including the fact that the loan accounted for a third of the banks' available resources at the time. Soon after this, came a large loan to the Netherlands and smaller ones to Denmark and Luxembourg.[56]

The timing of the French loan was just ideal for the World Bank to establish its credibility as a lender. The loan was covered by the *special circumstances provision* and not *for the purpose of specific projects of reconstruction of development* as the charter speaks.

[56] Caroline Doggart, "*The Evolving Role of the World Bank : From Reconstruction to Development in Europe and Japan*, (The World Bank Washington, DC) (1994), p.7.

As the Articles lay down, the Bank was to finance productive projects but it immediately displayed its flexibility that was to mark its operations in future by giving loans to these countries for reconstruction rather than tying them to specific projects. For the years to come these reconstruction loans would remain in a minority as the Bank concentrated on project lending. These initial loans also helped the Bank to establish its presence on international capital markets. Although the loans to the French Government were not meant to be a model for future lending, they soon became the practical example of Bank policies on interest rates, end use supervision,[57] and the use of contractual negative pledge clause.[58] Regarding the interest rates, IBRD established the example that interest rates must be related to borrowing costs. It decided to apply the same rate for all loans granted at any given time, regardless of the borrower's credit-worthiness. "This principle underlined the nature of the institution: a financial cooperative that treated all its borrowing members equally".[59]

With the Marshall plan taking its shape and Europeans submitting their first wish lists, it soon became clear that the Bank could meet only a fraction of Europe's reconstruction needs. Marshall aid was expected to provide the bulk of Europe's import support for the period 1948-52, Bank assistance in Europe concentrated on long range investments. Both the volume of Marshall aid funds (the initial allocation was $ 5 billion, the final amount $ 15 billion) and their cost (mostly grant aid with interest of loans at 2.5 percent) made them more attractive than Bank loans with interest of 4.5 percent.[60]

[57] For the first loan to France, the Bank established an office in Paris, to supervise the project.

[58] Negative pledge - the bank decided not to seek specific security for its loans other than the government guarantee required under its Articles of Agreement.

[59] K. Sarwar Lateef, n 2 pp.17.

[60] Caroline Doggart, n.56 pp. 12.

POST RECONSTRUCTION LENDING BY THE WORLD BANK

Even during the Marshall aid period the Bank continued to lend in Europe. It's first post reconstruction loan was attained once again by the Netherlands for the purchase of six US made merchant ships. Other European loans went to Belgium, Italy and Finland. Half of the Bank's total commitments at June end 1952 had been lent to countries also participating in the Marshall aid programme.

But the tensions of the two superpowers influenced the Bank lending from the beginning itself. As in the case of Poland and Czechoslovakia, which could not attain, the Bank lending because the influence of the Soviet Union strengthened and anti-Soviet attitudes hardened in the United States. The applications of both the countries submitted in the first year of the Bank's operations were cut back during subsequent negotiations. The two countries withdrew from Marshall aid under pressure from Moscow and put themselves beyond the reach of the Bank. Loan proposals for both countries were quietly shelved before presentation to the Bank's board as it was apparent that US Executive Directors would have to vote against them because of US government reservations. Consequently, Poland left the Bank in 1950 and Czechoslovakia at the end of 1954.

CONSERVATIVE LENDING

Economic development soon came into the concern of World Bank as the problems of reconstruction in Europe were gradually solved by the Marshall aid. A considerable effort was made to begin development lending. The Articles of Agreement laid down that the Bank was expected to finance only those productive projects for which other financing was not available on reasonable terms.

The Management held the view that for the real development of developing countries they ought to own power and transport. The only way that these countries could raise the production of goods, standards of living and build up the country was through the development of private enterprise and agriculture. And the private capital to industry and agriculture could be attracted only with the development of the infrastructure, which required capital and was most unattractive to the private capital as the investment in it was too large, return to the investor too small and prospect of government intervention too great. Therefore projects to develop electric power, transport facilities were considered appropriate for Bank financing.

At the same time, the Bank was led to eschew certain fields traditionally open to public investment, even in the highly developed free enterprise economies : namely, sanitation, education and health facilities. Investment in these so-called "social overhead" fields were crudely considered to be as fundamental to development as, the investments in hydro-electric sites, railroads, highways and "economic overhead" programmes. The contribution of social overhead projects to increased production, however, is less measurable and direct than that of power plants, and they can be completed without large outlays of scarce foreign exchange and secondly, financing them might open the door to vastly increased demands for loans and raise hackles anew in Wall Street about the "soundness" of the Banks' management. It was therefore prudent on the part of the management to consider as unsuitable, in normal circumstances, the World Bank financing of projects for eliminating malaria, reducing illiteracy, building vocational schools or establishing clinics. Yet, the crying need for such projects and the paucity of domestic resources to finance them helped in later years to fan the flames for grants and soft loans to supplement the lending then being done by the World Bank on close-to-commercial terms.[61]

The institution stood up then, as a proponent of the view that investment in transportation and communication facilities, port developments, power projects and other public utilities was a precondition for the development of the rest of the economy.

Chile was the first recipient of a Bank development loan and the first Latin American borrower. Others in the list were Mexico, Brazil, India and Yugoslavia. In the initial years much of the Bank's lending went to middle income countries and significant sums went to Australia and Japan. But the concentration of lending was an basic infrastructure.

Projects for infrastructure development eliminated the early loan portfolio. Few programme loans were made during that period, and they were too diverse to allow any significant conclusions to be drawn about their usefulness in development financing.[62] The broader development issues gradually gained in importance during the 1960s' when more Asian countries joined the Bank, and in the 1960s with the emergence of newly independent African states.[63] Gradually the institution gained expression and therefore became flexible in responding to members' needs.

Bank's transition from reconstruction to development has been indeed noteworthy. (as in figure 1). Even if initially the Bank was putting all its efforts to stand as a promoter of economic development. 1950-51 Annual Report of the World Banks states that "The Bank

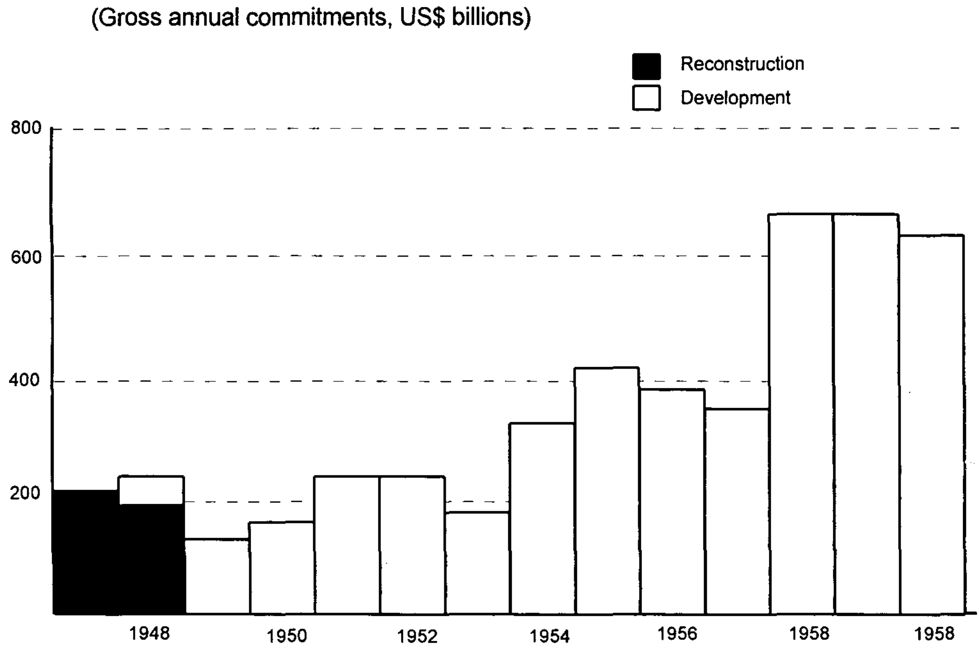
[61] Edward Mason and Robert Asher, *n 9* pp. 152.

[62] Caroline Doggart n.56 pp. 17.
[63] *Ibid* p.p. 16.

does not conceive of itself merely as a source of funds for a few isolated projects, but is prepared to take an active and continuing interest in the overall development problems of a member country."

Figure I

The transition from reconstruction to development



Source: Caroline Doggart n 56 pp 15

DEVELOPMENT LENDING

Since its inception we see a strong tendency in World Bank to equate development with economic growth. The principle developmental goal was the expansion of the aggregate growth rate, and the projects the Bank undertook to finance in the developing world tended to be judged by their prospective contributions to this objective.[64]

[64] Robert L. Ayres, *Banking on the Poor; The World Bank and World Poverty* (MIT Press, England, 1984) p.2.

In the late 50s the Bank was seen to be turning towards the cry of the poorer countries. Till this period the increase in the Bank lending has not been steady and continuous. Also the Bank discovered that countries like India and Pakistan were facing trouble survicing even the limited debt they had accumulated. In 1958, India's foreign exchange crisis marked a turning point for the Bank. The United States and other donor countries formed an Aid India Consortium with the Bank as coordinator to make annual aid pledges.[65]

India also made the point that commercial finance would help the economies of developing countries and could do what Marshall Aid had done for the economies of Europe and Japan. Although the idea was withdrawn but the Bank's evolution as a development agency was indeed influenced by it.

By 1958 the financial markets were happily ready to go along with the much greater development orientation in the Bank's lending patterns and the creation of International Development Association (IDA) in 1960 added wheels to the process. An important development in this phase was the preparing relationship of Bank with Korea and Taiwan (China). Planning and state led growth was becoming a practice these days and the Bank supported a number of five year plans in many countries.

In 1960s major share of the Bank's resources were consumed by Latin America. In fact in this period, it accounted for more than a third of all Bank lending. Some Latin American countries and Turkey also experienced debt problems in 60's which resulted in debt rescheduling agreements. In the mid 1960s India suffered major food crisis due to the neglect of agriculture and financing industrialization, the resources for which were obviously pulled out of agriculture. The Bank and other donors played an important role by

[65] K. Sarwar Lateef, n 2 pp.20.

helping finance the agriculture and shape the technological breakthrough in other countries.

The total lending of Bank and IDA for all purposes from their respective beginnings until McNamara's presidency (1968) was not great. This totaled approximately $ 13 billion through June 30, 1968. Much of this represented commitments to developed rather than poor countries. By 1968 the Bank had loaned about $ 857 million to Japan $ 398 million to Italy, $ 290 million to France and $ 236 million to the Netherlands.[66] Reconstruction loans ended in 1955 but the substantial amount of lending to developed countries continued until about 1967.

After a slow beginning, development loans attained annual lend of $ 300 million to $ 400 million which persisted until fiscal year 1958. Loan commitments made to a new level of $ 700 million in 1958 and over the next decade varied, with one or two exceptional years, around $ 700 million to $ 800 million a year.[67]

THE McNAMARA YEARS: LENDING FOR THE POOR

The Bank was transformed in many ways under the presidency of McNamara. With the increase in lending there was also increase in attention to poverty alleviation and human resource development. The Bank boldly redefined itself as a new champion of the poor and debated a significant portion of its rapidly growing loan budget to agriculture and rural

[66] Rober L. Ayres, n 64 p.3.

[67] Mason and Asher, pp 226.

development projects. This seemed an appropriate emphasis since the majority in the developing countries live in rural areas.[68]

The overall policy signals from the Bank during the past decade have often been conveyed through the speeches of its President, Mr. Robert S. McNamara, at the Annual Meetings of the Bank's Board of Governors. The recurrent theme underlying these speeches had been how to attack mass poverty directly, through both national and international efforts.[69] The turning point was McNamara's Nairobi speech, his address to the Board of Governors of the Bank delivered on September 29, 1973. It focused on the dimensions of world poverty, particularly on the very little done in the last two decades to raise the productivity of subsistence agriculture in poor countries.

In the subsequent speeches distinction was made between relative poverty and absolute poverty and the main attention was to be focused on absolute poor with an average per capital income of less then $ 100. Besides the distinction made between the poorest countries there was also a recognition that, with the expansion of the capacity of poor to produce and purchase market goods, it was equally necessary to redesign and expand public services as education, healthcare and water supply etc. Since the Bank's inception, poverty has been considered as essential part of development, what now Bank changed was its views about the achievement of its goal. The Bank was busy in the economic development and was trying to reduce poverty indirectly. But in 70s there was a realization that majority in developing countries live in poverty, in fact in massive poverty lacking even the basic necessities of life which effects the efficiency to earn and thus the vicious circle

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68 Robert Paarlberg and Michael Lipton, "Changing Missions at the World Bank", *World Policy Journal*, (Summer 1991) pp 476.

69 Mahbub Ul Haq, "Changing emphasis of the Bank's Lending Policies", in World Bank, *The World Bank and the World's Poorest*, (World Bank 1980) p.4.

of poverty is formed which goes on passing through generations. During this period the Bank concentrated on absolute poverty which was affecting 40% of people in developing countries and emphasized on projects which could reach the poor directly.

This resulted in expansion of the Bank's lending for rural areas especially agriculture, the main source of income for poor. McNamara's reorientation of the Bank away from its almost exclusive concern with basic economic infrastructure towards antipoverty work was reflected in changes in the Banks' lending activities for development. In fiscal 1968, the Bank lending for agriculture and rural development amounted to only $ 172.5 million, 18.1 percent of its total lending.[70] The Bank's lending for agriculture and rural development in the fiscal year 1981 was almost four times such lending during the Bank's entire existence from 1946 to 1968.[71] For the first time there was concern for the growing population and towards health and education which were considered primary if the population has to be controlled.

Further, there was a sharp lending for urban development, water and sanitation, and so the share of basic infrastructure was reduced considerably. Lending for the traditional activities of power, transportation and telecommunication raised in absolute terms but declined as a percentage of Bank's total lending. In fiscal year 1968 these activities fetched the 57 percent of total bank lending.[72] But in 1980, the figure came down to 39 per cent.[73]

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70 *The World Bank Annual Report. 1968* (Washington, D C.) p.8.

71 Computed from data contained in *The World Bank Annual Report, 1981* (Washington, D.C.) pp. 12.

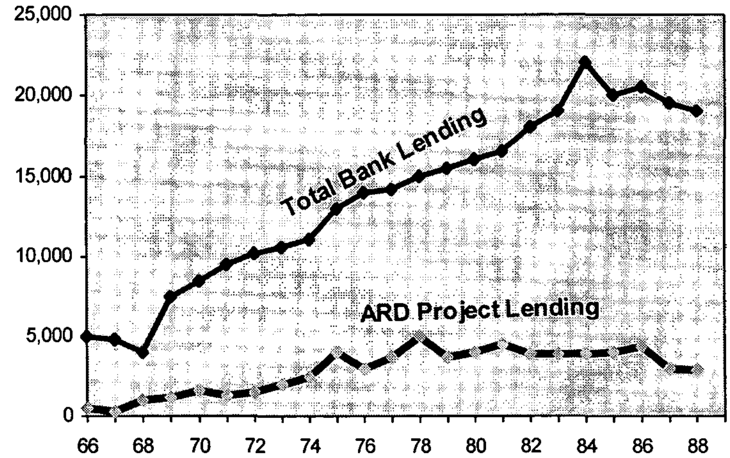
72 Percentage completed from data contained in *The World Bank Annual Report 1968* (Washington, D.C.), pp 8-9.

73 Percentage computed from data contained in *The World Bank Annual Report, 1980* (Washington, D.C.) pp. 124-125.

Figure II.

World Bank Lending, 1966-88

(Real 1989 US Dollars)



Source: World Bank, Agricultural and Rural Development Department, *FY 88 Annual Sector Review: AGRICULTURE*, and *FY 89 Annual Sector Review: AGRICULTURE* (Washington, DC: World Bank, 1988 and 1989), as cited by Robert Paarlberg and Michael Lipton n 68 pp 476.

Between the mid 1960's and late 1970's, as Figure II shows that the Bank's lending volume in the real terms raised more than threefold. The project shifted towards direct assistance to the poor - especially the "poorest 40 percent ". This meant a dramatic growth in the Bank's lending for small farmers and rural development projects.[74]

The Bank's agriculture lending was important from various other aspects. Firstly, it partially corrected for the unfortunate tendency of many governments (in poor countries) to neglect and underinvest in their own rural and farming sectors. Secondly, high quality technical advise accompanied the Bank's lending for rural and agricultural projects.

[74] Robert Paarlberg and Michael Lipton, n 68 pp.478.

IMPLICATIONS OF POVERTY ALLEVIATION PROGRAMMES

With the shifts in the Bank's lending programmes, there were also other significant changes.

There were many internal organisational developments and entirely new units were created which reflected both the increase in the Bank's work and its reorientation towards poverty alleviation.

There was change in the composition of staff too. The percentage of professional staff coming from economically advanced countries like the United States and the United Kingdom declined whereas percentage coming from the developing countries increased.

The pace of Bank's work speeded up and also with this internal changes, the external character of the Bank also transformed. The substantial increase in Bank's commitments and substantial qualitative policy changes affected the Bank's role in international community. It became visible and gained worldwide attention due to its transformed policies, financing of specific projects and its conflicts with the recipient countries. The World Bank became a subject of comment and debate contrary to its image of almost an appendage of the US Treasury Department.

The Bank's active involvement in the debate about the goals of development brought it in conflict with the regimes of the developing countries and also with important figures in the US Government.

The transfer of money by the Bank towards its new policies also has a significant implications over its operations.

Tension was created between McNamara's goals of transferring resources to developing countries and making the Bank play a predominant role in the international antipoverty effort. The goal of resource transfer is more readily available via. big infrastructure projects but the antipoverty projects were smaller in their commitment of resources, more time consuming, more staff intensive, difficult to implement and more in requiring skills in which the Bank till then was deficient. So, this became a central tension as to how to move a lot more money, while doing a lot more on behalf of poverty alleviation.

Second major implication was related to the Bank role as a development agency. If the Bank was increasingly involved in anti-poverty programmes it was to become more of a development agency.

The third implication of the Bank's poverty alleviation oriented operation relates to its larger role in the international system. The Bank in the McNamara years became a more overtly reformist institution. But this reformist role, in which social and distributional concerns were added to primarily economic and growth-oriented objectives, did not fundamentally alter the Bank's primary objectives.[75]

It would be incorrect to comment that the Bank's effort have made a significant and decisive difference to world poverty. The Bank's role is made to persuade member

[75] Robert L. Ayres, n 64 pp. 10-11.

countries to adopt the right policies in the direction and thus its role stands as a supporting one. It has made some progress in this phase in achieving its objective.

STRUCTURAL ADJUSTMENT LENDING (SAL) AND SECTORAL ADJUSTMENTS LENDING (SECAL): WORLD BANK'S EXPERIENCE AS A POLICY REFORMER

It was quite clear by the end of 1970 that the success of the World Bank's projects was deeply related to the policies and institutional environment of the country where they are implemented. But the Bank's lending to fresh projects was carried on even in the most discouraging circumstances in the country which led the Banks' incentives ineffective. Hoping that it might improve the conditions for the poor and counter act some of the negative effects of bad policies.

A 1981 Bank study, popularly called the Berg Report, concluded from a review of internal and external factors effecting Africa's performance that policy-induced distortions were so severe in many countries that projects could not be expected to succeed, no matter how well designed they were.[76] Hence, policy reform was considered as the prime need of the time.

Debt Crisis

The two oil-shocks in late 1970s exposed weakness in the macroeconomic management of many developing countries and created a short-term need for balance of payment support. After the first price shock of 1973, the Bank became anxious to relative human

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[76] *World Bank, Accelerated Development in Sub-Saharan Africa, 1981.* as cited by K Sarwar Lateef n.2 pp. 24.

distress by recycling petrodollars and even commercial banks were eager to flush their funds towards countries in need. Between 1970 and 1980 public and publicly, debt to developing countries soared from $ 46 billion to $ 410 billion.[77] Then the second oil shock in 1980 created more tension and McNamara agreed that the problem could not be tackled simply by recycling petrodollars. Structural adjustment thus became essential in many borrower countries. Debt crisis exploded in 1982 following the drop in oil demand as it was a vital blow to the oil exporters. Latin America, Mexico and Africa were really hit hard. Mexico was the first country in the 1980s unable to serve in debt but soon others stood in the same list. In Latin America what induced the debt was not only external debt but also high interest rates and sharp exchange rate fluctuations that were the outcome of policies in the industrial countries.

Not only the borrowers but also the lending banks were in the grip of debt crisis. And, the threat of international banking collapse and beginning of the great depression loomed.

The hard hit time demanded for emergency balance of payments support from the International Monetary Fund and the World Bank and also debt rescheduling by commercial banks and literate donors.

It was clear that the IMF alone couldn't provide sufficient resources and above all debtors needed long-term finance and structural adjustments policies to add efficiency to their economies and make them more outward looking. So the Bank started making structures adjustment loans tied to policy reform.

[77] K. Sarwar Lateef n.2 pp. 25.

Structural Adjustment lending was designed to provide maximum support, within the staff and financial level available to the Bank and within its mandate, to those governments that had requested such support and that had recognized the need to formulate and introduce, as a matter of urgency, a set of comprehensive measures designed to adjust the structure of productive activities of their economies to the markedly deteriorated external situation.[78]

Structural Adjustment Lending is defined by the Bank as follows:

Structural Adjustment Lending is non-project lending to support programs of policy and institutional changes necessary to modify the structure of an economy so that it can maintain both its growth rate and the viability of its balance of payments in the medium term.[79]

"From the outset, adjustment lending was also intended to assist countries in meeting balance of payments crisis several objectives are intrinsic to these operations :

- Stabilizing the macroeconomic environment and promoting economic growth and poverty alleviation.

- Promoting the openness of the economy.

- Improving transparency in the incentive system.

- Improving efficiency in resource allocation.

[78] *The World Bank Annual Report 1982* (Washington, D.C.), pp.39.

[79] *Operational Manual statement No. 3.58, Annex II, November 1982.* cited in Carl Jayarajan, William Branson, *Structural and Sectoral Adjustment; World Bank Experience 1980-92*, A World Bank Operations Evaluation Study. (World Bank, Washington, D.C., 1995) pp. 107.

- Improving scope for private sector development

- Strengthening institutions and policy analysis capacity"[80]

Although lending for structural adjustment was a new form of Bank assistance, such assistance was a natural evolution in the traditional programme assistance that has always been a part of the Bank's lending operations.

Over the years the basic rationale remains the same but adjustment lending, which is a continuous process, has projected numerous changes in its characteristics.

From a modest start in fiscal year 1980 of $0.5 billion adjustment lending commitments for the Bank Group increased more or less steadily, peaking in fiscal year 1989 at a little over $ 6.5 billion. Then they fell back, averaging a little less than $ 5 billion over fiscal year 1990 and 1991.[81]

[80] Carl Jayarajah, William Branson, *Structural and Sectoral Adjustment: World Bank Experience, 1980-92.* n.79 pp. 108.

[81] *Ibid.*

Table 3.1 : World Commitments by Lending instrument, Fiscal 1976-91

(annual average percentage shares)

Loan Category	FY 76-80	FY 81-85	FY 86-90	FY 91
Investment Lending	95	88	74	74
Specific Projects	56	45	46	53
Financial intermediary loans	17	16	10	5
Sectoral investment loans	21	25	16	15
Other investment lending[a]	1	2	3	2
Adjustment lending	5	12	26	26
SALs	4	7	7	11
SECALs	1	5	18	12
Other[b]	0	0	1	3
Total	100	100	100	100
Value of commitments				
(historical US$ billions)	43.7	70.0	97.0	20.9

Note: Columns may not add to the totals because of rounding
a. Including emergency reconstruction loans and technical assistance loans.
b. Consists of debt reduction loans.
Source: MIS (IBRD loans) and FDB (IDA credits), the World Bank as cited by Carl Jayarajah, William Branson, n 79 pp 108.

As a percentage of total Bank Group lending adjustment lending has expanded from 12% in the early 1980's to an average of 26% over the past few years.[82]

During the 1980s, within adjustment lending, there was a shift from structural adjustment lending to sectoral adjustment lending, which was influenced by the need to address sectoral issues with more intensity and to focus on macroeconomic strategies for sectoral development. The fewer conditions and lesser amounts of funding under SECAL often made there implementation and monitoring easier.

SAL has enabled the Bank to respond more fully to the needs of the countries that have sought assistance from the Bank than it would have been otherwise possible for it. In fact the predominance of SECALs in the late 80s reflects a broadening and deepening of the

[82] *Ibid.*

adjustment process as countries move from immediate concentration on overall macroeconomic to sectoral issues.

CONFLICTING OBJECTIVES IN STRUCTURAL ADJUSTMENT LENDING

SAL is comparatively a new instrument and the Bank has traditionally been for specific projects has little experience about it. SALs are multiple objectives and multiple instrument programmes. These objectives are formulated around various economic, social and institutional issues both on macro and micro level and thus their interdependence is obvious. The objectives of SALs have been in conflict at times.

Trade liberalisation is a significant part of a number of SALs, for instance, Turkey (SAL I-IV; 1980-84), Philippines (SALs I and II; 1980-82) and Korea (SALs I and II; 1981-83). In such cases the Bank had asked for cuts in Tariff rates. Trade liberalisation might come in conflict with the objective of reducing the Balance of Payment (BOP) and Budget deficits. Tariff reduction would result in reducing government revenue and simultaneously increasing the import bill. This, in turn would raise both the budget deficit and the BOP deficit and therefore is a distinct case of conflicting objectives in the SAL programmes.[83]

Similarly, the objective of privatisation is in conflict with the objectives of liberalisation of interest rates and increasing tax revenue. The latter objectives curb private investments and therefore are subject to inherent conflict.[84]

83 Nirupam Bajpai "World Banks structural Adjustment Lending : Conflicting Objectives.", *Economic and Political Weekly*, (April 14, 1990) pp. 794.

84 *Ibid.*

There has been increasing call from SALs for prudent macroeconomic policies and outward oriented trade strategies but experience shows that countries like India and Bangladesh even though they followed the inward looking policies their performance could not be judged too poorly (in the period 1973-85). So there are definitely conflicting objectives in the SAL programmes of the Bank.

CRITICISMS AGAINST STRUCTURAL ADJUSTMENT LENDING.

Through SALs were intended to help the farmers but in practice the Bank's emphasis in the 1980's on structural adjustment loans for policy reform did not always help farmers. It actually hurt them in some instances. Third World Governments often, under the pressure to reduce national budgets choose to cut public investments for agriculture and rural poor rather than urban and industrial subsidies.

The negative features of adjustment operation also arise when the choice of instruments and targets for reform are not compatible with the country - specific situation, social and economic mentalities of the economy, capability of the administration level of economic development, etc. For the borrower, the seductiveness of quick-disbursing financial assistance can quickly become addictive. Where implementation is protracted and conditionalities remain unmet, quick disbursing loans merely add to a debt buildup and high debt service in addition, Gross Domestic Product (GDP) and export growth lag behind expectations and also an explosive debt path can result which may lead to loss of credibility of reforms and even abandonment of the programme in extreme cases.[85]

[85] Carl Jayarajah, William Branson, n.79 pp. 110.

Another criticism which is held against SAL is that for a long time they were confined largely to outward oriented developing countries.

The Bank has moved towards stabilisation and adjustment but the consequences have not been positive in social and human terms. In the 1980's several countries in Africa and South of Sahara suffered as in these places, under the structural adjustment programmes, expansion of education and health facilities came to a standstill as development expenditure were drastically cut. Later, under the pressure of non governmental organisations (NGOs), UNICEF and International Labour Organisation (ILO), the Bank came up with the idea of "adjustment with human face". The social dimensions of adjustment were not an integral part of the programme but only an add on.

The Bank is also criticised for its orthodoxy as the loans by the Bank carry tough conditions that cover a wide range of domestic policies and institutions in borrowing countries. The main precondition for the SAL arrangement is that the governments must be able to sustain a process of policy reform and institutional changes over many years. The SAL approach relies a lot on institutional reform and on institution building. There is a concentration of SALs on semi-industrialized and middle-income countries. These countries have already better developed institutions and somewhat higher adjustment and implementation capacity for all types of programmes. The countries, which are most in need of structural adjustment programmes, because they are low income countries with a heavy dependence on one or two export products, have access only to project and sector lending.[86]

[86] Karl Wohlmith, "IMF and World Bank Conditionality: Policies and Enforced Structural Adjustment" in *Development and Peace,* Vol. 6, Autumn 1985 pp 38, 42.

Criticism is also levied against SAL regarding theoretical inadequacy. A study by two Bank consultants, Elliot Berg and Alan Batchelder, has concluded that "the theory of reform on which the SAL rests is not clearly spelled out".[87] The practical results of SALs reflect its theoretical inadequacy.[88]

The consultants' report found that SALs had no measurable impact on the gross national product of borrowers. SALs suffer from a number of crippling problems: unclear selection criteria, overly complex loan conditions, inadequate monitoring of those conditions and an unwillingness to cut off countries that fail to perform.[89]

The World Bank's own studies state that structural adjustment programmes fashioned and imposed by the IMF and the Bank have produced mixed results in target countries. A reasonable percentage of the programmes has broken down before their intended life. It's claimed that these programmes have uplifted damage on the economies and social structures of the countries concerned.

Muchkund Dubey, a former Foreign Secretary of India, in one of his articles states that these programmes have a deflationary impact on the world economy with their constant stress on controlling inflation and with their exclusive focus on the conditionalities for deficit countries. He claims the consequences of structural adjustment programmes to be all the more serious because growth in developing countries has now started influencing the health of the world economy as a whole.

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87 Elliot Berg and Alan Batchelder, "Structural Adjustment Lending: A Critical View", *Country Programs Department Discussion Paper, No. 1985-21*, January 1985, p 7 as cited by Doug Bandow, "What's Still Wrong With the World Bank?" *Orbis*, Winter 1989, pp.84.

88 Doug Bandow, n 87, pp 84.

89 *Ibid.*

The poor may be adversely affected during the adjustment process. Adverse effects may result from increases in unemployment and reductions in wage rates, resulting from changes in economy-wide incentive structures or from reduction in public sector employment and also from cuts in public expenditures and consumer subsidies.[90] But orderly adjustment is indispensable to improve the long term condition of the poor. So despite some of the drawbacks there is little doubt that SALs and SECALs would continue to grow. The Bank needs to provide SALs and SECALs a larger size and focus conditionalities on a few select issues.

CO-FINANCING

In recent years, the Bank has been more active in helping to meet the growing needs of its borrowing member countries by becoming increasingly active in stimulating the flow to them of external capital. Co-financing is one of the most important ways by which these flows can be tapped directly and it associates Bank funds with those provided by other sources in financing specific projects or programmes in developing countries. The term co-financing refers, in general, to any arrangement whereby funds from the World Bank are associated with funds provided by other sources outside the borrowing country in the financing of a particular project.[91]

Co-financing has become a regular feature of the Bank's work. The main categories of co-financing partners are : (1). Official sources which covers governments, their agencies and

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90 *The World Bank Annual Report 1989* (Washington, D.C.), pp 81.

91 World Bank, *Co-financing : Review of World Bank Co-financing with Private Financial Institutions*, (World Bank, August 1980) p.1.

multilateral financial institutions; (2) export credit institutions; these are directly associated with financing the procurement of certain goods and services from a particular country and (3) private financial institutions; this consists primarily of commercial banks and also insurance companies, pension funds and other private sources.

The number of co-financing operations has risen from 37 in fiscal year 1973 to 109 in fiscal year 1979, there were 93 such operations in fiscal year 1980.[92] Co-financing became a significant feature of the Bank in 80's and in 1986 and 1987, almost half of all world Bank assisted projects attached co-financing. The largest source of co-financing continues to be official bilateral and multilateral development institutions. Japan is the major source of bilateral co-financing. Till now, the vice presidency for co-financing and Financial Advisory Service (CFS) content to play a catalytic role in facilitating the flow of financial resources to developing countries, by carrying out various activities related to co-financing, project finance and guarantees, private sector development and technical assistance financing.

What really emerges through the co-financing operations is the better understanding between the Bank and donors in respect of country and sector objectives and strategies. Ultimately this improves the overall efficiency and effectiveness of aid flows and strengthens the Bank's partnership with some of its most important supporters.

92 Ibid. p.2.

DEBT REDUCTION

Fiscal year 1990 was the first full year during which the World Bank support of the programme of debt and debt service reduction (known as the Brady Plan) was put to the test. Forged in the spring of 1984, the programme seeks to strengthen the debt strategy for severely indebted middle income countries. It provides official support for voluntary debt and debt service reduction by commercial banks as a complement to adjustment measures, new lending by them, investment, and the repatriation of flight capital.[93] The new programme represents major innovations in the debt strategy and should be viewed as an important step towards an eventual resolution of the external financing problems, that have plagued the severely indebted middle income countries throughout most of the 1980's.[94]

In 1990 the biggest ever IBRD loan (in nominal terms) - $ 1,260 million to Mexico in support of that country's debt reduction is a logical extension of its efforts to support its indebted countries and help them sustain medium-term development programmes. Thus, debt reduction is a means and not an end in itself. It is justified when it is needed as a part of a viable medium term financing plan that can support the country restore growth, facilitate the debtors' return to normal access to external credit markets, and also reduce the need for further debt restructuring on other exceptional forms of financing.

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93 *The World Bank Annual Report, 1990* (Washington, D.C.), pp. 50.

94 *Ibid* pp. 50.

IN THE 1990s

The Bank entered the 1990's and till this time, we can say that in several respects its borrowers were facing the same problems. Acute poverty, rapid increase in the population and economic expansion were still continuing to pressurise the environment. In several countries the institutional infrastructure continued to be deficient and inadequate in addressing these problems. Rather, it was acting as an impediment and there was a further need to correct them.

The Bank in the 1990's is addressing poverty in a more holistic manner and there is now the adoption of more strategic and country focus approach. It has been twenty years now, after the first major push to poverty and so the Bank has better ways of identifying the poor, targeting them and also considering the impact of the Bank's policies and projects. The macro-micro linkages in the Bank's approach have made the integration of poverty issues in the strategies existing within countries, better off. Above all, the increased emphasis on participation and environment by the Bank has added to the richness of agenda and also its quality.

In 1990's, there is a lot of emphasis on human resource issues and environment. The Bank has adopted an integrated approach in this phase.

In the field of environment, the Bank's efforts cannot be ignored and are definitely encouraging. United Nations Conference on Environment and Development (UNCED) which took place in June 1992, added impetus to the efforts of the Bank and its member countries to protect and promote sustainable development.[95]

[95] *The World Bank Annual Report, 1993* (Washington, D.C.), pp. 45.

The World Bank as the largest multilateral source of development finance for developing countries, has a special responsibility to ensure that the programmes and projects carried on by it or supported by it are consistent with the objective of sustainable development.

The Global Environment Facility (GEF) was established as a pilot programme in 1991 to act as a mechanism for international cooperation for the purpose of providing new and additional grant and concessional funding to meet the incremental costs of measures to achieve agreed global environmental benefits in four local areas: climate change, biological diversity, international water and ozone layer depletion. The agreed incremental costs of activities concerning land degradation, primarily desertification and deforestation as they relate to four local areas are also eligible for funding.[96] The Bank, in addition to providing administrative support to GEF, also acts as a trustee of a new trust fund and one of the implementing agencies.

So, the Bank in 1990s is addressing the specific problems of regional or world wide import. It has embraced a board-based development strategy aiming at helping countries reduce poverty and increase living standards, by combining alteration to sound economic policies, human resource development and environmental sustainability.

96 *The World Bank Annual Report, 1994* (Washington, D.C.), pp. 47.

CHAPTER IV

Beyond Lending Issues

The Bank's mandate, as derived from its Articles of Agreement, is the promotion of reconstruction and development in those member countries which need its assistance. The Article IV Section 10 explicitly prohibit the Bank from interfering in a country's political affairs and require it to take only economic considerations into account in its decisions.[97]

The World Bank's lending policies have varied and rather expanded gradually with time, starting as basically lender for reconstruction the Bank goes ahead and taking the form of development agency and advocate for the poor, enters the phase of structural adjustment lending with a better understanding of lending. Steadily, understanding of lending proposition became more comprehensive and the Bank was not limited only to look at its projects but it was conscious about the policies and the results also. It moved to a refined and better understanding. In fact, we can say that the institution went beyond lending and thus the question arose on governance, human rights, social development, etc.

The World Bank is now very active in the field of governance and human rights. Over the last ten years, it has gone much beyond its mandate. The World Bank is no longer a hesitant player in this regard and has closely linked its loans to new economic criteria. It is impinging upon the sovereignty of the nations by entering in the domain of their domestic policies. The Bank is now even dealing with the public sector and financial matters of the nations which is a direct attack on the sovereignty of the nations. And due to this step taken by the Bank there is a fear that the policies of the country might be moulded according to the personal views of the major shareholders, i.e. the capitalist countries and ideological conflict might take an active shape.

[97] *Article IV Section 10.* "The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighted impartially in order to achieve the purposes stated in Article I.

GOVERNANCE

The Bank's experience has proved that the programmes and projects it helps to finance, even if they are technically sound, fail to deliver anticipated results for reasons connected to the quality of government action. Legal reforms too come to naught if not enforced consistently or not implemented in time. Even unclear rules, deficient institutions and uncertainty in government action hamper the effects to develop privatized production and market led growth. Thus, good governance is central to creating and sustaining an environment which fosters strong and equitable development and is an essential complement to sound economic policies. There is obviously no certainty that institutional framework conducive to growth and poverty alleviation will evolve on its own. So, the World Bank along with external aid and finance agencies, is now involving itself in assisting developing countries to take such incentives, to build up such institutions and develop capacity for development.

The World Bank's interest in governance arises from its concern for the effectiveness of the development efforts it supports. A general definition of governance is the "exercise of authority, control, management, power of government". A more relevant definition for the Bank's purposes is "the manner in which power is exercised in the management of a country's economic and social resources for development".[98]

Issues of governance are not new to the Bank. From late 70's itself, the Bank was getting conscious towards the policies and practices followed by its borrowing members and

[98] Both definitions are from Webster's New Universal Unabridged Dictionary (London : Dorset & Baber 1979) as cited in, The World Bank, *Governance and Development* (Washington, D.C.,1992), p.3.

turning towards structural adjustment lending and related reforms of public sector management aimed to create an enabling environment for growth.

The World Bank is concerned with governance for two kinds of reasons. First, from a broader perspective, both history and the Bank's own experience show that good governance is indispensable for creating and sustaining an environment for development. Second, from the Bank's perspective, several development management is inextricably linked with the efficacy of the investments that the Bank helps finance and thus with the Bank's goals of assisting countries, in reducing poverty and increasing sustainable growth.[99] The record shows that Bank's work on governance has greatly expanded with different points of emphasis in all regions of the developing world.

PUBLIC SECTOR MANAGEMENT

Public sector management is the most visible dimension of governance. Public Sector Management (PSM) is to do with the implementation of the public policy, strength of public institutions and effectiveness of the public programmes. Its subject matter include civil services, government budget and other financial management system and other parts of the machinery of government that are essential for the efficient functioning of the public sector. Over the years, the World Bank's approach to PSM has grown beyond project-linked institutional strengthening and it attempts to improve the working of specific parastatal agencies.[100] Structural adjustment process demanded institutional modernization and there was a need for a more adequate and conceded reform efforts

[99] World Bank, *Governance and Development 1992*, n 98 p 1-2.
[100] *The* World Bank, DEVELOPMENT IN PRACTICE: *Governance: The World Bank's Experience* (Washington, D.C.,1994), p.1.

Civil Service Reforms

Civil Service Reform programmes are becoming a prominent feature in Bank lending operations. Recent efforts to overhaul developing country economies have placed in stark relief the need for adequate public sector administrative capacity, especially, within the core civil service. Increasingly, the ability of civil services to carry out the critical, much less the routine, functions of government is severely constrained. Furthermore, the size and cost of many civil services are excessive. These deficiencies have become key targets of structural adjustment programmes supported by the World Bank. The growing concern with containing the size and improving the performance of the civil services signifies a redimensioning and redefining of the state, and reflects a fundamental shift in the direction of economic development policy. The new wisdom is to "manage less but better".[101]

Civil service reform as practiced in the World Bank operations has focused on two separate but related dimensions. One deals with the short term emergency steps to reform public pay and employment policies. These reforms usually center on measures to contain the cost and size of civil service, mostly in the context of structural adjustment lending. The other reform dimension, deals with longer-range civil service strengthening efforts, some of which may support various nearer term cost containment measures, but most of which are directed towards ongoing sustained management improvements.[102]

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101 Barbara Numberg, John Nellis, *Civil Service Reform and the World Bank*; World Bank Discussion Paper Note No. 161 (Washington D.C.,1995), p.1.

102 *Ibid.*

Cost containment efforts by the Bank have taken a variety of forms - ranging from the removal of "ghost" workers, to the freezing of recruitment or the retrenchment of civil servants. Reform programmes have also been addressing specific pay conditions for civil servants in an attempt to remove demotivating distortions in government remuneration structures.

Also, the progress have aimed at improving pay conditions, rationalizing the overall system of remuneration and building institutional capacity in the government to formulate and implement sound salary policies.

The Bank is trying to get a better understanding of the deficiencies in civil services. In Zambia, two surveys were conducted related to the attitudes of clients towards the civil servants and assessing civil servants themselves, respectively. The World Bank, for the first time, has financed work of this nature.

State Enterprise Sector

Since 1989, the World Bank has incorporated a strategy that focuses on improving the business environment, restructuring the public sector supporting privatization and reforming and developing the financial sector in developing countries.

Reform of state-enterprise sector is now becoming an important component of the structural adjustment reforms carried on by the World Bank assistance in virtually all the countries. There is an effort to corporatize and reform state firms.

Both, the systematic reforms and reforming of the individual enterprises under state control are receiving attention from the Bank. And these reforms include performance contracts, performance evaluation system, changes in the composition and role of board of directors, changes in the selection of remuneration and incentives to managers, improvement in prices and labour policies etc.

Promotion of public sector restructuring has tended to focus on trimming over extended public sectors and supporting privatization of state-owned enterprises and private sector delivery of public services.[103]

The focus has begun to shift, however, towards one that also complements privatization with efforts at upgrading these areas of public administration that have the potential to affect profoundly the growth and efficiency of the private sector: tax and customs, administration, trade and investment promotion, enterprise support services, court administration and infrastructure planning and provision.[104] So, this is very different and a step ahead of the lending functions which the Bank was doing till now.

We see the Bank taking innovative steps, for example in Bangladesh, where courts took a long period of upto fifteen years to process suits brought by the financial institutions against defaulting borrowers. The Bank's assistance has enabled to enact legislation establishing special commercial courts to handle expeditiously actions brought by financial institutions against defaulting borrowers.

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[103] *The World Bank Annual Report 1993* (Washington D.C.), pp. 52.

[104] Ibid, pp. 53.

Privatization has taken on a special urgency, in the countries in transition, where it is a cornerstone of their transformation from command-based to market-based economies.

To sharpen the focus of its work on private sector development, the Bank introduced in fiscal 1992 a new element in its programme of economic and sector work - the private sector assessment. A well formulated private sector assessment describes the structure of the private sector in a given country, identifies the key constraints to its development, and lays out economically efficient ways for the country to remove these constraints.[105]

The Bank has been so much involved in encouraging private sector that over the past few years, almost three of every four Bank supported adjustment operations have included components that helped establish competitive markets and an environment to support the development of successful private sector.

The efforts in this direction of privatization have given different results. In some countries, privatization has proceeded more slowly than anticipated but in some areas as in Asia and Latin America has been well advanced.

Financial Management

The World Bank is helping to produce a competitive and attractive business environment and has also not left the reforms in the financial sector untouched, to support privatization.

There has been a steady change in the complexity of the Bank's financial sector loans. A few years ago, most addressed policy issues such as interest rate and credit policy.

[105] *The World Bank Annual Report, 1994* (Washington D.C.), pp. 51.

Today, the issues are more institutional such as strengthening banking supervision, regulation and accounting.[106]

Public enterprise reforms have given successful results in Chile, Malaysia and Mexico but have also been disappointing in most of Africa.

The World Bank operations and activities related to PSM differ from country to country depending on the state of development of public administration and the absorption capacity of the member countries.

In Latin America and Caribbean Region reforms driven mostly by the desire of governments to modernize public sector management.[107]

The form of the Bank assistance too varies, e.g. in Europe and Central Asia, the primary emphasis has been on redefining the role of the state in the economy. The main thrust of the Bank's work has been support to privatization and private sector development to help countries move away from the command system and to create the institutional basis for functioning market economies. In Albania, work is under way to build core economic agencies and in Middle East and North Africa, the Bank's efforts in public sector management have concentrated on state enterprise reform, including privatization - deregulation and better financial disciplines for enterprises.[108]

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[106] *The World Bank Annual Report, 1995* (Washington D.C.), pp. 31.

[107] Reflected in the World Bank's newly named Public Sector Modernization Division formerly the Latin Americas and Carribean region's Private Sector Management Unit, as cited in *Governance: The World Bank's Experience* n.100. p.5.

[108] *Ibid* pp. 9-11.

ACCOUNTABILITY

Accountability deals with holding governments accountable for their actions towards the governed. For the past two years, the Bank has diverted its activities towards assisting countries improving the accountability of their public sector. There has been an increasing demand also for more accountability in the developing countries, in fact, the trend towards decentralization of government has become one of the principal ways, in which this demand for greater accountability is being expressed.

Another aspect of the Bank's active involvement is financial accountability in both public and private sector, but more emphasis is laid on the public sector. Bank's functions are dedicated to establishing the infrastructure for sound financial management in South Asia, East Asia, Central Asia and Europe. And this has entailed improved budgeting, auditing and strengthening of the legal framework of modern accounting practice.

Orientation of the Bank's activities in the field has been, in all the regions, towards strengthening auditing offices to counter misuse of funds and to promote compliance with financial management standards. Also to expedite governmental processes, modern post-auditing practices are being introduced by the Bank.

Controlling of corruption is another feature resulting due to the Bank's intervention, as it has adopted reform measures that directly help countries to control corruption, as a part of structural adjustment programmes for years. The reform measures comprise, simplification of rules, institutional strengthening to improve financial controls and also ensuring that civil servants have lesser incentives to get corrupted.

The World Bank has gone far ahead in the direction of improving accountability and has extended its technical assistance for improvements to the legislative and judicial benches in Latin America and Caribbean. This is an absolutely new area of the Bank's involvement.

Needs of the country determine the focus of the Bank's activities for e.g. in Africa where need is to rebuild accounting and auditing capacities in government much of the Bank's operational work has been focused on financial accountability. Same is the case with South Asia but in Europe and Central Asia problems of accountability are set in the national contexts of state rebuilding, as a result of the transition from command to market economies and introduction of democratic institutions.[109]

LEGAL FRAMEWORK FOR DEVELOPMENT

Economic development demands sound legal framework in a country. Social and political developments too, are deeply related to the legal framework. The inappropriateness of laws, their slow processes, uncertainty in their implementation, inefficient court administration and biased attitude of judges towards execution hinders development and affects the lives of the poor.

In this dimension of governance too, the World Bank has stepped in and holds variety of instruments. Programmes supported by structural adjustment loans comprise of new laws and judicial reforms. Apart from this, the Bank has also been directly advising the governments now.

[109] *Ibid* pp.20.

In Eastern Europe and Central Asia Bank has assisted in passing privatization laws, banking laws, company laws, contract laws, consumer protection laws etc. and has also been assisting countries with legislative administration and judicial reforms so that the institutional framework becomes sound enough to enact, administer and enforce sound laws.

Even in East Asia efforts have been made to introduce laws. In Latin America and the Caribbean modernizing of economic laws has been assisted and in the Sub-Saharan Africa the efforts are on, to strengthen legal institutions relating to property rights and contracts in the context of private sector development loans.

Transparency and Information

Transparency implies more open government. It's as important as accountability and also a deterrent to corruption. Transparency lowers down the chances of corruption and enhances exposure. It clarifies government policies and programmes and this makes their implementation easier. Even in private sector it helps in providing reliable information to all decision makers. Transparency requires free media, political commitment and supportive institutions.

But its a complex issue in the context that not all the subjects require it, areas like national defense carry confidential information and the government or concerned institution may be right in withholding information.

Number of steps for the promotion of transparency have been initiated. In Latin America and the Caribbean region Bank has been engaged in the introduction of transparent budgetary systems for a clearer disclosure of the relationship between performance and expenditure. Similarly, in South Asia, the Bank's efforts to promote transparency have included support for the introduction of programme - oriented budget systems.

The World Bank has, especially in the countries which are in transition to market economy, has encouraged transparency in financial management and also in the other public and private sectors. It has also stressed the need for open privatization and procurement processes in its considerable assistance to governments.

Transparency and accountability are closely linked and thus all the efforts to improve accountability will have a positive effect on transparency. But its' a gradual process and a number of other factors concerned with the particular country itself effect both the issues. The factors may be historical, social and political too.

DEBATE OVER THE WORLD BANK'S ACTIVITIES IN THE FIELD OF GOVERNANCE.

The World Bank, as we see in the 1990's, has adopted a more holistic approach and has gone beyond its mandate or beyond its basic objectives.

Though the steps taken by the World Bank are in the context of economic development and the Bank now has embraced almost all the arenas of government, giving the argument of economic development. But the Bank's activities in the direction of governance can be subjected to criticism.

The Bank has been interfering in the internal administration of the country and working for the improvements in the legislative and executive branches too. Its even initiating changes in the civil services and institutions. But the internal administration of a country does not demand that only economic factors are kept into consideration. A number of historical, geographical and social factors play a significant role in framing the institution and civil administration. Economic factor, no doubt, is a key factor but the institutions carry their roots in the history, society and politics of a country and cannot be amended just considering the economic factor.

The Bank has also been active in the improvements of legal framework of regions which is an extremely sensitive issue and again has to be touched cautiously. The laws, rules and regulations carry the faith of people and cannot be changed at once for the sake of restructuring of the economy.

The World Bank although is actively promoting the improvements in the wholesale structure of the administration, yet it cannot address the fundamental causes of weakness in government. These fundamental causes need to be addressed by particular region itself or the regional organization like SAARC which are formed with a common objectives to fight and solve common problems.

The budgetary austerity, trade liberalization and privatization is applied simultaneously in more than 100 indebted countries. In a way, they forgo their economic sovereignty and control over their domestic policies.

Above all, the Bank is prohibited by its Article 4 Section 10 to interfere in the political affairs of any member, but the Bank's involvement in Governance, although claimed to be limited is definitely to an extent in contradiction with Article 4. The Bank is initiating changes in the legislature, executive fields which is very much a political arena, and thus the Bank is interfering in the political dimension of a country.

It also appears that the Bank has shifted its prime attention from economic development to institutional reform. So much concentration by the Bank is on the public sector and institutional framework of the nations gives the picture that the World Bank is becoming stronger and the United Nations institutions have been progressively enfeebled.

POVERTY REDUCTION

The Bank's strategy for poverty reduction embodies its sincere concern to human rights. But the issue of poverty reduction has always remained on its agenda. In fiscal 1990, a major study of poverty, World Development Report 1990 was published by the Bank which recommended that the developing countries adopt a two-part strategy for maximum effectiveness in reducing poverty. The first part requires the encouragement of broadly based economic growth that generates demand for labour, the second part requires the provision of services in the social sectors - especially primary education, basic health care, family planning and nutrition to improve living conditions and increase the capacity of the poor to respond to whatever income earning opportunities may arise from economic growth. An additional but essential component of the strategy is establishment of a system of targeted transfers and safety nets to assist those who are not able to respond to the new opportunities.[110] And the strategy was adopted in the coming year in the operations of the World Bank.

[110] *The World Bank Annual Report, 1992* (Washington D.C.), pp. 46.

The Bank's poverty-reduction efforts have two key elements. The first element consists of the formulation of country-specific poverty assessment that (a) establish whether specific government policies, public expenditures and institutions are consistent with the goal of reducing poverty and (b) recommend necessary changes. The second element consists of the design of country specific strategies that ensure that the Bank's programme support and complement countries own efforts to reduce poverty.[111]

The Bank's efforts for poverty reduction are not limited to lending only, but by poverty assessment, the Bank has developed a more collaborative approach, by country officials and by itself. Poverty assessment also helps to establish the agenda of issues for the policy dialogue between the government and the Bank, and between the government and agencies of the international donor community.

The important element in the Bank's poverty reduction strategy is to provide basic social services to the poor such as primary health care, family planning nutrition and primary education.

Poverty issues are being addressed comprehensively, both within the context of human resources development and more fully within the overall country assistance strategy (including macroeconomic and sector policies). In a number of countries poverty assessments or other poverty analyses have been completed.[112]

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[111] *Ibid.*

[112] *The World Bank Annual Report, 1994* (Washington D.C.), pp. 36.

HUMAN RIGHTS

The World Bank, in its strategy, has embodied contribution to the Human Rights. The Bank has tried to keep consistent with its articles and focus its efforts in the area of human rights which are economic and social in nature.

The Bank has been promoting throughout its history, the Right to Development as proclaimed by the UN General Assembly in a Declaration adapted on December 4, 1986. The Bank's efforts in the various directions relating to poverty, health, refugees, etc. are also promoting human rights.

Human Resource Development

The growing contribution of the Bank to human resource also reflects the promotion of Human Rights. Investing in people, is at the core of the World Bank's work. The Bank's lending for education, health, nutrition, population and other aspects of human resource development has increased significantly in the recent years. It has almost tripled since the early 1980's.

The Bank, in this field, is not confined to lending but has expanded other ways of assistance - through policy advice, technical assistance and donor collaboration etc. The Bank's lendings now carry a reformist approach.

Focus of the Bank's lending has been towards development of basic education but lending for education has evolved towards supporting broad-based education reforms and policy-based lending. So the Bank's lending focuses on and helps to address weaknesses in the sector's institutional environment in order to strengthen a government's long-term policy framework for education. Further, a concern with both access and equity characterizes bank's lending for educational strategies to target girls and women, the poor and disadvantaged groups now underscores its education operations. There is also expanding interest in the non-formal education and early childhood development.[113]

The Bank's Women in development (WID) initiative - designed to address women's needs in economic and sector work and in the lending programme has been identified since 1987, as having a "special operational emphasis". The aim is to integrate gender aspects in the Bank's operational and sectoral work.[114] The Bank's operational strategy on Women in Development aims to reduce gender disparities and enhance women's participation in the economic development of their countries by integrating gender consideration in country assistance programmes.

Until quite recently, WID programmes including those of the Bank, tended to treat women as a special target group of beneficiaries in projects and progress. According to a recent Bank policy paper - World Bank 1994 enhancing women's participation in Economic Development, development organisations have begun to recognize, however, that the best way to ensure that women are not left at the margin of the development process is to analyze the relative roles and responsibilities of both men and women and to apply the insight gained from this analysis to the design of projects and programmes. This new approach, which focuses on gender relatives in the family and in the community rather than on women in isolation, constitutes the "gender and development" approach. This is

[113] *The World Bank, Annual Report, 1993* (Washington D.C.), pp. 43.

[114] Ibid pp. 44.

the focus that the Bank is now promoting to enhance women's participation in development.[115]

Apart from this, the Bank centers to encourage governments to support participatory development approaches and its cooperation with non governmental organization centres to expand in terms of both lending operations and the policy dialogue.

Today human resource development is at the core of Bank's functions. The Bank, today, has captured every phase and aspect of our lives. Its operations are trying for a systematic development by addressing the root courses of underdevelopment. It's definitely intolerable that as the world approaches the twenty first century, hundreds of millions of people still lack minimally acceptable levels of education, health and nutrition.

The Bank's integrated approach in the 1990's focuses on human capital and it appears as if the Bank has initiated a resolution for the human resource development. Despite the fact that the Bank's work has been significant is not free from negative aspects.

In World Bank is voting strength is determined by voters of the member countries and therefore is controlled by major developed countries or say shareholders. So there is a scope that the polices in humanitarian direction too, start carrying the natural interest of a shareholder dominating the institution rather than the common interest, especially where the Bank is entering into policy dialogue there is full scope for biased dialogue.

115 *The World Bank Annual Report, 1994* (Washington D.C.), pp. 37.

Secondly, when the Bank moved in 1980's from promoting and financing development to stabilization and adjustment the consequences in some regions had been really poor in social and human terms. In several countries in Africa, south of Sahara under the structural adjustment programmes, expansion of education and health facilities came to a standstill as development expenditure was drastically out. It was only later that social dimensions of adjustment were addressed and the Bank started talking about "adjustment with human face."

Lastly, now the Bank has been so involved in the humanitarian and social dimension of development that it appears merely a social reformist than a financial institution.

Conclusion

The World Bank has changed dramatically since the time it came into existence. Fifty years of the Bank's existence have observed major shifts in its aims and policies. The institution which came up as a means for development and reconstruction, today also actively participates in policies relating to governance and human rights.

The thrust in the Bank's policies has changed continually but these changes have not always been considered fruitful. Thus the Bank's history charts successes and failures as well as criticisms and accolades.

Reconstruction loans marked the beginning of the Bank's lending. The Bank displayed flexibility, and rather than lending to countries against specific projects, gave out loans for reconstruction. The Marshall Plan, which solved the problem of reconstruction in Europe, allowed the Bank to shift its focus to development.

The Bank made its forays into Development Lending with the view that investment in transportation and communication facilities; port development and power projects, etc. was a precondition for the development of economies. The Bank projected this tendency to equate development with economic growth since its inception. In the late 1950s and through the 1960s, the Bank held the responsibility of a development agency.

Lending for the poor became an important part of the Bank's policies under the presidency of Robert McNamara. In the 1970s, the Bank became a champion of the upliftment of the poor. Its policies were devoted to the cause of poverty alleviation and human resource development. McNamara's speeches emphasised direct attack on mass poverty and absolute poverty became a central issue.

In the 1980s, the Bank shifted emphasis towards Structural Adjustment Lending in order to support the programmes of policy and of institutional changes necessary to modify the structure of an economy, to maintain its growth rate and the viability of its balance of payments situation in the medium term.

Structural Adjustment was a new form of Bank assistance. It incorporated the objectives of promoting economic growth and poverty alleviation; promoting openness of the economy; strengthening institutions and policy analysis; improving the scope of private sector development; improving efficiency on resource allocation and improving transparency in the incentive system.

Although SALs enabled the Bank to respond more fully to the needs of a country, they invited criticisms on a number of grounds. The multiple objective, multiple instrument programmes that constitute SALs have been in conflict at times. Also SALs have not had a positive effect on the poor and they suffer from unclear selection criteria, overly complex loan conditions, inadequate monitoring of conditions and an unwillingness to cut off countries that fail to perform. SALs have also been claimed to have had adverse effects on developing economies as development expenditure was drastically cut down in these economies. The social dimension also lacked due consideration in the programme. Also, the loans carried tough conditions and covered a wide range of domestic policies and institutions in the member countries.

In the 1990s, the Bank has embraced a broad based strategy where human resource development or social development plays a major role in the Bank's policies. Now the Bank has become an active player in the field of governance and human rights although the former is widely considered a domestic issue. The Bank has shifted its priorities and has given different meanings to development at various stages. Article 4 has also been interpreted in a number of different ways.

Growing needs have led to the expansion of the Bank's purposes and its functions but some of its basic objectives still remain unmet. Despite the efforts by the Bank and its impressive sounding policies, the projects financed by the Bank have not always had a very positive effect. The Bank is at times held responsible by its critics for human devastation and harm caused to the human species. It is claimed that its policies, have led to a widening gap between the rich and the poor. It is also true that a number of the Bank's projects are a failure in terms of their preparation and implementation.

In the 1990s, when a more holistic approach has been adopted by the Bank, it appears that it is establishing unique and unprecedented mechanisms for continued intervention in the internal affairs of borrowing countries. Critics feel that the Bank will devise more and more institutions for continued intervention in the domestic policies of the borrowing countries. The Bank denies that its interventions are political. The Bank's interference on the issue of governance is frequently under attack on the grounds of violation of sovereignty of nations as well as the fact that it is in contrast to Article 4.

Although the Bank has not been able to respond effectively to the criticisms of its policies the performance of the Bank in the past as well as today makes it clear that the institution has been innovative and has adopted new policies but "sustainable development" and "poverty alleviation", the core aims of the Bank still remain distant.

Though there is a growing need for the Bank to look back to its original mandate, but it can be said that it has performed its roles as a financial intermediary, as a processor of information, policy researcher and as an advisor quite innovatively in the past. It has also embraced the growing demands of the member countries.

Rakesh Mohan states, "that in order to maintain its effective role in the promotion of economic development, the Bank must respond vigorously to the new challenges it faces in its various roles".

The World Bank must perform its role from being a direct borrower and lender to that of a facilitator of capital flows. The high credit quality of the Bank can be used by it to leverage a much larger volume of capital flows from the developed to the developing countries. Facilitation of the loans to the developing countries from the world's capital markets should be given high priority by the Bank.

In the field of policy research and advice, there is a need for the Bank to build confidence in the perception of its research and policy advice. For the institution to be more effective and enhance members' confidence in it, the Bank staff can be made more broad based and more outward looking. Also, the practice of policy advice should adapt itself to democratic styles.

Thus, there is a growing demand for reforms in the Bank. It is felt that there is need for reforms in structure, transparency and accountability. Public consultation and dialogues with the NGO community are considered desirable and the needs of the people should determine the choice of the projects. Also, it is felt that the Bank's interference in the internal politics of the nations are not desirable and might lead to undesirable results in the future.

The Bank has, over the years turned into a powerful institution, with universal membership but reforms in the institution are important for it to effectively negate criticisms leveled against it.

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