The Bank's Lending Policies —A changing emphasis

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There has been an apparent change in the Bank's lending policies and patterns during the 1970s toward helping to raise the productivity of the poor. This article by the Director of the Policy Planning and Program Review Department of the World Bank reviews the evolution of the thinking behind the change and briefly discusses the implications for the Bank's lending policies.

The thinking on economic development has undergone a quiet revolution in the 1970s. The essence of this revolution is quite simple: all of us have finally graduated from a fascination with the intermediate means of development to a consideration of its ultimate ends. We have recognized that the growth of gross national product (GNP) is absolutely necessary but that it must be directed intelligently toward solving the problems of mass poverty. While we still need to worry about how to increase production, we have finally added the critical question: "for whose benefit?".

Like all revolutions, this one has had its excesses. Growth of GNP was forgotten sometimes in the anxiety to reach the poor directly. Some governments and populist leaders tried the futile and short-lived experiment of income distribution without increasing production. A consensus has finally been reached among those concerned with development that production and distribution policies must be fully integrated. Increased production is a must in a poor society. But the poor also have to participate in increasing this production, as well as fully benefit from it.

The debate on development strategies is continuing and is likely to go on for a long time. But it is perhaps fair to say that there is by now — broad agreement on certain propositions which would have been regarded as heresies only a decade ago:

- **Growth in the GNP often does does not filter down. What is needed is a direct attack on mass poverty.**
- **The market mechanism is often distorted by the existing distribution of income and wealth in favour of the rich, and is generally an unreliable guide to setting national objectives. Reforming existing institutions is usually more decisive than modifying prices to benefit the poor.**
- **New development strategies must be aimed at the satisfaction of the basic human needs of the entire population rather than at fulfilling market demand.**
- **Policies to improve the distribution of benefits and employment opportunities must be an integral part of any production plan. It is generally impossible to produce first and distribute later.**
- **A vital element in distribution policies is to increase the productivity of the poor by directing investment toward them.**
- **A drastic restructuring of political and economic power is often required if development is to spread to the vast majority of the population.**

The World Bank's lending policies have taken shape in the midst of this ferment in development thinking. The Bank has both contributed to the intellectual debate, through its research and policy work and through its changing lending patterns, and has adapted itself pragmatically to the evolving needs of the developing world.

ANNUAL SPEECH THEMES

The overall policy signals from the Bank during the past decade have often been conveyed through the speeches of its President, Mr. Robert S. MacNamara, at the Annual Meetings of the Bank's Board of Governors. A recurrent theme of these speeches has been how to attack mass poverty directly, through both national and international efforts. While a number of separate issues were covered in these speeches, there has been a gradual evolution of thought. A major theme of the address in Santiago in 1977 was that economic growth is not filtering down to the bottom 40 per cent of the populations in the developing world. This conclusion was backed up for the first time in the Bank with some detailed empirical work in a number of member countries.

In subsequent speeches Mr. MacNamara made a distinction between "relative poverty" and "absolute poverty". The relative poor were those whose average income was less than one third of the national average. But the main attention was focussed on the over 900 million absolute poor, with an average per capita income of less than $100. This group has an infant mortality rate eight times higher, life expectancy one third lower, and adult literacy rate 60 per cent less than the average in the developed countries. There is also widespread malnutrition among 600 million persons, many of them small children. A distinction was also made between the poorest countries — defined as those with average per capita incomes below $265 in 1975 dollars, where over 80 per cent of the absolute poor live and which require concessional assistance from the international community — and those middle-income countries with average incomes above $265 which need greater access to international markets, both to sell their manufactures and to obtain capital.

The focus of national and international efforts, including that of the Bank, was to be directed during the 1970s toward increasing the productivity of the poor. It was recognized that welfare programs, without corresponding increases in the productivity of the recipients, could only be short-lived and even counterproductive. It was emphasized that to the extent that the poor possessed some tangible assets, however meagre (a small farm, a cottage industry, or a small-scale commercial operation in the urban sector) national and international action should focus on helping them to become more productive through better access to credit, extension assistance, and production imputs such as fertilizer and improved seeds.

It was also recognized that, besides expanding the capacity of the poor to produce and purchase market goods, it was equally necessary to redesign and expand public services such as education, health care, water supply, and public transportation. The main emphasis, however, was placed on low-cost, replicable public services, since it was recognized that most of the present services end up serving the interests of a privileged few rather than the deprived many.

In recent years, the direct attack on mass poverty has also been broadened by the World Bank to include those who have no tangible assets, or those who cannot easily be reached by simply expanding existing public services. There has been an exploration of how the basic needs of the entire society can be met in a short time, without sacrificing economic growth or turning this objective into a short-lived welfare approach. Thinking on this aspect, however, is still in an early and experimental stage.

WORLD BANK POLICIES

The past ten years have witnessed a major change in the World Bank's lending patterns and policies in order to help increase the productivity of the world's poorest people.

To begin with, this has meant channeling International Development Association (IDA) resources increasingly to the poorest countries, that is, those with a per capita income of less than $265 in 1975 dollars, even though the formal per capita income cutoff point is currently $520. About 84 per cent of IDA resources are being allocated to these countries. By comparison because of political pressures and "special relationships", only 42 per cent of total bilateral Official Development Assistance from the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) is being channeled to the same group of poorest developing countries. Thus, IDA has been able to maintain a strong emphasis on poverty in its assistance. This is mainly because IDA is multilateral and nonpolitical, and because its overall objective is to reach the poorest people, 80 per cent of whom live in the poorest countries.

Because of the change in the focus of development policies, it was also inevitable that the sectoral emphasis of Bank Group lending should shift dramatically — and so it did. About ten years ago 55 per cent of Bank Group lending was devoted to infrastructure projects: this proportion had dropped to 30 per cent by financial year 1977. Most of the World Bank's lending is now allocated to those sectors that directly contribute to increasing the productivity of the poor. Lending for rural development has increased from a negligible proportion ten years ago to over 20 per cent of total lending today. For social sectors, such as education and water supply, lending has more than doubled. In fact, over the past ten years, many new sectors and subsectors have been added to the lending program: among them, rural development, primary education, population control, nutrition, sites and services and water supply (see table).

Sectoral composition of World Bank lending (percentage share)

	FY 67	FY 77
Infrastructure		
Communications	3.6	2.0
Power	29.7	13.5
Transportation	21.2	14.8
Subtotal	54.5	30.3
Economic sectors		
Agriculture	7.7	32.7
(Of which: rural development)	(—)	(20.6
Industry	11.9	21.1
Tourism	=	1.4
Subtotal	19.6	55.2
Social sectors		
Education	4.6	4.1
Population	=	0.5
Urbanization	=	2.2
Water supply	0.1	4.2
Nutrition	=	0.2
Subtotal	4.7	11.2
Others (including program loans)	21.2	3.3
Total	100.0	100.0

Not only have the lending sectors broadened, but the content and design of projects have also changed considerably within these sectors. The Bank has increasingly designed "new style projects" with the objective of directly benefiting the poor people. A minimum objective of these new-style projects is this: at least 51 per cent of their beneficiaries should fall within the poverty target group constituting the bottom 40 per cent of the population. In fact, the actual experience so far shows that the coverage has been far higher. In 1977, 69 per cent of the beneficiaries of the new-style rural development projects were in the poverty target groups. Another distinctive feature of these new-style projects is that they are sufficiently low in cost per beneficiary to be replicable throughout the country.

The Bank's lending policies and techniques have also evolved in other ways. For instance, ten years ago the Bank made no loans to government-owned Development Finance Companies (DFCs) and virtually none to small-scale enterprises. Last year, 60 per cent of such Bank lending was to government-owned DFCs. By 1980, it is expected that about 30 per cent of this DFC lending will be directed toward small business. Ten years ago, the Bank made few loans to state-owned industrial enterprises. Last year, virtually all of the Bank's lending to industry went to state enterprises. The Bank has recognized that it faces a diverse world with complex issues. It cannot afford to be rigid or doctrinaire. It must keep on improving, as indeed it has.

Not only the content and direction of the Bank Group's lending but also the substance of its policy dialogue with member governments and the scope of its country economic and sector work has changed. A considerable part of this work is now focussed on identifying the dimensions of poverty and on the institutional framework and systems through which the poverty target groups can be reached directly.

It would be incorrect to suggest that the Bank effort has already made a decisive difference to world poverty. But it would be fair to say that Bank policies have changed rapidly over the course of the last decade to focus on increasing the productivity of the poor. We must recognize that in the final analysis, the Bank's role is more to persuade member countries and to give the right policy signals. It cannot coerce national governments into adopting appropriate policies for attacking their poverty problem if they neither have the political will nor the institutional means to do so.

The Bank's role can thus be only a supporting one. The Bank, along with the member countries, still has to learn a good deal about how the productivity of the poor can be increased effectively and on a sustainable basis. The developing countries concerned and the international community have still to find out how public services can be extended on a nationwide basis at a low, acceptable cost. We all have yet to discover how alternative delivery systems can be devised to reach the poor people and to obtain their willing and enthusiastic participation. The Bank doubtlessly has made some progress in addressing the problems of poverty. But we should neither be immodest nor apologetic about what has been achieved so far. The Bank has taken just the first steps in dealing directly with the vast needs of the world's poorest: the real challenge for the Bank, and the international community, still lies ahead.