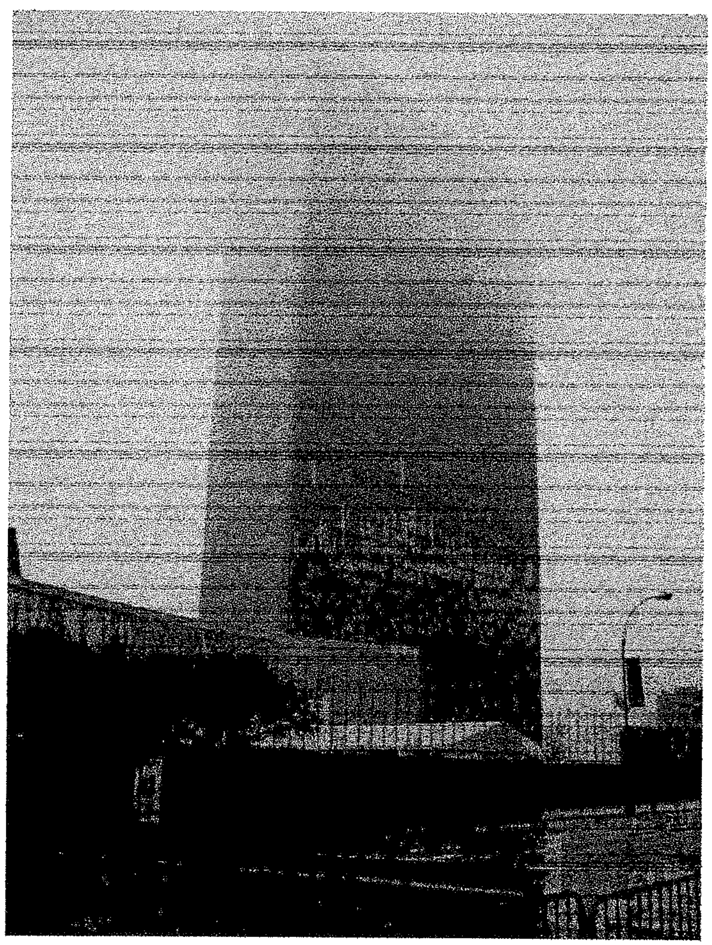
The role of Institutions at local, regional, national, and international scales



THE WORLD BANK NOW FIFTY, BUT HOW FIT?

In its first 50 years, the planet's biggest benefactor has loaned hundreds of billions of dollars to the "developing" world—yet much of that world remains desperately impoverished, its natural resources badly plundered.

BY HILARY F. FRENCH

In July 1944, some 700 delegates from around the world convened at the Mount Washington Hotel in Bretton Woods, New Hampshire, to create a brave new international order in the wake of World War II. According to their vision, the institutions they were establishing—the International Bank for Reconstruction and Development (the World Bank) and the International Monetary Fund (IMF)—would help ensure that international economic cooperation paved the way for improved living standards and peace worldwide.

In the intervening years, the World Bank has become an extremely powerful player on the world stage. Lending to its clients, who are required to be governments, has increased sharply since the institution was founded, rising from $1.3 billion in 1949 to $22 billion by 1992 (in constant 1992 dollars)—enough to make it the world's single largest source of development lending. And the impact of the World Bank extends far beyond the size of its lending program. The Bank's involvement in a project or country often provides a "seal of approval" that opens the spigot for additional bilateral and multilateral funds, as well as for loans from other banks.

More fundamentally, the Bank influences the types of development paths pursued by borrower nations through the economic and other policy advice it provides and through the conditions attached to loans. Under controversial "structural adjustment" loans, which now account for 17 percent of total Bank lending, recipients receive large cash infusions ("balance-of-payments" support) in exchange for implementing agreed-upon internal policy reforms designed to return the country to creditworthiness—such as reducing inflated exchange rates, cutting government subsidies, and lowering trade barriers.

But in the half-century since Bretton Woods, the optimism expressed there has faded. Rather than being lauded as agents of material well-being and peace, the Bretton Woods Institutions find themselves increasingly under fire as promoters of a development model that, despite spurring a fivefold growth in world economic output since 1950, still has left 1.1 billion people—more than a fifth of humanity—living in crushing poverty. In addition, the prevailing view of the 1940s, that the earth was "infinitely blessed with natural riches," as U.S. Treasury Secretary Henry Morgenthau put it, has run up against the sobering realities of global ecological decline. The Bank has attracted heavy criticism for its role in financing environmentally destructive projects: dams that generate power but flood out communities, agricultural development schemes that cut down pristine rainforests, and mines that produce export revenue but contaminate rivers.

Now, as we reach the 50th anniversary of the Bretton Woods Conference, critics are asking whether the World Bank is capable of transforming itself into an organization that reflects the increasingly urgent priority of promoting sustainable development. The Bank, for its part, has been quick to announce its devotion to the cause. In 1993, it created a new vice-presidency for Environmentally Sustainable Development with responsibility for three departments: environment; agriculture and natural resources; and transportation, water, and urban development.

Unfortunately, the reality of World Bank lending has yet to catch up with the rhetoric. To truly promote sustainable development, it will be necessary to channel lending more directly both toward combatting poverty and protecting the earth's increasingly degraded natural resource base.

How It Works

A first step in trying to change the Bank is understanding how it works—no simple matter. The process by which loans come to fruition within the World Bank—and by which overall lending priorities are set—is a complicated and delicate dance between the development interests of borrowing nations, the political priorities of funding nations, and the inclinations and bureaucratic inertia of the institution itself.

Of the total of $23.7 billion lent in 1993, $17 billion was in regular International Bank for Reconstruction and Development (IBRD) loans, which are made to middle-income countries at near-market rates over 15- to 20-year payback periods. This money is raised primarily in world capital markets with the backing of member governments. The remaining $7 billion was in International Development Association (IDA) "credits." A program initiated in 1960, IDA makes interest-free, "soft" loans (with a small annual service charge) to the world's poorest countries—those with per capita annual incomes of $805 or less—with payback periods spanning 35 to 40 years. It is funded almost entirely by direct contributions from member countries.

Officially, the Bank is answerable to a board of directors composed of representatives of donor nations. Voting power is related to the level of a country's financial contributions: for the IBRD, the United States holds 17 percent of the voting shares, Japan holds 7, and Germany 5. Twenty-four executive directors representing the Bank's donor and borrower members meet regularly to consider policies. Major contributors have executive directors of their own; others share representation. This voting system has had the practical effect of making donor countries more willing to supply funds. Yet the disproportionate power of the funding countries has a high political cost: it is deeply resented by developing countries, who see the World Bank as a Northern-dominated institution that is often used to promote the economic and foreign policy priorities of its primary benefactors. To be truly a "bank for the world," the institution would need to adopt a different voting scheme that gives more, if not equal, weight to recipient nations.

Technically speaking, the directors approve all projects, as well as any major new policy directions. In practice, however, international civil servants may have more real power than the directors. The staff, after all, identifies and prepares the loans, and thus plays a central role in influencing lending directions. Members of the board sometimes have difficulty obtaining the documents used in the project preparation process, meaning they are all too often presented with a project to either approve or reject when it is too late to materially influence its course. Indeed, of the more than 6,000 staff-written proposals over 50 years, not a single project has ever been rejected by the World Bank's board, though several have been opposed by individual directors on environmental grounds.

Unfortunately, although it includes many dedicated and talented people, the Bank staff as a whole is not particularly well equipped for the task of promoting sustainable development. To begin with, most of the staff—some 6,800 members—are based at the Bank's comfortable headquarters buildings in Washington, D.C., far removed from the on-the-ground realities—while only 314 professional staff are assigned to field offices elsewhere in the world. In addition, the heavy concentration of economists and engineers on the staff has meant that other ways of viewing the world—whether through the eyes of ecologists, cultural anthropologists, or grassroots activists—tend to be neglected. This bias is reinforced by the fact that their official counterparts in borrower nations are often much like them: finance and planning ministry officials with degrees in similar fields and from the same northern universities.

The missing voice in this equation has typically been the affected public—either those that are intended to benefit from projects or those who may be forced to suffer their unfortunate side-effects. Despite the fact that consulting with those involved with or touched by Bank projects has repeatedly proven to improve their effectiveness, the Bank itself admits that this kind of participation is the exception rather than the rule. With only limited access to the relevant documents, and—until recently—no channel for their complaints, ordinary citizens in developing countries have often been left with little opportunity to influence projects that might relocate them, pollute their environment, change property rights, or otherwise greatly alter their lives.

A Proliferation of Policies

A campaign for far-reaching reform began to gather momentum in the 1980s, when activists began to document examples of some of the Bank's more damaging projects. In one infamous case, World Bank support for the Polonoroeste regional development scheme of roadbuilding and agricultural settlement in the Brazilian state of Rondonia contributed to rapid deforestation of the area during the 1980s; by one estimate, the share of the state that had been deforested increased from 1.7 percent in 1978 to 23.7 percent by 1988.

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At about the same time, the debt crisis burst onto the world scene, posing new challenges in the effort to fight poverty. Structural adjustment lending rose quickly in an effort to inject cash into debt-ridden countries. But the domestic policy reforms required in exchange exacted a heavy human price, particularly from the poor. As austerity took a bitter toll, protests in developing countries over the conditions attached to adjustment loans began to mount, as did pressure on the World Bank to change course.

Since the mid-1980s, the Bank has responded to these challenges by announcing a number of new policies intended to respond to environmental and social concerns. Often as not, these reforms have followed threats by the U.S. Congress—itself under pressure from environmental and social activists—to withhold funds.

In the first major reform effort, in May 1987, newly-installed Bank President Barber Conable created a central environment department, announced that all loans were to be screened for their environmental impact, and promised that non-governmental organizations (NGOs) would be more actively consulted in both donor and borrowing countries. Conable also committed to a range of new lending programs aimed at achieving environmental goals, including increasing the number of projects aimed specifically at environmental protection, incorporating environmental components in other projects, and increasing lending for forestry projects.

In 1989, the Bank instituted a new policy requiring countries to prepare comprehensive environmental action plans in order to be eligible for IDA loans. These plans are intended to identify environmental needs and define a strategy for responding to them, including policy changes, institutional and educational reforms, and investment priorities. Bank member countries also agreed that countries that had demonstrated a special commitment to reducing poverty were to be given preferential access to IDA funds.

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Several other Bank policies, too, have aimed—on paper, at least—to reorient lending toward sustainable development. A policy first established in 1982, and updated in 1991, requires that before funding any project affecting indigenous peoples, the Bank must prepare a plan that addresses a number of critical issues, including land tenure. A policy on the resettlement of displaced peoples, which dates from 1980, states that any projects that cannot avoid resettlement must provide plans to ensure that affected individuals are left no less well off economically than they were prior to the move. A 1986 wildlands policy stipulates that any project involving the conversion of wildlands should be offset by other investments in conservation.

In 1991, responding to charges that its lending promoted deforestation, the bank developed a new forestry policy in which it pledged under no circumstances to support commercial logging in primary tropical moist forests. In late 1992, the executive directors approved energy policy papers on efficiency and the electric power sector. These called for a more aggressive Bank role in supporting efficiency, both through the standard approach of encouraging energy pricing and other policies that promote it, such as the removal of subsidies, and through more hands-on policy interventions to encourage efforts to improve end-use efficiency. And in September 1993, the Bank issued a water resources policy calling for adoption of a "comprehensive approach" to water management, in which competing demands for the resource can be assessed—the hope being that the most cost-effective and environmentally benign option will be adopted.

Follow the Money

In the years since most of these initiatives were launched, some limited progress has been made in implementing them. The environmental screening process announced by Conable has been in place since 1989. Environmental action plans have been completed for 22 of a total of 70 IDA-eligible countries, as have 20 detailed poverty assessments. The amount of money devoted to freestanding environmental loans has increased. In 1993, the Bank committed nearly $2 billion for 23 projects specifically designed to improve environmental quality and husband natural resources. This amounted to a doubling in the funding of such projects over 1992 and a thirtyfold increase from 1989, though at least some of that increase is due to a change in the classification system.

Some headway has also been made in orienting Bank lending toward investments that directly combat poverty. In 1993, 73 projects valued at nearly $5 billion were earmarked for the poor—accounting for 26 percent of total investment lending. Non-governmental activists are pushing for this figure to be increased to a minimum of 45 percent. In addition, the Bank has worked to increase lending for education, population, health, and nutrition, on the grounds that these sectors are of particular benefit to the poor. Lending in these categories increased from 5 percent of the total in fiscal years 1981-83 to 14 percent in 1990-92.

But the overall direction of lending remains unsatisfactory, with the bulk of it still devoted to large infrastructure projects. For instance, despite the new energy policy, less than 1 percent of the $45 billion loaned for energy between 1980 and 1990 was devoted to end-use energy efficiency, according to a study by the International Institute for Energy Conservation (IIEC) in Washington, D.C. In contrast, demand-side management programs garnered roughly 7 percent of all U.S. utility expenditures in 1992. In the water sector, a similar pattern is apparent: despite abundant evidence that small-scale alternatives to the construction of large-scale projects merit support, an analysis by the New York-based Environmental Defense Fund (EDF) and the International Rivers Network finds that of the $35 billion invested by the Bank in water projects over the 1980s, less than 4 percent of it was devoted to the development of small-scale irrigation, water conservation, and watershed management.

Moreover, environmentally damaging and socially disruptive projects continue to be funded. For instance, the World Bank appears to be moving ahead with a planned series of loans to India totalling $1.2 billion for the construction of nearly 17 gigawatts of new coal-fired electric generating capacity over 10 years. According to EDF, no serious consideration was given to energy efficiency as an alternative, nor has a full environmental analysis been completed. Local communities were not adequately consulted, and a resettlement plan was not formulated. Meanwhile, a U.S. Agency for International Development study finds that an aggressive effort to promote energy efficiency in India could reduce peak power demand by 22 to 36 gigawatts by 2005, saving 250 to 400 billion rupees ($8 to 13 billion) in investments to expand the supply. Nevertheless, the first $400 million was approved by the board in June 1993, despite the abstentions of the Belgian, German, and U.S. governments.

A recent study by EDF and the New York-based Natural Resources Defense Council concluded that of 46 power sector loans totalling over $7 billion that are currently in the pipeline for 33 countries, only five devote more than lip service to end-use energy efficiency, and of these, only two are in line with the new policy papers on energy efficiency and power. As for the resettlement policy, an ongoing internal Bank review of the resettlement policy suggests that it is routinely violated: An interim report documents 134 ongoing projects that are currently displacing 2 million people.

The Morse and Wapenhans Challenges

Much-needed attention was focussed on the Bank's sorry record of compliance with its own policies in June 1992, with the publication of a report by the first independent commission set up to evaluate a controversial World Bank project. Under its chairman, former UNDP head Bradford Morse, the Commission concluded that the World Bank's involvement in the controversial Sardar Sarovar and Narmada Sagar dam projects in India had been badly bungled from the outset. The Bank's own rules on environmental impact assessment and the resettlement of displaced peoples had been blatantly violated, vindicating the decade-long protests of thousands of local peoples and international NGOs. Though the Bank at first refused to back away from the project, negotiations behind the scenes led to the Indian government's announcement, in March 1993, that it was withdrawing its request for Bank funding for the project. (The State of Gujarat appears to be moving ahead with the project on its own. See Editorial, this issue.)

2 million people are being displaced from their homes by current World Bank projects

The best explanation for this seeming schizophrenia in the way the Bank does business—policies that appear impressive on paper, yet are contradicted in actual practice—comes from within the Bank itself. In June 1992, an internal report written by former Bank vice-president Willi Wapenhans concluded that World Bank projects were routinely failing to live up to the Bank's own criteria for success, such as rates of return and other lending conditions. The report cited Operations Evaluation Department data showing that the share of Bank projects deemed "unsatisfactory" in their results increased from 15 percent in 1981 to 38 percent in 1991. In addition, the report found that 78 percent of the financial conditions attached to loans were not being complied with.

Wapenhans blamed the situation on what he called the Bank's "pervasive preoccupation with new lending"—a phenomenon that also helps to explain why the Bank's environmental and social policies are so routinely flouted. This fixation with getting money out the door has many sources, including the desire to infuse debt-burdened countries with cash and the tendency—typical of many large organizations—to confuse quantity with quality. For the environment, the World Bank's "lending culture" can have catastrophic results, as harmful projects proceed despite breaches of bank policies, and as countries are forced to overexploit natural resources such as timber and fisheries in order to generate the foreign exchange needed to pay the loans back.

The Shape of a New World Bank

If the World Bank were to promote development that is truly sustainable, far less emphasis would be placed on large infrastructure projects that are so often environmentally and socially disruptive, and far more on smaller efforts done in close cooperation with local peoples—whether they be for health care in rural areas, ecologically sensitive agricultural techniques, or solar-powered water pumping. Lending for infrastructure would not disappear entirely, but would be refocused considerably: the Bank would fund fewer highways and coal-fired power plants, and more urban rail systems, natural gas-fired turbines, and sewage treatment plants.

Though the institution might actually lend *less* money under this scenario, every dollar that went out the door would contribute far more to the cause of sustainable development. Some of the savings could then be devoted to providing the extra staff time required to make these smaller projects work.

There is ample precedent for this smaller-scale approach. In the early 1980s, Bangladesh's Grameen Bank pioneered the concept of making small loans—$100 on average—to poor people who would not ordinarily be able to secure credit. The bank's extraordinary success has demonstrated that the poor are creditworthy, and that loans to them yield high development dividends. Governments have achieved impressive results through numerous bilateral initiatives—including the U.S.-funded Inter-American and African Development Foundations—that provide small grants and loans, typically less than $500,000 each, to local communities, small businesses, farmers, entrepreneurs, NGOs, and cooperatives in the Third World. The Inter-American Development Bank, a regional development bank similar in nature to the World Bank, channeled $65 million in 1992 to small projects involving NGOs, small enterprises, and cooperatives—1 percent of its total outlays.

Following a similar approach should not be impossible for the World Bank, though it would require the Bank to transform itself into a rather different organization—one that is less centralized at headquarters and far more participatory in its operations. In a small step toward this end, the Bank has been engaged in a "learning process" on participatory development in which 20 innovative projects are being studied carefully to determine the feasibility of introducing such approaches more widely.

Getting There From Here

A primary obstacle to transforming the World Bank along the lines of this more decentralized vision is that identified by Wapenhans—the rush to get money out the door. So long as there remains heavy pressure to infuse large sums of cash quickly into depleted national coffers, mega-projects will continue to predominate, social and environmental policies will be treated as hortatory rather than mandatory, and efforts to involve the affected public will generally be perfunctory at best.

One of several underlying causes of the obsession with increasing the quantity of lending is a phenomenon known as "net negative transfers," in which many of the Bank's poorest borrowers have been paying more back to the Bank in recent years than they have received in new loans. To avoid the unfortunate appearance this creates of the poor bankrolling the rich, and to prevent defaults on its own and private bank loans, the Bank has so far largely pursued a strategy of lending still more money. Instead, the Bank could do its share to help countries step off the debilitating debt treadmill by devoting a significant share of its funds to reducing total debt burdens—rather than adding to them as current lending often does.

Toward this end, two small existing Bank programs merit increased support. The first, the Debt Reduction Facility, eases the commercial debt burden of IDA countries by underwriting the purchase of discounted debt on the secondary market. So far, five operations totalling some $45 million have been completed, which have together had the effect of cancelling out $623 million in debt. The second, known as the "Fifth Dimension" program, lets some debt-burdened countries borrow low-interest IDA funds to pay the interest on the higher-interest IBRD loans. Unlike the Debt Reduction Facility, this program addresses the problem of debt owed to the World Bank itself; fully 23 percent of Africa's total debt burden is owed to the Bank and its regional counterparts. Besides increasing funding for these worthy initiatives, the time may have come for the Bank in certain cases—perhaps for chronically poorly-performing loans—to reconsider its policy against forgiving its own loans.

If the Bank is to become an institution that promotes sustainable development, it will also need to revamp the criteria by which it judges success. At present, the standard financial indicators usually fail to take account of the depreciation of natural assets such as forests and fisheries, meaning that economic policymaking is based on a false set of books. In a recent review of 23 projects from 1985 to 1993, Bank economists John Kellenberg and Herman Daly discovered that only in a few cases was any attempt made to account for the drawing down of the natural resource base. Not including these real costs in the calculation makes damaging projects appear to be better investments than they really are, thereby creating a perverse incentive to invest in projects that damage the natural resource base.

Furthermore, although the Next Steps action plan approved by the Bank's board in the wake of the Wapenhans report acknowledged that projects should be measured by their development impact, not just by their financial rate of return, the Bank unfortunately is not currently well set up to put this into practice. Indicators of sustainable development need to be developed that take adequate account of social and environmental goals—a process that is now underway. Bank staff then need to give close attention to these indicators in rating projects.

More accountability to the public is also sorely needed. In 1993, the Bank's board moved to put in place two important new policies that could help—one facilitating the release of information, and the other creating an independent inspection panel. Under the new information policy, more Bank documents will be publicly available, and an information center has been established to disseminate them. The independent inspection panel was roughly modeled on the Morse Commission. It will provide an impartial forum where board members or private citizens can raise complaints about projects that violate the Bank's own policies, rules, and procedures.

Unfortunately, both policies were considerably weakened in the negotiating process. For instance, the coveted "project appraisal reports" that describe upcoming undertakings will not be released in their entirety until after a project is already approved—too late to do much good. As for the appeals panel, its rules allow the Bank board to block an appeal from a citizens' group by a majority vote.

Getting the Policies Right

A final priority for the Bank is to use its leverage to promote policy reforms that will facilitate the transition to a sustainable society, rather than policies that obstruct it. As it has often been prescribed, the structural adjustment "medicine" has had debilitating side-effects in many countries, particularly on the poor. To the extent that adjustment hurts the poor, studies indicate that it can also harm the environment, as desperate people cut down forests or till marginal land in their struggle to make ends meet.

> Only in a few cases was any attempt made to account for drawing down of the natural resource base.

Adjustment programs can also have more direct environmental implications—for good and ill. For instance, removing subsidies to the timber industry would benefit forests and the indigenous peoples who live in them, and cuts in government subsidies to fossil fuels would provide an incentive for more efficient use of energy. Yet when currency devaluations lead to more exports of commodities whose production causes environmental harm, the natural resource base suffers, particularly if efforts to see that environmental costs are internalized—through energy taxes, for example—are not undertaken at the same time.

As pressure has grown to stem the tide of rising poverty, the World Bank has gradually—and belatedly—introduced changes in its structural adjustment loans that could cushion the poor, such as encouraging investments in primary health care rather than urban hospitals, and creating social safety nets to protect those hurt by the adjustment process. During fiscal years 1984-86, less than 5 percent of all adjustment loans considered social issues at all; by 1990-92, more than 50 percent did.

The World Bank has also begun to specifically address environmental issues in many adjustment loans: a sampling of loans made between 1988 and 1992 found that 60 percent of the surveyed loans explicitly included some environmental objectives or conditions. Though this represents progress, adjustment loans are not yet routinely subjected to environmental impact assessments, let alone used as strong vehicles for promoting environmentally helpful policy reforms such as encouraging environmental taxes.

Pressure From Below

As the Bank completes its 50th year, pressure is growing for fundamental reforms. In the United States, 23 development, environment, and other citizens' groups have joined together in a coalition with the provocative title of "50 Years is Enough." According to the campaign's literature, this slogan was chosen "to express the strongly held belief by growing numbers of people around the globe that the type of development that the World Bank and IMF have been promoting, being inimical both to the interests of the poor and that of the natural environment, cannot be allowed to continue." The coalition is forging links with like-minded groups in Africa, Asia, the Caribbean, Europe, and Latin America.

In late February, parliamentarians from Europe, Japan, and the United States—members of an association called Global Legislators for a Balanced Environment—pledged to work through their respective legislatures to encourage the World Bank to use the occasion of the 50th anniversary to engage in some deep soul-searching, including amending the organization's charter to incorporate environmental, human rights, and social concerns.

Reactions from the Bank itself have been mixed. Leaked memos from Bank management suggest dismay, even panic, at the tone of the criticisms. Some at the Bank seem inclined to treat disillusion with the Institution mainly as a public relations challenge. Yet others seem to recognize that far-reaching changes are in order. Among the more hopeful signs was the Bank's convening of a Hunger Conference last December, at which the institution's top brass opened themselves up to the views of non-governmental observers from around the world.

Whether they can respond sufficiently will likely determine whether the World Bank can, or should, continue to play a central role in the world. Doing so will require an enormous change of direction for an institution accustomed to building dams, highways, power plants and other massive public works projects that have—as often as not—enriched elites at the expense of ecosystems and the politically powerless. But without such a change, any centennial marking the *next* 50 years of this institution is likely to take place in a world of incalculable biological and human impoverishment. +

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Further Reading

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