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THE WORLD BANK AND THE WORLD'S POOREST

Many billions of dollars are poured into the developing world each year through various international agencies to finance the development efforts of the emerging nations. The largest financier of Third World development today, among these institutions is the World Bank Group comprising the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC). Quite naturally this institution and its policies have been very much in the spotlight over the years and at times sparked off much controversy. More recently, after about 30 years of its existence, the Bank announced a shift in its policies and development objectives. Many points of view have been expressed since the changes were announced, (and reiterated around the time of the Bank's Annual Sessions at the end of September this year); and with a view to giving our readers "a many sided presentation" on this crucial subject in the development debate, we present first the World Bank's viewpoint by three of its major protagonists and then at the other end two critical assessments which touch on the more important aspect of the views expressed by the official spokesmen.

The World Bank and the International Monetary Fund were two separate but complementary agencies set up, at the initiative of the Western industrialised nations, at the end of the Second World War with the intention of rehabilitating a world economic system that was in a state of collapse. All the European economies had been largely exhausted or destroyed after the war. The memories of the monetary turmoil of the capitalist countries in the 20's and 30's was still fresh and concern about a possible recurrence was widespread. These memories and concerns, prompted the major Western nations to convene at Bretton Woods, New Hampshire, USA, in

July 1944, in order to find a workable solution to the task of international economic reconstruction. The outcome of this conference was a comprehensive blueprint for setting up two international agencies, the IBRD and the IMF, which were to exert their influence on the World Economic Order ever since.

The World Bank (IBRD) was established in December, 1945 following the Bretton Woods Conference, where the major western nations met to design a workable International Monetary System and set up an agency through which war-torn Europe could be restored with long-term loans. The International Bank for Reconstruction and Development, as its name implied, was thus established primarily with this end in view.

From the 1950's, however, the Bank directed most of its financing to development projects in the Third World and is today regarded as the world's leading international institution for development financing. From the 28 countries which signed the Articles of Agreement drawn up at Bretton Woods in July, 1944 its membership has now risen to 132 countries each of which subscribes to the Bank's capital base. Over the years its sub-agencies the IFC and IDA were brought into the World Bank to provide more specialised forms of financing to the developing world.

The original purposes of the IBRD were "to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes; to promote private foreign investment, when private capital is not readily available on reasonable terms; to supplement private investment by providing loans for productive purposes out of its own capital funds raised by it and its other resources; and to promote the 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 the Bank's members."

The IDA, which came into existence on September 27, 1960 and whose administration is the responsibility of the World Bank was set up

"to promote economic development, increase productivity and thus raise standards of living in the less developed areas of the world included within its membership by providing finance to meet their important development requirements on terms which are more flexible and bear less heavily on the balance of payments than conventional loans such as those of the IBRD and IFC."

Its assistance was to be concentrated on countries regarded as very poor — mainly those with annual per capita incomes of less than \$300. This association was intended to further the developmental objectives of the Bank and supplement its activities.

The other agency of the World Bank, the IFC, was set up a few years earlier. Though established in July 1956 it became a specialised agency in relationship with the United Nations in February, 1957. While closely associated with the World Bank, the IFC is a separate legal entity, and its funds are distinct from those of the Bank. Its main purpose is

"to further economic development by encouraging the growth of productive private enterprise in its member countries, particularly in the less developed areas."

The IFC pursues its objectives by investing in productive private enterprises, in association with private investors and, without Government guarantees of repayment, in cases where sufficient private capital is not available on reasonable terms; serving as a clearing-house to bring together investment opportunities, private capital (both foreign and domestic) and experienced management; and helping to stimulate the productive investment of private capital, both domestic and foreign.

The International Monetary Fund (IMF) is sometimes confused with the World Bank or one of its agencies. It must be made clear that the IMF was set up as an Organisation that would be responsible for the new Monetary System that was established in December 1945 at Bretton Woods. The IMF's objectives were thus clearly defined as follows:

"to promote international monetary co-operation and the expansion of international trade; to promote exchange stability, maintain orderly exchange

arrangements and avoid competitive exchange depreciations; and to assist in the establishment of a multilateral system of payments in respect of currency transactions between members and in the elimination of foreign exchange restrictions which hamper trade."

The functions and operations of the IMF were such, that they invariably have resulted in the Fund laying down rigidly its terms to governments seeking its assistance, and the measures it has recommended have not been popular in these countries. This has led to much criticism of the IMF, among some of these countries, who in balance of payments difficulties have been compelled to seek the Funds facilities. The World Bank, on the other hand, with its more populist stance, particularly after the Nairobi sessions in 1973 has, in recent years, come in for less criticism than the IMF.

The World Bank has over the years directed a major part of its loans to commercial development, particularly large scale projects like electric power stations, railways, ports, hotels, mining and manufacturing installations.

About five years ago the Bank gave notice that it was making a complete change in policy and lending patterns and redirecting its programmes with the intention of raising the productivity of the poor and enabling a greater transfer of resources from the more developed to the less developed countries. The occasion was the Annual Meetings of the World Bank and IMF in Nairobi in 1973, when Bank President Robert S. McNamara made his address. Many critics have maintained, however, that the money from the World Bank has not gone to really help the poor people although its activities have been carried on in the name of the poor. "Its been done in the name of the poor, but when you look over the projects there's very little evidence that it's ever really done anything to the poor", said Clarence Long of the US House of Representatives commenting on World Bank assistance. This criticism of the World Bank caused a certain amount of resentment within the Bank towards the US Congress for what it considered "unwarranted attacks upon successful attempts to assist the poorest of the poor". This is part of the debate that has gone on in recent times concerning the fundamental nature and purposes of the World Bank. These basic issues have been set

out more simply in the following questions.

Is the World Bank a bank with traditional banking concerns whose object is to make a profit by ensuring an adequate return on its lending and investments Or is it a development agency with the goal of underwriting those projects most likely to promote economic and social progress among the poor Or can the Bank successfully accomplish both objectives simultaneously?

Bank officials maintain that their's is an international lending agency which provides critically needed development capital to the Third World with a view to solving the problems of mass poverty. They are doing so by funnelling billions of dollars in aid to development projects which are likely to be financially successful. Their sole object, it is claimed, is to assist the poor to become more productive, through such assistance; but with no political strings attached.

The critics argue, however, that the World Bank, by its very nature, is political; since it is controlled by the financial elites of the world's leading capitalist countries. The Bank, according to this view, helps to maintain the prevailing financial, economic, political, and social orders of the Third World — and indirectly, the First World — at the expense of the aspirations of the poor. As presently structured and governed the critics maintain that the Bank may be an excellent bank, but many questions are raised as to whether it can operate effectively as a development institution. For instance, the planning of several bank projects, according to these critics, have taken for granted that the eradication of poverty can be planned from Central Planning offices. The result is that many such projects have not been firmly fixed in local conditions and the poor communities for whom they were intended were therefore unable to take control of their development. The point at issue has been not the quantum of money spent, but who receives the major benefits from such development projects.

The Bank's spokesmen maintain that its present emphasis is on helping the poor to raise their levels of productivity. As Mahabub Ul Haq argues, behind the Bank's programmes is the rationale that the poor also have to participate in increasing production and they must also fully benefit from it; that new

development strategies must be aimed at the satisfaction of the 'basic human needs' of the entire population rather than at fulfilling market demand; that the Bank has adapted itself pragmatically to the evolving needs of the developing world; and that beside expanding the capacity of the poor to produce and purchase market goods it was equally necessary to redesign and extend public services such as education, health care, water supply and public transportation. He maintains that it has been recognised that most of the present services end by serving the interests of a privileged few rather than the deprived many and therefore the main emphasis has been placed on low cost, replicable public services.

Critical assessments made by Joseph Collins and Frances Moore Lappe and India's *Economic and Political Weekly*, which contribute to the debate, argue that the Bank treats the symptoms of poverty and not the causes. They suggest that some projects can "undercut" the very poor it claims to help; as intervening with funds for profit generating investments while opting to keep intact the social structures that generate poverty only strengthen the grip of the elites. The *Economic and Political Weekly* which deals with the Bank's Annual Report goes further to maintain, as has been done very effectively at many UNCTAD fora, that "the poor countries were forced to use a larger part of their new borrowings to meet the repayment of service obligations on their existing debts."

The Chairman of the Bank's Urban Poverty Task Group, Edward Jaycox, goes on to state that even with much greater effort in rural development there are limits to what can be achieved. Effective national strategies will also require a more efficient approach to urban development. For it is only by significantly slowing population growth and increasing productivity in both urban and rural areas, he says, can any real gains be achieved in employment and per capita incomes for the very poor.

Several other issues in the debate connected with the orientation, and thinking within these institutions, also the specific policies they have insisted upon, and even the degree of impartiality of these institutions have been dealt with in previous issues of the *Economic Review* and are therefore not covered here.