International Development Assistance: Evolution and Prospects

With specific reference to the World Bank and Japan

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The Foundation for Advanced Studies on International Development (FASID) was established in April 1990. FASID and its affiliate, International Development Research Institute (IDRI), conduct research, facilitate interaction among researchers and practitioners, and offer training programs to development specialists. These activities are aimed for improvement in the quality of development programs and policies.
Foreword

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The past 50 years have seen several waves of change break over the international development community as it struggled to find an effective approach to development assistance. Since the end of World War II, when development became a focus for action, classical economics, neo-classical economics, and maverick “new views” have surged and retreated in response to information, experience and world events. This ebb and flow has accelerated over the past two decades as the strong advocacy to promote growth by increasing economic efficiency through market mechanisms gave way in the 1990s to the approach that sees poverty reduction as the primary goal and that stresses participation by and social safety-nets for “partners,” as aid recipients are now known. These two different approaches are generally known, respectively, as the “Washington Consensus” and the “post-Washington Consensus.”

There is widespread acceptance at this time of the post-Washington Consensus position that poverty reduction is the “overarching” goal of development assistance. The elimination of endemic poverty has always been the objective of development assistance, as it is of all economic analysis and application. This is not new. What is new about the prevailing view is the definition of poverty – “deprivation in well being,” according to the World Bank – and the strategy of attacking it directly rather than as an automatic outcome of economic growth. It is difficult, however, to predict how long this view will remain as the consensus of the international development community under incessant shocks, such as the September 11 attacks and the war in Iraq as well as ongoing challenges posed by the HIV/AIDS pandemic and the integration of transition economies into the global market. The combination of acute situations and chronic conditions makes it clear that the identification and implementation of effective approaches is more critical now than ever before.

This is a fascinating subject and it affects every one of us. In a real sense, we are all stakeholders and we should all have some familiarity with this topic.
— but it can be very confusing. The immediacy of development assistance and the dynamic nature of the strategies that are devised, seemingly on a daily basis, can create an impression of chaos and uncertainty. The present study intends to address these obstacles to an understanding of the field of development assistance: to clarify some of the confusion, to organize some of the apparent chaos, and to remove some of the uncertainty.

The first step toward this end is a review of the history of development assistance theory and practice. Having thus set the historical context, the study moves on to analysis of the currently existing situation. A central focus of the authors, and their mechanism for organizing the diverse material, is an examination of the strategies of the World Bank and their roots. Other players are discussed, but the Bank is a huge presence and it has designed a broad and deep development strategy which warrants presentation in detail. Japan has a unique history in development assistance and with the World Bank, beginning with its post-war role as a major recipient and transforming to its present role as a major donor. In this context, this book includes a chapter devoted specifically to the World Bank-Japan relationship, which has been rich and rewarding for both. Finally, in conclusion, based on the material presented, some prognoses are ventured on what might happen next in the arena of international development assistance.

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Abbreviations and Acronyms

ACPC Association of Coffee Producing Countries
ADB Asian Development Bank
APL Adaptable Program Loan
ARPP Annual Report on Portfolio Performance
CAS County Assistance Strategy
CAW Country Analytic Work (Partnership)
CDF Comprehensive Development Framework
DAC Development Assistance Committee (of OECD)
DFID Department for International Development
(of the British Government)
DG Development Gateway
DRL Debt Reduction Loan
DSL Development Support Loan
EA Environmental Assessment
EBRD European Bank for Reconstruction and Development
ECLA Economic Commission for Latin America
EDI Economic Development Institute
ERL Emergency Recovery Loan
FDI Foreign Direct Investment
FfD Financing for Development
FIL Financial Intermediary Loan
FY Fiscal Year
GDIF Global Debt Issuance Facility
GDP Gross Domestic Product
GNP Gross National Product
HDI Human Development Index
IADB Inter-American Development Bank
HIPC Highly Indebted Poor Countries
IBRD International Bank for Reconstruction and Development
ICSID International Center for Settlement of Investment Disputes
IDA International Development Association
IDT International Development Target
IFC International Finance Corporation
IGR Institutional and Governance Review
ILO International Labor Organization
IMF  International Monetary Fund
InfoDev  Information for Development
ISI  Import-Substitution Industrialization, or Industrialization Through Import Substitution
JBIC  Japan Bank for International Cooperation
JICA  Japan International Cooperation Agency
JSDF  Japan Social Development Fund
LDC  Less Developed Country, Least Developed Country in UN usage
LDS  Letter of Development Strategy
LICUS  Low Income Countries Under Stress
LIL  Learning and Innovation Loan
LLDC  Least Developed Country, in OECD/DAC usage
MCA  Millennium Challenge Account
MDB  Multilateral Development Bank
MDG  Millennium Development Goal
MIC  Middle-Income Country
MIGA  Multilateral Investment Guarantee Agency
NGO  Non-Governmental Organization
NIEO  New International Economic Order
NIC  Newly Industrialized Country
NNP  Net National Product
ODA  Official Development Assistance
OED  Operations Evaluation Department
OECD  Organization for Economic Cooperation and Development
OECEF  Overseas Economic Cooperation Fund (of the Japanese Government)
PCF  Post Conflict Fund
PHRD  Policy and Human Resources Development (Fund)
PQLI  Physical Quality of Life Index
PRC  Poverty Reduction Support Credit (same as PRSC)
PRGF  Poverty Reduction Growth Facility of IMF
PRSC  Poverty Reduction Support Credit
PRSP  Poverty Reduction Strategy Paper
PSAL  Programmatic Structural Adjustment Loan
PSL  Programmatic Structural Adjustment Loan (same as PSAL)
QAG  Quality Assurance Group (of the World Bank)
RIL  Rehabilitation Loan
RWG  Redistribution With Growth
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<th>Acronym</th>
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<tr>
<td>SA</td>
<td>Social Assessment</td>
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<td>SACII</td>
<td>Structural Adjustment Credit II</td>
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<td>SAD</td>
<td>Sector Adjustment Loan</td>
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<td>SAL</td>
<td>Structural Adjustment Loan</td>
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<td>SECAL</td>
<td>Sectoral Structural Adjustment Loan</td>
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<td>SIL</td>
<td>Specific Investment Loan</td>
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<td>SIM</td>
<td>Sector Investment Maintenance Loan</td>
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<td>SOE</td>
<td>State-Owned Enterprise</td>
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<td>SSAL</td>
<td>Special Structural Adjustment Loan</td>
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<td>SWAP</td>
<td>Sector-Wide Approach Program</td>
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<td>TAL</td>
<td>Technical Assistance Loan</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNFPA</td>
<td>United Nations Population Fund</td>
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<td>UNIDO</td>
<td>United Nations Industrial Development Organization</td>
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<td>UNRISD</td>
<td>United Nations Research Institute for Social Development</td>
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<td>WBI</td>
<td>World Bank Institute</td>
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<td>WID</td>
<td>Women in Development</td>
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<td>WSSD</td>
<td>World Summit on Sustainable Development</td>
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<td>WTO</td>
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Executive Summary

Approaches and strategies to propel poor countries\(^1\) out of poverty have been evolving over the five decades since the end of the Second World War. This process, development assistance, is a reflection of dynamic and continual interplay among intellectual theories, world events and assistance efforts. Over this time the realization has taken hold that economic development is profoundly complex. Fifty years on, this is probably the one known fact.

What are some of the complexities:

- One is that economic development goes beyond economics to quality of life, participation, and security. On the staff of the pre-eminent development assistance organization, the World Bank, are now more sociologists, anthropologists, and political scientists (SAPs) than economists.
- Another is that traditional economic inputs, capital and labor, require suitable policies and institutions to yield desired returns. This means that imposed or “involuntary\(^2\)” measures will not work.
- A third is that the bridge linking understanding of these complexities to results for people is still unclear. It is not clear whether suitable institutions will generate development with only minimal aid; and it is not clear how to generate development when suitable institutions are absent.

The main objective of this book is to describe the international development assistance strategies and instruments in play today. This is a very dynamic field, and while every attempt is made to be as up-to-date as possible, new strategies, instruments and concepts emerge continually. An examination of the historical and theoretical roots of this subject sets the context for the description. The book concludes by commenting on some of the most significant issues and by venturing some speculation on what might lie ahead. For topical interest, a section is devoted exclusively to the relationship between Japan and the World Bank. It surveys Japan’s progress from post-World War II borrower to donor and major shareholder, analyzes the nature of the relationship and suggests way to improve it.

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1. Variously referred to as “undeveloped,” “underdeveloped,” “developing,” “less developed,” “south,” and “backward.”
2. A term used in the Helleiner Report with reference to technical assistance (Helleiner, 1995: 11)
The World Bank is central to this book and much attention is given to its history and current strategies. The Bank disburses by far the greatest amount of money and is also the acknowledged intellectual leader in the field. Because of its stature, it offers a convenient and instructive focus.

The multi-dimensional quality of development, the wide-range of viewpoints reflected, and the variety of sources used, demand a paper that approaches its subject through several disciplines including economics, history, political economy and journalism. The sources include an extensive academic and professional bibliography, newspapers, magazines, websites and personal interviews.

Evolution of Ideas on Development

The book begins by reviewing the theory of economic development. Historically, scholarly analysis has provided the intellectual foundation for development assistance so a review of theory is a useful prelude to any discussion of implementation. This review is presented with particular attention to those ideas which continue to have impact today. Economists may differ on nomenclature, but this analysis divides the ideas into three general categories: the “pioneers” (post-World War II to mid-1970s); the “neoclassic resurgence” including divergent others (mid 1970s to late 1980s); and “new views” (early 1990s to present).

Pioneers, a term introduced by Meier and Seers (1984), were macroeconomists who focused on capital accumulation, industrialization and economic growth rapid enough to outstrip population increase. They believed that government intervention could facilitate growth and therefore was vital to the development process. They supported government-led strategies and policies including large infrastructure building and “industrialization through import substitution” (ISI). The thinking among these theorists was that if growth could be stimulated to reach a sufficiently high rate it would become self-sustaining, thereby lifting a country’s economy out of its underdeveloped condition. Prominent economists who contributed to this line of thinking include Hirschman (1958), Nurske (1952), Prebisch (1950), Rosenstein-Rodan (1943) and Rostow (1960).

Toward the late 1960s and early 1970s, reaction to this approach was appearing on several fronts. Many economists criticized the pioneers’ distrust of market and price mechanisms, reliance on administrative controls and lack of emphasis on international export competition. Most importantly, they came to realize that the anticipated economic improvement from government planning
and intervention had not materialized.

It is a pattern in development assistance that when a prevailing approach runs out of steam and anticipated results do not materialize, recourse is sought to some countervailing approach, first among the theorists and then among the practitioners. Thus, when disillusionment with the pioneers set in, a neoclassic resurgence took place. Unlike the pioneers, neoclassicists were market-oriented economists for whom price was the key tool and the policy objective was to “get prices right.” This school strongly favored reliance on the market, an open-economy model of development and more trade policies more liberalized than ISI. Government policies were critical, but mainstream neoclassic economists believed that correct government policy was a market oriented, non-interventionist one that did not create trade barriers. A government with a good policy was a government that did not get in the way.

In time, this approach, too, came under criticism. One of its failings was that it could not satisfactorily explain the spectacular economic performance of the East Asian tigers[^3]. Analysts, referred to as revisionists, demonstrated that the economic success of these countries was not attributable to markets and open trade but rather to that bane of the neoclassicists, government involvement. Other criticisms came from economists who considered neoclassicism to be too rigid. They emphasized institutions and human development, establishing and strengthening the theoretical links between those aspects and economic development.

In addition to the pioneers and neoclassicists, there have been individuals and schools of thought which, while out of the mainstream, strongly influenced mainstream thinking. They focused on agriculture (rather than industrialization), derived concepts such as structuralism and dependency, and envisioned programs such as the New International Economic Order, and Basic Needs. Of these, agriculture theorists have arguably exerted the greatest impact on today’s international assistance strategies, understandably since the great majority and the most impoverished of the world’s poor are rural. The works of Schultz (1964), Johnston and Mellor (1961) and Hayami and Ruttan (1985) have been particularly important for their correction of early bias in the industrialization-first strategy and for their early attention to technology, institutions, and human development.

When first the optimism of the pioneers failed to be justified and then the theoretical rigor of the neoclassicists lost credibility, the concepts of institutions and human development began to move to center stage as factors critical to

[^3]: Hong Kong, Singapore, South Korea and Taiwan.
economic development and therefore to development assistance. This book refers to them as “new views.” Approaches built on this foundation gained a credence and validity that continues today. The “new views” have proliferated at a rate that almost surely dictates that there be a shake-out among them, or at least a consolidation into the most operational.

The dominant development factor at the time of this writing is the institution, generally couched as “policies and institutions.” Economists such as Coase (1937), Williamson (1975), North (1990), and Stiglitz (1989) documented the importance of institutions in economics and began to point out that the difference between the industrialized and developing countries could very possibly lie in the presence or absence of salutary institutions. Related to this the idea began to emerge that development was as much, if not more, qualitative than quantitative. This was supported by the efforts of Amartya Sen and Mahbub Ul Haq (at the UNDP) to devise a human development indicator so that assessment could be broadened beyond the commonly used per capita measurements of growth. The qualitative aspect of underdevelopment is also reflected in the very comprehensive definition of poverty in use today.

**Evolution of Development Assistance**

From its beginning in 1946 the World Bank has shadowed mainstream development theory, interpreting its mandate in ways corresponding closely with the prevailing analytical approaches described above. During the period of the pioneers there was belief in the effectiveness of government-led development and large infrastructure projects. That can be called the era of the engineer and most World Bank assistance financed that sort of project, frequently power (dam) or transportation (road) construction.

When this approach became suspect, it was replaced by the belief in the power of open markets championed by neoclassicists. This can be called the era of the economist and culminated in the “Washington Consensus,” the assistance pattern of the 1980s according to which international financial institutions made loans conditional on market-liberalizing policy changes. These loans, called “structural adjustment loans (SALs)” and “sectoral adjustment loans (SECALs),” were devised mainly for African and Latin American countries suffering from huge debt burdens resulting from oil shocks compounded by bad macroeconomic management. In accordance with the neoclassic view, adjustment loans were designed to encourage the state to retreat from economic life and facilitate a more open economy, especially in agriculture. The incentives were called “conditionalities,” measures whose adoption must
be agreed before the loan would be approved.

As with the pioneers so with the neoclassic resurgence—the results were disappointing. This was especially true in terms of economic development and poverty alleviation for low-income countries, although significant contributions were achieved for several middle-income countries. Neoclassicism came under severe criticism for the meagerness of its results and the harshness of its conditionalities. It eventually yielded before an advancing emphasis on poverty reduction and the new views incorporating human factors and institutions. This is the emphasis which holds sway today and underlies a wide ranging poverty reduction strategy by the assistance community at large, including the World Bank. This is the “post-Washington consensus,” the agreement that the true goal is poverty reduction and the key to achieving it is institutions. This can be called the era of the social scientist—pro-environment, pro-poor, and focuses on institutions.

The World Bank came on the scene as the International Bank for Reconstruction and Development (IBRD), financing projects by lending money that would be repaid with interest. In 1960 the International Development Association (IDA) was created and the World Bank became the World Bank Group. IDA is the concessional loan window, to make financing available at extremely generous terms to low income countries who could not afford IBRD terms. The World Bank is not strictly a development agency, it is a development bank and its policies and strategies are reflected in its lending pattern over time.

The Bank’s lending trends by sector over the past decade reflect a shift to the post-Washington consensus: substantial increases in loans for public sector development, environment, finance and social protection; and notable declines in agriculture, education, mining, oil and gas, industry, telecommunications and transportation. The sectoral declines can be traced to several direct causes but among the most important is a disengagement by the Bank from projects that can be undertaken by the private sector. This has probably affected projects geared toward hard infrastructure such as irrigation, communication and transportation. Another cause may be the increasingly important consideration of environmental impact, which particularly affects agriculture, mining, and oil and gas. The reasons for the decline in education, ostensibly a high priority area, could include reluctance on the part of recipient governments to shoulder

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4 In later years, other units were established.

5 IFC, the International Finance Corporation, established in 1956, is the World Bank Group’s financing unit for private sector investment in developing countries. www.ifc.org
the long pay-back period entailed and/or competition from other donors. Though proximate causes may vary, changes in lending trends also reflect a pattern by the Bank of shifting out of areas which attract criticism because of controversy or unsatisfactory results.

One increasingly important factor in the Bank’s lending level is the deterrent to recipients posed by the high cost of the lending process — termed “the cost of doing business.” In addition to interest payments on loans and conditionalities for adjustment lending, there are high non-monetary costs connected with the lengthy loan-appraisal period and heavy paperwork requirements. The poverty reduction description and strategy process can absorb major portions of a government’s scarce resources. Meanwhile, there are other donor organizations whose requirements are less stringent or who provide grants that do not require repayment. Onerous requirements coupled with the existence of potential alternatives has reduced or stagnated demand for Bank loans in some sectors, even where, under its current strategy, it should be investing more.

World Bank lending is also constrained by “absorptive capacity,” the ability of the client country to fulfill its responsibilities as loan recipient. Many countries lack the means to fund the domestic currency component of a project that is required of it and/or to fund operational and maintenance costs after a project is completed. Simply making funds available to a needy party by no means insures that the money can be used effectively, let alone that it will be. Thus, even when the Bank is willing to provide the foreign exchange component, projects may not go forward.

The World Bank: Poverty Reduction Strategy

Today’s World Bank is the product of the pressures exerted on it over its 50 year history as well as of its own tendency to shadow theory and react to events. Criticism, competition, experience and research have all compelled it to continuous modification of its image, processes, strategies and lending instruments. In searching for the most appropriate and effective alignment, the Bank has listened to concerned voices and weighed the priorities. It has turned its attention to issues of wide social concern and now declares its purpose to be the reduction of poverty most recently defined as “deprivation in well-being.”

To attack poverty, a mission which is not directly provided for in its underlying Articles of Agreement, a broad strategy has been devised comprised of intersecting themes, processes and lending instruments. The themes are benchmark concepts that should be incorporated into assistance programs if
they are to be successful. These themes include the following:

- **Sustainability**, initially implying a healthy interrelationship among poverty, development and the environment but since considerably expanded;
- **Participation**, meaning that the many stakeholders in the development process are encouraged to join in and be heard;
- **Ownership**, insuring that the client government is fully committed to the development program; and
- **Institutions**, identifying the fundamental and essential enabling framework within which development occurs and then determining which potential recipient countries have them.

The processes constituting the poverty reduction strategy are new or re-emphasized. Taken all together, these are referred to as the PRSP process of IDA-eligible countries in recognition of the central importance of recipient government involvement. They include the following:

- **Poverty Reduction Strategy Paper** (PRSP), a document through which the client government describes its own strategy for poverty reduction;
- **Country Assistance Strategy** (CAS), a business plan that has been and continues to be the main forum for Bank-client interaction; and
- **Comprehensive Development Framework** (CDF), a mapping of the total development plan for a country including all sectors and incorporating all donors.

The new lending instruments were devised to support this process. They include the following:

- **Programmatic Structural Adjustment Loan** (PSAL), an IBRD instrument to assist governments in implementing poverty reduction measures; and
- **Poverty Reduction Support Credit** (PRSC), an IDA instrument specifically to fund the strategy set out by the government in its PRSP.

**On-going Issues**

Although there is currently apparent general agreement on development thinking and strategy among the various stakeholders of international assistance, the Bank continues to face a number of difficult issues, including the following:

- Portfolio problems; the “high cost of doing business” and competition from other organizations and the private sector — discussed in Chapter III;
• Issues related to the poverty reduction strategy: measurement/assessment. LICUS, middle-income countries — discussed in Chapter IV;

• Dissent and disagreement within the greater development community; other development professionals, donors, the US administration, NGOs and other observers — discussed in Chapter V; and

• The question of compliance with the Article of Agreement — discussed in Chapter V.

**The World Bank and Japan**

Japan was an early recipient of World Bank lending as it rebuilt from the devastation of World War II. In the terminology of today, Japan had both absorptive capacity and suitable institutions to benefit from Bank loans, technical assistance and expertise. It went on to become a World Bank donor and the second largest shareholder.

Japan’s successful reconstruction came during the period of the pioneers. During the subsequent neoclassic resurgence, however, policy differences emerged because of different views of the value of government involvement to the development process. Japan firmly supported appropriate government guidance to development, a position which the neoclassicists just as firmly rejected.

Despite its prominent position within the donor community Japan has not been a forceful voice in setting international development assistance policy or in designing strategies. To change that, it can begin to adopt some of the current approaches that are part of the post-Washington consensus, coordination with other donors, attention to the social aspects of development, and incorporation of the important concepts of sustainability, ownership, participation and institutions into its own aid programs.

**Concluding Remarks**

Looking at the critical elements of development thought and assistance over the past five decades, this book suggests that there is ongoing counterpoise between two positions: One position is that development is best pursued through government involvement and by income redistribution (historically the UN position); the other is that development is best pursued by way of the private sector and by expanding the economic pie (historically the Bretton Woods position). Over the years the pendulum has swung between these two possibilities. If historical patterns hold, there could well be a move back toward
Executive Summary

neoclassicism.

The US administration is a major factor in this because it is a major influence in the international development community in general and on the World Bank in particular. It has the biggest voting share and, possibly more importantly, it impacts significantly the prevailing thinking through its policy positions and through its selection of people to fill important Bank posts. The present administration is stressing development “results,” and is creating a new medium, the Millennium Challenge Account to channel its own increased funding in a “results” oriented direction. Japan, with the second biggest voting share, has not exerted its influence in the past, but may be set to do so in the context of the post-Washington consensus.

The post-Washington consensus is largely a convergence of the traditionally diverging views. The poverty reduction emphasis of the international financial institutions and the adoption of Millennium Development Goals by the United Nations General Assembly have put the financial and the political organizations on complementary trajectories. If these positions should again diverge, it is unlikely that development strategies in general and World Bank ones in particular will revert back to those of 1980s because the concepts of institutions and human development have taken wide and strong hold. More likely dialectic between neoclassic ideas and the current prevailing thought will work to produce a new paradigm is yet to be seen.

Unfortunately, the problem that development assistance tries to address, the situation that earlier shifts in approach attempted to resolve, remains entrenched still today. In spite of the evolution of ideas, strategies and approaches over the last five decades, in spite of billions of dollars in assistance and untold man-years of effort by skilled and committed practitioners, the fundamental issue remains — many countries and billions of people mired in poverty. Efforts to unravel this knotty problem continue. The overarching challenge now is to create situations in which assistance can be extended and will be effective.

Perhaps the most serious threat to future efforts to solve the development conundrum is discouragement on the part of the donor community. There is a critical need for some positive results. This would not only signal that underdevelopment was being eased, but would do a lot to counter donor fatigue and re-invigorate the struggle.
Overview

The area of development economics, and the development assistance to which it is applied, is infinitely complex. Its raw material is people, their motivations and perspectives, and it tries to connect them to quantifiable outcomes. As theory, it is a mélange of the orthodox and the heterodox, the work of established analysts and of those still building their reputations. The variables it must consider are similarly extensive, essentially economic but also social, cultural, political and historic. It is an applied social science whose theories are constantly being tested in the real world. Those that do not work are often abandoned in the search for ones that will. Consequently, theories have evolved in tandem with what is actually taking place on the ground. The approaches and strategies of international development assistance since the end of the Second World War have also evolved over time. There have been constant interactions among the development theories, actual world events and the assistance effort.

Historically, evaluations of the effectiveness of international development have varied significantly depending on who has done the evaluating and what, specifically, was evaluated. A decidedly pessimistic view was expressed recently by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) after a review of projects funded by international and bilateral donors:

There is very little evidence that the projects have been particularly helpful, or effective, in reducing poverty. Studies of project experiences have few successes to report. As few as only one in five projects combating poverty can be characterized as highly targeted at the specific issues which in combination define the situation of the poor. Few project interventions are sustainable when donor funding ceases. Successful projects are hard
to replicate. (DAC, 2000: 45)

This view was echoed by former US Treasury Secretary O’Neill, who took direct aim at the World Bank in criticizing the development bottom line, accusing it of having driven poor countries “into a ditch” (Economist, 2002). Conversely, the larger international assistance community seems to hail the accomplishment of international assistance and be quite positive regarding aid effectiveness. This view is evident in a recent speech World Bank President Wolfensohn made just before the UN Conference on Financing for Development held in March 2002.

Over the past 20 years, the absolute number of people living on less than $1 a day, after rising steadily for the last 200 years, has for the first time begun to fall, even as the world’s population has grown by 1.6 billion people. Driving much of this progress has been an acceleration of growth rates in the developing world - more than doubling the income of the average person living in developing countries over the past 35 years...More than ever today, a new wind is blowing though the world of development transforming our potential to make development happen. (Keynote Address delivered at the Woodrow Wilson International Center, March 6, 2002)

Analyses of past experiences and the results of past approaches have been undertaken regularly over the last five decades and they have always revealed shortcomings. Argument can be made that past efforts have been too expensive, that they have caused unnecessary misery for millions by imposing conditionalities and/or supporting failed regimes, that ultimately they have not improved the lives of ordinary people. It is undeniable, however, that the efforts and theories of the past half century are the source of invaluable data, the proper use of which is indispensable if effective development assistance is ever truly to move reliably from hopeful projection to hard reality.

Presently an evaluation process new in the history of development assistance is underway, with much attention being paid to “aid effectiveness.” Development specialists are striving to distill lessons from past efforts for incorporation into innovative and practicable theories and paradigms. This is healthy for future endeavors because it makes repetition of blunders less likely. The frank admission of past failure that is now being made is a part of a current and on-going campaign to declare that the lessons of the past have been truly learned and the way forward is clear. Optimism is the bedrock of development
assistance efforts, however, and it is cautionary to note that this is not the first time that high hopes have been lavished on new approaches; it has always been hoped that they would work.

The task of evaluating history and gleaning lessons from it is daunting. The most innovative approaches are untested and there is much uncertainty on how to incorporate them operationally. True and balanced evaluation of effectiveness is probably far into the future. According to the Chairman of the Committee on Development Effectiveness of the World Bank’s Executive Board, Pieter Stek, “sound judgment” can be reached about development impact eight to ten years after approval (not necessarily commencement) of an investment project (Stek, 2002). Useful evaluation of less clearly defined “program” assistance may be even less accessible. Nonetheless, the mood of today’s donor community favors shorter term assessments that are based on “measurable results.”

This book describes current international development strategies and instruments and explains their historical and theoretical roots. It examines controversial issues facing the development community today and ventures some speculation as to what lies ahead. And it analyzes some implications of these issues for current development assistance strategy as pursued by international organizations and major donors. The following chart shows the Official Development Assistance (ODA) for the five largest donor countries. More detailed ODA data is available in Appendices 9 and 10.

**Figure 1: ODA from Major Donors**

![Figure 1: ODA from Major Donors](New York Times website)

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6 This is in Mr. Stek’s second contribution to an on-going exchange in the Letters to the Editor column of the Financial Times begun on March 6, 2002 with a column by Adam Lerrick, Director of the Gailliot Center for Public Policy and a professor of economics at Carnegie Mellon University.

7 The official definition of ODA by DAC was written in 1969 and refined in 1972. “ODA consists of flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character and contains a grant element of at least 25 percent (calculated at a rate of discount of 10 per cent). In the World Bank context, only IDA assistance is concessional and therefore ODA. IBRD lending is not ODA (Fuhrer, 1996).
The strategies and instruments are the products of an interplay of theory, event and assistance experience that is more organic than planned and the paper attempts to describe this process. A major part of the book looks at the history and current strategies of the World Bank. This is done, not to judge the Bank, but because it offers a convenient and instructive focus and because it is the most prominent development assistance organization. That prominence is due not only to the size and diversity of its portfolio, but also to its well-deserved status as an intellectual leader in the field. The Bank has been enormously influential within the development community and on developing countries. Its current direction is at once very narrow, improving the quality of life of the world’s poorest people, and very diffuse, defining poverty in ever widening circles of complexity. As will be explained later, this narrowing of focus toward a highly diffused objective is both a result of and a magnet for pressure from many directions. Some thought is given in this volume to the potential ramifications of this situation.

The book depends heavily on discussions presented through various other papers and books. Through review and synthesis, it tries to disentangle the various strands interwoven into development theory and to illuminate the dynamic interactions between theory and on-the-ground operation.

One of the salient facts that has emerged from this process is that a few prominent individuals have had disproportionate influence on either the thinking or the doing of assistance, or both. These include W. W. Rostow, Raul Prebisch, Anne Krueger, Amartya Sen, and Joseph Stiglitz among the thinkers and Robert McNamara, James Wolfensohn and Clare Short among the doers. More often than not, these “movers and shakers,” with their enormous energy, passion and strong political backing (frequently from the US government but sometimes from elsewhere) seem to have simply overwhelmed other views. This “great man” syndrome may well have rendered the development assistance strategy of any given period unbalanced, with excessive emphasis on some trendy aspect. This may have been unavoidable, given the fragile political support for development assistance in key industrialized countries compounded by the perception of wasted resources. But it raises the intriguing question of what more balance might have accomplished.

The question of balance is highly relevant in today’s environment. Currently there is a laser-like focus on poverty, individual and collective. Although capital accumulation, infrastructure and economic growth continue to receive mention, the refrain of every major conference, speech or book on development assistance is poverty reduction and the institutions that might make it happen. The current
environment may even be described as one which discourages, belittles or ignores views other than those that accentuate poverty reduction and associated strategies. Within the World Bank, for example, it is entirely possible that support for the poverty reduction focus is strong because proponents of other views have left, willingly or otherwise, or work in silence. If so, the development community could be repeating a mistake it has made before. The early development establishment was almost single-mindedly focused on physical capital accumulation until the late 1970s when it turned similarly focused attention to minimizing governmental interference with the economy until the late 1980s. As is pointed out in Chapter II, on the history of development theory, while those themes predominated within the establishment, analysts with alternative ideas were continuing to work out of the limelight on less fashionable concepts. Some of those concepts have ended up nowhere, but others emerged from the sidelines to considerable prominence, impact and respect.

Currently the broad development community is very self-congratulatory on the congruence of its strategies and rather hopeful on prospects for achieving its common goals. There is a wide agreement on approach and wide acceptance of analysis of past mistakes. There is, however, reason for skepticism and unease on several grounds:

- To a considerable degree, the identification of what will work has been a negative, reductive process; that is, methods that have not been effective have been discarded. This is referred to later in the book, as a “reactive” tendency on the part of the World Bank. Unfortunately this has not necessarily meant that what is left will be effective, nor even that what was ineffective in the past cannot be useful in the future. This process depends on correlations that are not necessary causations and it leaves loose ends that must be tied up in convoluted ways. Treatment of incorrigible governments is one such. It has been packaged as “LICUS,” (Low Income Countries Under Stress, described later in Chapter IV).

- There is potential for the emphasis on poverty reduction to tend toward a huge international welfare system, with governments of developing countries spending time and resources designing and implementing

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8 An exemplar of that is William Easterly, a senior economist who took “leave” from the World Bank after writing a book critical of aid effectiveness. Mr. Easterly now works out of a newly formed think tank, the Center for Global Development in Washington, D.C., from which he frequently makes statements critical of the World Bank (Ringle, 2002).
welfare projects under the regulatory oversight of development agencies. The enormous task of preparing the PRSP (Poverty Reduction Strategy Paper), and sector strategy papers (such as for rural development) is one example of this. Is this sustainable and desirable? Is there reason to believe that this approach will work? The great risk is to be seduced by the logical fallacy *post hoc, ergo propter hoc*, that a country succeeds because it has a strategy, and not *vice versa*. The performances of Vietnam and Uganda are cases in point.

- The belief that a reduction in the poverty level will percolate out is questionable. Development specialists all accept the indispensability of economic growth to truly successful development. The question is whether a broad reduction in poverty will foster growth. If not, then the engine that will drive development, as opposed to driving poverty reduction, will be stuck in neutral.

The international development community, sometimes referred to as the international development industry, has become a large group whose membership consists of those with a development mandate and those for whom development is a collateral issue. They range from the very large World Bank, with thousands of staff members to very small NGOs (non-governmental organizations\(^9\)) with three people “a director, a secretary and a driver” (Onishi, 2002). A look at the participation in the March, 2002 UN Conference on Financing for Development gives an indication of the current breadth of the overall community. There were more than 800 participants from governments, civil society and the business community in twelve separate roundtable discussions on global issues.

The weightiest members of the community, apart from the World Bank, are the regional multilateral development banks (MDBs)\(^10\), the EuropeAid program of the European Community, the United Nations family of organizations including UNDP, and the main donor countries.

The NGO component of this community is extremely diverse, from very large organizations, such as Oxfam or Bangladesh’s BRAC (Bangladesh Rural Advancement Committee), which are huge businesses in themselves, to very small, local, grass roots organizations focused on one issue in one locale. As

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\(^9\) These are interest groups that research and campaign on specific issues, usually, ostensibly in the hope of improving conditions for all rather than the few.

a group, NGOs have become increasingly influential, as their very vocal, committed and informed individual units have insisted on being heard. The legitimacy of NGOs is not entirely unquestioned, however. Their lack of accountability, their self-selection, and their essentially adversarial stance create some distrust and skepticism. They are discussed further in Chapter III.

Japan has long been a major player in the area of development assistance. It has been both recipient and donor, until recently the largest source of ODA (a position it ceded to the US in 2002). No other country has played the multiple significant roles in the story of development assistance that Japan has played. For this reason special attention is given to it in Chapter VI. The Japanese situation is additionally instructive because the changing trends in aid approaches detailed in this book, as well as strains in the domestic economy, are prompting a serious intra-governmental review of foreign aid priorities.

Because of the complexity of its subject and in order to achieve its objective of shedding light on the dynamics of development theory and actual practice, this paper draws from several disciplines: economics, history, political economy and journalism. It has been eclectic in its sources, which include books, published and unpublished papers, newspapers, magazines, websites and personal interviews with many individuals especially those currently and previously working at the World Bank.

The Chapter II will trace the historic progression of key thinking starting with the theorists of the post-World War II era of 1950s to mid-1970s. It moves on from there to cover the contributions of the neoclassicists who dominated the period mid-1970s to late 1980s after which it presents the ideas of some of those who disagreed with them. It then looks at “others,” the divergent and reformist ideas of thinkers who were contemporary with the post-war and the neoclassic theorists but do not fit their categories. Following that, it considers “new views,” emerging approaches that have the most currency today. As will be shown, the latter are centered on institutions and human development.

Chapter III looks generally at the evolution of development assistance practices with particular focus on the World Bank, first over the period from the Bank’s establishment in 1946 to the late 1980s and then over decade of the 1990s to the present. Bank policies have always been heavily influenced by theorists both on and off its staff as well as by topical socio/political/economic currents. The first part of Chapter III describes the historical context in which the Bank has reacted and which, in turn, has impacted it. Next is an explanation of the “post-Washington Consensus,” the environment which defines its current
CHAPTER I

objective and shapes its current strategies. The final part of that chapter gives
detail on lending trends to clarify how actual disbursements have related to
policy.

The Bank’s objective, its strategies and the lending tools tailored to them
are presented in Chapter IV. These are many and diverse, organized around
the objective of eliminating world poverty. And if that objective is still distant,
or not yet clearly in sight, that is because the development picture and the
World Bank’s place in it remain very unclear. The lack of clarity has impelled
the Bank most recently to re-invent itself as a moral force, a situation somewhat
at odds with its legal mandate\(^\text{11}\).

Chapter V deals with key issues and challenges facing the Bank within the
context of the broader international effort to confront the development dilemma.
The chapter leads with presentation of the substantial agreement among the
development community with the post-Washington consensus. Then it looks
at the disagreement, negative issues which include criticism of the Bank’s
effectiveness and strategy, competition from other donors, and doubts about
the depth, breadth and appropriateness of its activities. There has been a
discernable pattern to the Bank’s reaction to negative feedback, and that is
described next. Following that there is discussion of the fungibility of aid
money, the suitability of multilateral development banks for dealing with the
development problem as it now being defined, and the problem of measuring
progress. Finally, to conclude the section, there are some brief comments on
the Articles of Agreement.

Chapter VI explores the relationship between the World Bank and Japan.
Japan was the second largest recipient of the Bank lending (after India) in the
early 1960s and obtained loans in many areas. These loans had significant
impact on the Japanese economy, not only in terms of capital accumulation but
also in terms of technology transfer. Lending for physical capital accumulation,
stressed during the pioneer era, had an important beneficial impact on Japanese
economic growth. This experience probably was the basis for the later Japanese
emphasis on infrastructure building in its own development assistance program.
Though there is some public criticisms of the purposes and effectiveness of
Japanese ODA, if addressed properly this could provide an excellent
opportunity for strategic thinking on the future direction of assistance and ways
to make it more effective and sustainable.

\(^{11}\) The legal basis of the organization, its Articles of Agreement, is referred to throughout the book. Relevant
excerpts from the Articles of Agreement, and a brief description of the World Bank Group, are presented in
Appendix 1.
The final chapter, Chapter VII, offers concluding remarks and some thoughts as to the future. Historically international development assistance has fluctuated between axes: growth vs. distribution, free market vs. government intervention, Bretton Woods development/financial institutions vs. UN social/political ones, and US Republic party vs. Democratic party control. The former/later in each pair have tended to coalesce and form an extreme such that at any given time, thinking and strategy gravitate toward extremes. History suggests that shifts from one extreme to another in search of success create their own failure because they lack balance. There appears to be an abeyance in this dichotomous situation, a melding of the extremes into the post-Washington consensus and the PRSP process. The durability of this abeyance is debatable, especially if the hoped for results are not forthcoming. The conclusion is that the development and development assistance are as susceptible as ever to paradigm changes and pendulum swings as the search continues for something that will work.
Evolution of Ideas on Development

This chapter offers a brief review of the key thoughts regarding international economic development with particular attention to those ideas that continue to influence today’s thinking. (This section should be read with reference to Figure 1.) While there is not unanimity of opinion on which ideas those are, the ones presented below are generally considered standard, though even this can vary from one development economist to another. With this caveat, there are three main stages in the evolution of development thinking; the “pioneers” (post-World War II to mid-1970s); the neoclassic resurgence (mid-1970s to late 1980s) and “new views” which emerged in the 1980s to supersede both of them. New views, as categorized here, continue to dominate today.

In this chapter the ideas of the pioneers and the neoclassic resurgence are presented, followed by a discussion of divergent others who were their contemporaries. Though in general the divergent others faded away, many did succeed in impacting the mainstream. As becomes clear, all these thoughts were informed by world events, prevailing political trends and, most importantly, by whether they satisfactorily explain the reality and yield policies that are perceived to work. This section concludes with an extensive look at the new views, covering the period from the early 1990s to the present.

1. The Pioneers

It is probably correct to say that the classical growth economists, Smith, Ricardo, Marx, explored the issues that lie at the core of development economics. One can easily identify economists who contributed to the study of this issue before the turn of the 20th century and into the inter-war years.
Figure 2: The Flow of International Economic Development Assistance

This chart is not intended to be a comprehensive depiction of development assistance over the past five decades. Rather, it is designed to capture the generalized flow of theory and action with reference to events. The large boxes give the major occurrences for each cell. The small boxes contain specifics that had or continue to have significant impact.
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But development economics as a speciality concerned with improving conditions in low-income countries actually emerged in response to the urgencies of the post-World War II situation.

The first generation of development economists was at the outset rather confident (Meier, 2001b: 13). They will be referred to in this paper as the pioneers. They were macroeconomists and they focused on capital accumulation and growth rapid enough to outstrip population increase. Until the late 1960s industrialization was thought to be the primary engine of growth and the agricultural sector was seriously overlooked. Hirschman (1958), a proponent of this idea, claimed that the manufacturing industry has much more forward and backward linkages and hence more importance for economic development than agriculture. Agriculture and the natural resource sectors were viewed as sources of funds to be extracted in support of industrial development. Part of the thinking was that, after all, the difference between a developed country and a non-developed country was that one was industrialized and the other was not.

Industrialization was pursued through infrastructure development and frequently through a policy of “industrialization through import substitution” (ISI). ISI was adopted in many countries, though not always prompted by the same causes. In India, the rationale was largely ideological. There, as well as in several Sub-Saharan African countries, the model of the Soviet centrally planned economy held sway. In Latin America it was influenced by the notion argued by Argentinean economist Raul Prebisch (1950) that developing countries, so long as they specialized in production of primary commodities, would not be able to achieve economic growth because of the long-term worsening trend of commodity terms of trade against manufactured goods. However one common underlying reason for ISI was a “[r]epulsion [by leaders of newly independent states of the Third World] against the colonial system which imposed the role of the material supply base as well as the manufactured product market on them.” (Hayami, 2001: 234)

The thinking among theorists was that if growth could be stimulated to reach a sufficiently high rate it would become self-sustaining, thereby lifting that country’s economy out of its underdeveloped condition. The “stages of growth” theory of Walt Whitman Rostow (1960) was particularly influential to this line of thinking. Central to his theory is the “take-off” stage during which investment increases from about 5 percent of national income to about 10 percent, and productive economic activity propels an economy into “the drive to maturity” from its underdeveloped stage. The concept of the “take-
off” was very appealing to providers of international economic assistance, including the United States Agency for International Development (USAID), because it foresaw a time when aid would no longer be necessary. Rostow’s book is subtitled “A Non-Communist Manifesto.” His theory was directed at the Soviet Union and its version of Marxism and used the experiences of countries such as the United States, Sweden and Japan for corroboration.

A theory complementary to that of Rostow was the “theory of balanced growth” proposed by Rosenstein-Rodan (1943) and Ragner Nurkse (1952). According to it, in order for developing countries to industrialize, various industries should be simultaneously promoted so they can create markets for each other. Because the domestic saving rate is typically low in these countries and because they cannot expect large foreign direct investment (FDI), they have no choice but to establish a mechanism of forced saving under government command. This view was strong within the early World Bank, where Paul Rosenstein-Rodan, held a high policy position. He was one of the first to advocate a “big push” development strategy involving government planning and major public investment. Most international assistance through the 1950s and 1960s was directed toward large-scale, capital-intensive infrastructure projects that would further industrialization and, it was thought, self-sustained growth.

During this early period, concepts and concerns were identified that have reverberated through the development literature over the succeeding decades to this day. One of these was poverty, although at that time it was not of central concern. Growth proponents believed that unequal income distribution was inevitable in the early stage of industrialization, as in the “Kuznets Curve”, an inverted U shape hypothesized by Simon Kuznets (1966: ch. 4), which predicted an initial phase of increasing inequality as industrialization induced growth took hold. Another legacy of this period was “policy dialogue” between aid donors and recipients, effectively the brandishing assistance as an incentive, or carrot, for fiscal or other policy changes. The practice started in this period; it re-appeared more strongly in the 1980s with policy-based structural adjustment lending; and can be seen yet today in the emphasis on correct institutions as eligibility criterion. Thus, institutions and their critical importance, so much at the forefront of international development thinking today, are also a legacy of the pioneers.

A central characteristic of this early period was a belief that government

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13 Kuznets’ hypothesis has been controversial and there is not convergence of opinions on this. See Hayami (2001: Chapter 7) for discussions on economic growth and income distribution.
CHAPTER II

intervention could facilitate growth and was therefore vital to the development process. The market was distrusted. Many economists thought that market pricing posed structural problems involving imbalances of factors, and besides, memories of the Great Depression were still vivid. Exports and foreign direct investment after World War II were not thought to be growth generators. Governments, on the other hand, were assumed to be benevolent and economists believed that government intervention would further the objective of economic growth (Meier, 2001: 15).

This was the prevailing view. It was not, however, the only one. Even in this early, optimistic period, a number of economists were firmly advocating a more neoclassical, market-oriented approach. One of the firmest of these was Peter Bauer. In a book written with Basil S. Yamey (Bauer and Yamey, 1968), he argued against interference with the natural flow of economic activity that he believed was based on comparative advantage. He argued against regulations, restrictions, stabilization schemes and marketing boards to control price fluctuations; and, hence, was very critical of UNCTAD (the United Nations Conference on Trade and Development). Though out of mainstream thought during this period, this line of thinking strongly affected the theories that came to dominance in the next period.

The generation of the pioneers tried to extrapolate economic history to the process of development, the prime example of this being Rostow’s stages of growth theory (Crafts, 2001). Their attempt did not succeed and by the late 1960s and early 1970s their tenets were being overturned: The emphasis on physical capital accumulation yielded to a recognition of the importance of human capital to productivity. And, most consequentially, it was realized that the economic improvement anticipated from government planning and intervention had not materialized. Instead in many cases government failure had resulted in a worsening of economic conditions.

The “grand theory” (Leeson, 1988: 2) of economic development faded in the late 1960s. Although adherents still remained, other threads of development theory were emerging, sometimes intertwining, and being woven into the tapestry of international economic development thought. These will be reviewed below, after a discussion of the dominant group that emerged in the twilight of the government interventionists, the neoclassicists.

14 Unlike the belief prevalent prior to World War I (Nurske, 1952; 1959).
15 When Peter Bauer died in May, 2002, his obituary said in part [He] “challenge[d] the widely accepted orthodoxy that economic development required a pervasive role for government bolstered by official “aid”. In place of corrupting “aid”, he deployed the heretical idea that open markets were central to development... Yet a decade — and many billions of dollars — later, his brave stand was largely vindicated.” (Financial Times, 2002a)
2. Neoclassic Resurgence

Government planning and intervention, import substitution and trade barriers, all efforts devised by the pioneers for lifting underdeveloped economies into the ranks of the developed, were ineffective. The assumptions underlying their approach came increasingly to be questioned. They came under heavy criticism in the late 1960s and early 1970s by economists who criticized the distrust of market and price mechanisms, the reliance on administrative controls and the lack of emphasis on international export competition.

A major problem with intervention, and a major contributor to its ineffectiveness, was the propensity by elites in power positions to enrich themselves and their political allies. Discretionary funding, tax revenue, and black market opportunities were all available and were all conducive to corruption and rent seeking (Krueger, 1974; Bates, 1981). Corruption, the abuse of public power for private profit, is a serious misallocation of resources that should be put to productive purpose. The widespread nature of this phenomenon prompted wary development economists to reduce the opportunities for such misallocation by turning to market mechanisms instead.

As the pioneers waned, the field of applied development economics became more quantitative and more microeconomic. Methodological explanations were found as to why the macroeconomic approach had not worked, among them the following: 1) capital accumulation was stressed rather than capital allocation; 2) inappropriate domestic policies were mistaken for adverse external conditions; and 3) the growth process was oversimplified.

This marked the stirrings of what some refer to as the “second generation” of development economists and others as the “neoclassic resurgence” (Oman and Wignaraja, 1991). These were market oriented economists for whom price was the effective tool for resource allocation and the policy objective was to “get prices right” (Leeson, 1988: 17). This implied more open trade policies as opposed to ISI. The predilection of these economists toward reliance on the market was further encouraged by the experience of the newly industrialized countries (NICs) of East Asia (i.e., the East Asian tigers) and by China’s de-emphasis of central planning in favor of market forces starting in the early 1980s. This led to the theory that it was not a country’s initial conditions that constrained economic progress, rather it was “wrong-headed policies” (Leeson, 1988: 14) and policy-driven distortions that were responsible for lack of economic progress.

Here the example of the Soviet Union was illustrative as it had been earlier with regard to intervention and ISI. Many of those “wrong-headed policies”
were actually attempts to replicate the Soviet state-dominated economic development model that had produced rather respectable growth records prior to the 1970s (Hayami, 2001: 132-33, 149-51; Akiyama et al., 2001: 7). When the Soviet Union collapsed in the late 1980s, that model was discredited.

Instead of the closed, protective model of industrialization through import substitution, an open-economy model of development came to be favored. Government policies were still important, but economists now believed that correct government policy was market-oriented, non-interventionist, and did not create trade barriers. The now-prevailing neoclassic open-market framework prompted the Bretton Woods Institutions (World Bank and International Monetary Fund) to come up with Structural Adjustment Loans (SALs), discussed in the next section. One of their main focuses was an expansion of trade liberalization, advocated strongly by Krueger\textsuperscript{16} (vice president of the World Bank in the mid-1980s), Bhagwati (1978) and Balassa (1978), all of whom were important influences on these organizations.

3. Criticism of and Alternatives to the Neoclassic Approach

With time, the neoclassical approach and the validity of its assumptions came to be questioned from several quarters. Criticism came from privileged and elite interest groups who favored an increased active role for government because their positions gave them access to personal benefit. But much of the doubt centered on the example of the NICs in East Asia. While market-oriented economists claimed that the “East Asian Miracle” supported their view, their opponents pointed out that neoclassical analysis could not satisfactorily explain the spectacular economic performance of the East Asian tigers. So-called “revisionists” came forward to demonstrate that the economic success of these countries not only was not attributable to markets and open trade, but in fact could be due to that very bane of the neoclassicists, government involvement. Even some committed neoclassicists who still insisted that the market was the explanation for the East Asia phenomenon wondered if it was the total explanation and could it have similar effect in other countries (Meier, 2001b: 21). Joseph Stiglitz produced an analysis that explained the phenomenon as the result of a fortuitous balance of intervention, markets and institutions (Stiglitz, 1996). The work by Douglas North on institutions has relevance here (North, 1990); in fact, the puzzle of the east Asian economies is as central to the theories of the institutionalists as to those of the neo-classicists.

During this time, there continued to be advances and nuances in development

\textsuperscript{16} See, for example, Krueger (1978)
Evolution of Ideas on Development

The existence of imperfect competition, transaction costs of acquiring information and increasing returns to scale came to be recognized. New market failures were identified and analyzed. Even though correction of such failures was potentially a task for government, in the prevailing neo-classic environment, the negatives of intervention and problems with policy reform continued to militate against any suggestion that government be involved (Meier, 2001b: 21).

The clear lack of tendency toward income equality and equality in growth rates among developing countries, as was assumed under neoclassical growth theory, supported a “New Endogenous Growth Theory” (Srinivasan, 1998: 127) which appeared in the late 1980s. One of the endogenous growth factors it isolated was differences in technology, from which was extrapolated the central importance of knowledge and ideas. Knowledge is a form of capital, human capital. Although its importance had been recognized previously\(^{17}\), the “new growth theory” refocused attention on the use of human capital to stimulate economic development\(^{18}\).

Similarly in the area of trade, faith in free trade was overtaken by “new” trade theory that relaxed the neoclassical assumption of international trade driven by comparative advantage. For a time, the policy of strategically protecting industries held sway, encouraged by the transformation of Japan from a lagging exporter to a leading one\(^{19}\). Paul Krugman (1984) developed a variant of the strategic infant-industry protection argument which concluded that under certain circumstances, protection can actually promote exports. There were many negatives to strategic trade theory, however, including vulnerability to misuse by special interests, the fact that costs can easily exceed benefits, and the difficulty in matching assumptions and real-world situations. By the late 1980s, the strategic trade theory had lost its luster.

The dramatically sharp decline in world commodity prices between 1980 and 1993\(^{20}\), and its disastrous impact on the terms of trade of the commodity exporting countries, was also problematic for neoclassic theory. Commodity price collapse seemed to confirm and revitalize the “export pessimism,” theory argued at an earlier time by Prebisch (1950), Singer (1950) and Nurske (1952).

From the point-of-view of implementation, the neoclassical approach was

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\(^{17}\) The importance of human capital had been emphasized by a number of economists including Schultz (1964) and Denison and Chung (1976).

\(^{18}\) This is a focus which continues to be very active today and is further described later in this paper. In fact, human capital is considered by some to contribute more to economic expansion than natural and physical capital combined (Griffin, 2000: 17).

\(^{19}\) The Japanese experience is covered more fully in Section VI.

\(^{20}\) Until recent rise, even the petroleum prices were at historically low levels in real terms.
criticized for the harshness of the SALs, which many claimed harmed the poor disproportionately. The “reformists” (discussed below) were especially critical, arguing that development should be focused on the human impact rather than on economic growth as the neoclassicists appeared to believe. Both pioneers and institutionalists criticized the neoclassical approach as disregarding reality for theory. As one observer put it “by resolutely walking away from the facts, neoclassic theory suffered a self-inflicted wound” (Hirschman, 1981: 60). Others observed that the neoclassicists’ concern with “fundamentals” ignored institutions, history, and distribution of wealth, all of which were at the “the heart of development economics” (Hoff and Stiglitz, 2001: 360).

Such criticism and disagreement notwithstanding, the assumptions at the core of neoclassical, market-centered development economics continue today to be reflected in international assistance lending, particularly that by the World Bank. However, because many of the policies creating structural distortions in developing countries have been corrected, the areas for application of this approach have reduced significantly in recent years. At the same time, public attention has been drawn away from the harsher, business-like side of Bank loans toward a gentler concern with uplifting the downtrodden, toward a focus “on individuals, their crushing needs, and their soaring potential” (Einhorn 2001).

4. Others

“First generation” pioneers and “second generation” neoclassicists are useful categories for lumping development economists who subscribed essentially to the same theoretical school and accepted the same assumptions. But there have been highly influential groups and individuals out of step with the mainstream of their time whose thinking exerted significant impact on the mainstream and become increasingly relevant as mainstream theories withered for lack of effect. These economists had different perspectives which have vastly enriched the understanding of what constitutes lack of development and, to a lesser degree, what enables development.

A. Agriculture and Trade

Agriculture

The importance of agriculture to development was recognized by classical economists of the 18th and 19th centuries, including Adam Smith, Thomas Malthus, John Stuart Mill and David Ricardo. But the mainstream economists who created the field of development economics in the mid-20th century gave
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it little attention. Agriculture was viewed as backward and generally overlooked in favor of industrialization until the early 1960s. Its chief interest was as a source of revenue (through taxation schemes, including commodity export taxes) to finance the urbanization and industrialization which they believed were the keys to development.

This view of agriculture as a source of input to industry is apparent in the dual economy model propounded by Arthur Lewis (1954) and the more extended and formalized version of J. Fei and G. Ranis (1964). These theories consider agricultural to be the traditional sector and a supplier of low-wage labor required for industrialization. Ricardo, an English-born Dutchman (1772-1823), had developed a model that foresaw increases in population and labor supply putting such pressure on land that increases in food prices and land rents would hinder industrialization and decreases in wage rates would result. This constraint on the economy caused by the pressure of population on land is termed “the Ricardian trap.” This theory informed in that of Fei and Ranis.

Such downplaying of agriculture was despite the clear reality that in non-industrialized countries the agriculture sector was by definition the center of economic activity and the locus of employment for most of the population. A change came in 1961, when Johnston and Mellor (1961), in a landmark analysis, explored the role of the agricultural sector within the larger economy. They saw the same bottleneck that Ricardo had seen, but they also saw an unappreciated resource and suggested that in the push for development, agriculture should be attended to as a complement to industrialization not as an adversary. While they agreed that economic development would increase demand for agricultural products and that lack of agricultural supply could inhibit development, they also theorized that rising income in the rural sector could stimulate industrial expansion by supplying labor, capital, foreign exchange and food, as well as markets for domestically produced goods.

Johnston and Mellor introduced the concept of agricultural modernization through technological change which posits a theoretical escape from the pressure on land posed by the Ricardian trap (Hayami and Ruttan, 1985: 324). The benefits of technological change was supported in the Schultz-Hopper hypothesis (Schultz, 1964) which maintained that traditional agriculturalists were efficient resource allocators who were capable of recognizing and utilizing innovation that was useful. Hayami and Ruttan (1985) expanded on this by responding that innovation would not create economic return if appropriate institutional support were not present. They stressed the importance of public

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21 The importance of institutions to development is a theme that has waxed and waned over the years and is today very much at the forefront, as is more thoroughly discussed later in the paper.
agricultural research and experiment systems appropriate to the environment of the developing countries.

One stellar example of technological innovation was the “green revolution,” which is the term applied to the discovery by an international research institute in the 1960s of successful methods for dramatically increasing agricultural output, through high yielding varieties and through carefully managed application of inputs. Eventually the “green revolution” process came under criticism for several reasons. Its technologies work only under certain conditions so that many farmers in many parts of the world reap no benefit. Sub-Saharan Africa, for example, has seen little benefit. Some argue that the breakthroughs favor larger, more capital intensive farms over smaller, more labor intensive ones, although Hayami and Ruttan (1985) rebut these charges. Criticism has also been aimed at the negative environmental effects of the chemical inputs required.

Through the work of these and other agricultural economists the sector gained prominence during the neoclassical resurgence. Many of the SALs which were the hallmark of that period carried conditionalities directed at structural adjustment of agricultural sectors. This was especially so for Sub-Saharan Africa, the least industrialized and most agriculturally dependent region. More recently, when the World Bank shifted its development strategy to emphasize poverty reduction, the sector attracted renewed attention because of the fact that the majority of the poor live in the rural sector. The World Bank estimated in 1984 that of 800 million people living in absolute poverty in the less-developed countries, 640 million (some 80%) were rural.

Despite this interest and awareness, the resource that Johnston and Mellor had recognized continued to be underutilized. Many rural poor remained underemployed and unable to contribute economically. The considerable consumer demand they represented continued to be unrealized. Instead, they were a drag on the industrialized sectors for which they should have been supplying food. At the same time, they continued to produce the primary commodities that were the economic bedrock for most developing countries and a source of vital foreign exchange and tax revenue.

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22 In early 2001, the creation of a strain of rice called NERICA (New Rice for Africa) was announced by the West Africa Rice Development Association, a research center connected with the World Bank coordinated Consultative Group on International Agricultural Research (CGIAR). http://www.cgiar.org/index.html

23 The environmental ramifications of many aspects of development efforts are a continual magnet for criticism and controversy.

24 However, as is noted later, this renewed interest in the poverty of agriculture did not translate into increased lending.

25 Recent Bank estimate is 70% (World Bank, 1997c).
**Structuralism and Dependency**

Structural analysis, or “structuralism,” attempts to identify rigidities or other structural limitations in an economy that impede the changes that development policy measures are meant to bring about. It has been applied to various countries in various regions of the world, but the Latin American version is the most notable, primarily for historical reasons. Historically Latin America was highly dependent economically on the export of primary commodities and has experienced unstable growth. This instability was due to low price elasticity of demand and fluctuating production as well as to world events such as the two World Wars and the Great Depression. Because of the low income elasticity of demand for their products, they also faced low demand growth.

But there is another reason why Latin America is closely associated with structuralism, the work of Argentinean economist Raul Prebisch who is mentioned above in connection with “export pessimism.” He was an early Latin American structuralist whose analytical work and position at the UN Economic Commission for Latin America (ECLA) is largely responsible for the prominence of this concept. He perceived declining terms of trade for primary commodities and argued that industrialization was required for economic development. In 1950 he became Executive Secretary of ECLA and led its economists in wrestling with actions that would accomplish this.

They put forward the “center-periphery” concept. It stipulated a world economy in which peripheral sectors characterized by low income co-exist in an economic system with central sectors characterized by high income. The periphery’s products are agricultural and primary commodities, undifferentiated goods subject to market competition. The center, on the other hand, produces industrial goods that can be differentiated and therefore marketed monopolistically. These differences result in worsening terms of trade and external deficits for the periphery and consequent structural unemployment. The dominant center is able to maintain its relative advantage so that the benefits of industrialization remain out of reach of the periphery. According to this scenario, persistent underdevelopment is a structural condition in the periphery resulting from its interaction with the center. The periphery requires protection because of its lower industrial productivity levels relative to those of the center.

To provide this protection and counteract the structural disadvantage of the periphery, the ECLA economists endorsed ISI, discussed above, and argued that the main policy instruments should be high tariffs for industrialized goods and “industrial programming.” “Industrial programming” was an approach even today, Latin America seems to be struggling with this problem (Hausmann and Gavin, 1995).
constructed around investment planning and coordination. Effectively this was state intervention through investment planning. ECLA economists also were opposed to anti-inflationary advice and conditionalities imposed by the IMF because they believed that strict monetary policy sacrificed growth in favor of stability, a trade-off they did not like. Their willingness to accept monetary expansion and associated inflation as a price of structural change was a defining characteristic of the Latin American structuralists.

This orientation, inward-looking and conducive to severe inflation, could not stand up to the macroeconomic dislocations of the late 1970s and 1980s, including oil shocks and debt crisis. The impact of hyper-inflation and external debts on the Latin American economies was so severe that the 1980s are sometimes referred to as “the lost decade.” Eventually Chile broke with the structuralist approach and accepted the neoclassicist approach under technocrats called “Chicago boys.” Soon, other countries followed, signaling the end of structuralism.

Dependency theory is closely related to structuralism and emerged somewhat as a reaction to perceived limitations of the Latin American structuralists. Like structuralism, dependency theory assumed a center and a periphery, but unlike the structuralists, dependency theorists characterized interaction between them in terms of power rather than trade. They were attuned more to ideological than to economic facts, paying explicit attention to the political economy effects of capitalist development on the periphery. This approach is associated most commonly with Fernando Henrique Cardoso, a Brazilian sociologist whose work dates from the mid-1960s. Many dependency theorists were sociologists and political scientists and their theories had serious political, even ideological, overtones. They had strong elements of the Marxian theory of capitalism. Some of their solutions required transformation of international economic interaction; others advocated a “de-linking” from the international system.

As with structuralism, there are variations to dependency theory and applications to other geographic regions. German born Andre Gunder Frank (1969) became a well-known proponent, due perhaps to the access to Latin American debate he provided through his English writings on the subject. Frank believed that underdevelopment in the periphery was consequent to a hierarchical chain of metropoles and satellites created by capitalism, each level

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27 The name derives from the fact that many of them were graduates of University of Chicago.
28 Mr. Cardoso was president of Brazil from 1995 until October 2002.
29 See, for example, Cardoso (1977).
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extracting surpluses from the one below. From this he hypothesized that the “development of underdevelopment” was inevitable within the capitalist system. This thesis was explored also by Theotonio dos Santos, the Brazilian theoretician who provided the most widely quoted definition of dependence: “Dependence is a conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of others...when some countries can expand through self-impulsion while others, being in a dependent position, can only expand as a reflection of the dominant countries, which may have positive or negative effects on their immediate development” (dos Santos, 1970: 289-290).

An even more radical view was held by a Marxist Paul Baran, one of the earliest and most influential dependency theorists. He believed that dominant interests in advanced countries were actually aware of, threatened by and adverse to the potential for economic development in underdeveloped countries (Baran, 1957). Historically, colonies were in the weak, dependent periphery and imperial powers were in the dominant center, later this was applied to the developed west (north) as dominant and the undeveloped south as dependent.

Because of the power relationship between the dominant and the dependent, dependency theorists did not accept the concept of “modernization,” that development would spread from developed countries to the underdeveloped. In fact, their belief was that the constraints on development in the periphery were more accurately explained by the role of peripheral countries in the international capitalist system rather than by their domestic situation. The concerns of the center-peripheral and dependency theorists can be heard today in the vehement opposition to “globalization.”

New International Economic Order

Concurrent with the neoclassicist thread with its distrust of government involvement and its efforts at structural reform, the proponents of structuralism and dependency were creating a countervailing movement. Advocates of managed primary commodity markets were organizing to promote serious government intervention. These were the low-income countries themselves who were influenced by “pessimism” theories regarding deterioration of terms of trade for less developed countries (LDCs) (Prebisch, 1950 and Singer, 1950). At a summit meeting of non-aligned nations in Algiers in 1973 they initiated a political drive to improve their conditions under the rubric “The New International Economic Order” (NIEO). The measures they proposed included establishment of international buffer stocks, the creation of a common fund for
commodities to finance those stocks, multilateral trade commitments, and compensatory financing to stabilize export earnings. The NIEO was designed to counter the long-term declining terms of trade predicated by the structuralists. The intention of the low-income countries (the “south”) was to act jointly as a power block to insist on international measures that would favor their economies, for the most part primary commodity based.

The NIEO that took form in the early 1970s was actually a coalescence of the ideas and campaigns of Raul Prebisch, who became the first Secretary-General of UNCTAD in 1964 after leaving ECLA. He was a driving force behind its formation and a main factor in turning it into a standing organization rather than a one-time event. Many, though not all, of the NIEO concepts were brought by Prebisch to UNCTAD and the international trading arena from ECLA. Through the 1950s and the 1960s he had developed theories and a program based on them which were influential among Latin American governments. These theories, modified by political constraints and the lessons of experience, were transformed into the New International Economic Order.

The NIEO was formalized by UN resolution at a special General Assembly session in spring 1974. Three separate resolutions were adopted, one of which was the Declaration on the Establishment of a New International Economic Order. UNCTAD, a unit set up by the UN to help developing countries by exploiting the link between trade and development, adopted the NIEO at its fourth conference (UNCTAD IV) in Nairobi in 1976 and established the bureaucratic machinery for implementing an integrated program for commodities. The community of development economists was from the outset unenthusiastic about the NIEO. In addition, it became clear that the eventual costs would be prohibitive. For these reasons, and because of divergent interests among the countries in the “south,” the NIEO withered away. The Common Fund for Commodities headquartered today in Amsterdam is a truncation of NIEO. The NIEO concept currently only lingers in such milieu as commodity organizations.

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30 Mr. Prebisch left UNCTAD in 1968, he died in 1986.
31 In the 1960s he recruited top economists Alfred Maizels of Britain and Jan Tinbergen (future Nobel Laureate) of the Netherlands to work on commodity agreements, starting with a buffer stock agreement for cocoa (Love, 2001).
32 Yugoslavia, Algeria, India and Iran drafted a position paper for the special session which effectively became the NIEO resolutions (Johnson, 1987).
33 It was established in 1980 to finance the projected Integrated Program for Commodities. It came into force in 1989 but was never put to the purpose intended. Its focus remains on commodities and currently it provides funding for research and project work on a commodity rather than country basis. At this time its declared aim is to assist developing countries and countries in transition transform from regulated to liberalized market systems and participate in the global economy. Another aim is to address market failures.
34 The recent (failed) attempt by the Association of Coffee Producing Countries (ACPC) to institute a retention scheme is one example.
B. Reformist/Basic Needs

Working alongside the mainstream economists, both the pioneers and the neoclassicists, there were analysts who were uncomfortable with development orientations overly focused on growth. Growth-oriented theories posited a “trickle down” effect by which the poor would be lifted out of poverty as a by-product of growth. But some observers noted that in spite of high growth in the period of the 1960s, the first UN Development Decade, “trickle-down” was unsatisfactory. To this group this meant that emphasis on growth was missing the point. Gunnar Myrdal (1956: 47-51), who shared with Prebisch and Singer a pessimism about the impact of market forces on equality, devised a world anti-poverty program that emphasized equality rather than growth as a goal (Myrdal, 1970). A 1969 speech by Dudley Seers, a Cambridge development theorist, sums up the concern:

The questions to ask about a country’s development are therefore: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have become less severe, then beyond a doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, and especially if all three have, it would be strange to call the result “development,” even if per capita income had soared (Seers, 1969).

This view shifted and broadened in perspective from a concern with inequality among countries to encompass inequality among people within countries as well. Framed this way, the problem took on dimensions that it had previously lacked but which have remained and are very much in the forefront today. The economic impact of environment, education, employment, health and inequality came to be integrated in this concept. This attention to living conditions as opposed to growth generated three directions of thought: 1) an attempt to improve standards of living in the absence of an enlarged economic pie, the “Basic Needs” approach; 2) a reinvigorated emphasis on institutions and social capital; and, 3) attention to the role of human capital in the development process. “Basic Needs” is considered here. The other two directions are presented in the “New Views” sub-section below.

The underlying hypothesis of the “Basic Needs” campaign was that a high level of basic needs can be satisfied at a relatively low level of per capita income. The term was first mentioned in the early 1970s and gained prominence
as part of an International Labor Organization (ILO) proposal in 1976. It became best known when Robert McNamara adopted it as a World Bank strategy in the 1970s. “Basic Needs” was defined as two elements: 1) the minimum requirement of a family for its own consumption, including but not limited to food, clothing and shelter; and 2) essential services provided by and for the community, including drinking water, sanitation education, and health facilities. Satisfying this would require significant government involvement and was compatible with the prevailing emphasis on the role of the state as a provider of services to improve the conditions of the people. The experiences of several countries were cited as support, but the Chinese economic experience under Mao-tse Tung is thought by some to have been the most influential.

This concept helped bring international attention to the issue of poverty and served to encourage important research on it. The World Bank was at this time embracing poverty reduction as a strategic objective, it did not really pick up the “Basic Needs” concept until the late 1970s. Its initial program response to the interest drawn by “Basic Needs” was the introduction in 1974 of an income enhancement program called “redistribution with growth” (RWG). Unlike “Basic Needs” which was consumption based, RWG was an incremental program whose results were gradually to be felt over time. It was intended to attack poverty and encourage development through integrated urban/rural projects, but the associated complexity produced disappointing results. Spurred by the resultant criticism, the Bank turned to the “Basic Needs” approach which was more direct and was thought to be quicker and more efficient than income enhancement.

The World Bank’s stated aim became “to increase and redistribute production so as to eradicate deprivation that arises from a lack of basic goods and services…The demand now is to put man and his needs at the center of development” (Streeten and Burki, 1978: 411). Under “Basic Needs”, as with RWG, the World Bank effort continued toward integrating rural and urban development programs. However, as with RWG these programs were complicated, involving various segments of the government and having multiple objectives\(^\text{35}\). As with RWG they were not very effective. As will be explained, the intent to alleviate deprivation that drove these programs is once again being again proclaimed by the Bank. Achieving it at that earlier stage could not be successful. Research was carried out in 1978-80 on strategic design but it seems that the Bank was not able to fully come to grips with implementation before the tide turned.

\(^{35}\) Often called “Christmas tree” projects.
By the early 1980s, the concept was fading. Among those who supported it, fundamental differences appeared as to the preferred definition of basic goods and how the program should be applied in the urban and rural sectors. Among those who did not support it, strong criticism was voiced, such as this accusation by A. de Janvry, “The basic needs approach...has absolutely no theoretical foundation” (de Janvry, 1981: 258). At this time also, specific problems were being identified: The institutional context was inadequate, a problem common to approaches requiring government involvement. It was excessively oriented toward agriculture yet failed to achieve a reliable food surplus. Beyond this, deeper analysis was confirming serious theoretical problems; for example, that improvements in domestic terms of trade could benefit the poor more effectively than could direct consumption intervention (Oman and Wignaraja, 1991: 115-120).

5. New Views

When the optimism of the pioneers failed to be justified and the assumptions of the neoclassicists lost credibility, concepts that had been hovering around the edges of development economics began to move to center stage. Institutions, long recognized as significant but never really spotlighted, and human development, advocated by “reformists” as an alternative to growth as the objective, emerged as hitherto under-appreciated, fundamental elements of the development process. Approaches built on these foundations gained credence and continue to resonate strongly in the field of international assistance, both theory and practice.

A. Institutions and Social Capital

Analogous to the pioneers’ assumption that the difference between developed economies and non-developed economies was the presence or absence of industrialization, there are those in the very forefront of development thinking who postulate that the difference lies in the presence or absence of salutary institutions. This line of thinking is very forceful today, as will be seen in later chapters.

Reference to institutions, to the importance of institutions, and to obstacles posed by unsuitable institutions is scattered throughout the history of development economic thought. Perhaps one of the earliest modern references is in the book The Protestant Ethic and the Spirit of Capitalism written by Max Weber and published in 1905. Agriculturalists referenced institutions in the context of technological innovation (Hayami and Ruttan, 1985). The
pioneers did so in the context of government planning. The neoclassicists did in the context of government interference. Institutions are the very core issue for the reformists, with their emphasis on education, health, employment and equity. And the failure of the “Basic Needs” campaign of the 1970s was largely attributed to institutional inadequacy.

Over the course of fifty years, as theory yielded to new theory and practical applications disappointed, one after another, the realization took hold that perhaps institutions were of an even higher order of importance than had been thought. Perhaps, it came to be thought, underdevelopment is institutional failure. There are a number of prominent economists who contributed to this new paradigm, including Akerlof (1984), Coase (1937, 1960), North (1990), Olson (1965), Stiglitz (1989) and Williamson (1975, 1985). The success of the East Asian economic miracle, mentioned above in the context of neoclassicism, prompted economists to examine whether the institutions characteristic of that region — trust, cooperative attitudes among economic agents and effective judiciary systems — were elements key to its economic growth. This possibility was re-enforced by events in an entirely different region, the former Soviet Union. When a coordinated, “big bang,” attempt was made to introduce a market structure into those transitional economies, it failed spectacularly. An analysis of the collapse clearly revealed that a lack of institutional support was the culprit. “The experience of transition, especially in the countries of the former Soviet Union, vividly illustrates that market reforms in the absence of effective domestic institutions can fail to deliver growth and poverty reduction” (World Bank, 2001e: 32).

A look at any dictionary will reveal multiple definitions for the word ‘institution.’ For development economists, however, the most influential definition is that of Douglas C. North: Institutions are “the rules of the game” (North, 1990: 1). “Game” here is far-reaching but basically means written laws and unwritten conventions sanctioned by members of society. Institutions can include organizational rules, formal laws, and informal norms. This definition is supple enough to encompass constructive rules, destructive rules and no rules at all.

Subsumed within institutions is the concept of social capital. Social capital has been defined as the coherence of a society’s values and the capacity they afford for mutually beneficial interaction (Collier, 1998: 3). Trust, cooperation,

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36 See, for example, papers in Hayami and Aoki (1998) and Stiglitz (1996).
37 In Russia this tactic was called “shock therapy” and was largely co-ordinated by Jeffrey Sachs, at that time Director of the Center for International Development at Harvard University. From December 1991 until January 1994 he served as advisor to the Russian government on privatization of the economy.
coordination and reciprocity are examples of civil social capital, as are norms, informational networks and social sanctions (Hayami, 2001: 288-291). Civil rights and good governance are examples of government social capital. Social capital can augment the positive effects of both human capital and physical capital, increasing their return. Capital is an economic input whose application increases value. Orthodox economics traditionally ascribe the term “capital” to tangibles. There has, however, been a growing awareness that some intangibles can create value and contribute to economic growth. They have come to be called “social capital” and “human capital.” (Human capital is discussed in the following sub-section.) Some economists quarrel with the idea of social capital; firstly, because it is not capital in a true economic sense; and secondly, because it is defined in such a way that a negative effect on development can be assumed as readily as a positive one (Arrow, 2000: 3). There is no question, however, that the ideas of social capital, institutions and culture interact and overlap. Cultural values can be elements of social capital and North believes that cultural beliefs are a basic determinant of institutional structure (North, 1990). According to Landes (1998: 516-17), “If we learn anything from the history of economic development, it is that culture makes all the difference.” A similar note is sounded by Meier (1995: 83). To fully comprehend institutions, then, it may be necessary to go beyond economics to an interdisciplinary approach involving anthropologists, historians, political scientists, psychologists and sociologists. As will be described below, the World Bank has adjusted its staff composition so that now a significant percentage has social science expertise.

These concepts and theories opened a new way of perceiving, examining and understanding economic development issues but their actual application to development assistance is almost by definition not an easy task. What can be derived is that institutions and social capital are primary elements underlying economic development. This, in turn, suggests that development assistance should focus on inducing and strengthening institutions and, hence, on increasing social capital. As for policies, they should be modified to encourage appropriate technical and institutional innovation (Hayami and Ruttan, 1985: 416). How to translate this into projects on-the-ground is a paramount question and unfortunately this question has not been satisfactorily answered. Promoting changes in laws and regulations and in government bureaucratic structure are some of the possibilities. This path, however, risks being construed as too

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38 It can also do the reverse, and Collier recommends promoting those aspects which are most progressive and rectifying those that are regressive (Collier, 1998: 31).
intrusive and interventionist in the domestic political structure of developing countries.

An avenue perhaps even more promising leads in the direction of rural organizations, such as cooperatives. Based on his extensive field work, and extending the analytical framework of institutions and social capital, Hayami (2001: Chap. 9) considers that communities, especially those in the rural areas, could play an important role in economic development. This resonates with the notion of Binswanger and Deininger (1997) that farmers need to organize to acquire the political power to influence policies. Some development organizations, including the World Bank, were reluctant to accept this because of failed attempts in the 1960s and 1970s to support cooperatives in Africa. However this approach regained credibility\textsuperscript{39} with the recognition that the past failures were due to the fact that most cooperatives in Africa had been established for political purposes or to strengthen government marketing boards and were not true “cooperatives.”

Despite such uncertainty about operations, the primacy of institutions, established theoretically in research dating back several decades, is currently widely accepted within the development assistance community. Extensive analysis is on-going to find effective, practicable ways of transforming unsuitable institutions so that aid can work. More on this topic is presented below.

B. Human Development/Human Capital

In the view of its proponents, human development is the ultimate objective of economic development as well as “the best means available – for promoting development” (Griffin and McKinley, 1992). Human development advocates believe that human development not economic growth should be the objective of economic development and that increasing human capital is a better way to achieve development than increasing physical capital. Because of this conviction they have been keenly interested in broadening economic development indicators beyond the commonly used per capita measurements of growth.

One of the first such systems was developed in 1970 by the United Nations Research Institute for Social Development (UNRISD)\textsuperscript{40}. Another was

\textsuperscript{39} The community-driven development (CDD) approach, which became one of the Bank’s main project types since around 2000, is an application of this strategy.

\textsuperscript{40} Established in 1963, headquartered in Geneva, Switzerland, UNRISD is an autonomous United Nations agency that carries out research on the social dimensions of contemporary problems affecting development. http://www.unrisd.org/
developed by Morris D. Morris (1979). It was called the Physical Quality of Life Index (PQLI) and was based on three indicators: life expectancy at age one year, infant mortality and literacy. These did not gain wide currency but they presaged the creation in the late 1980s of a system that did, the Human Development Index (HDI). This was developed under the auspices of the United Nations Development Programme (UNDP) by Mahbub ul Haq (considered the architect of the HDI) in collaboration with Amartya Sen and Meghnad Desai. It has four components:

- life expectancy at birth,
- adult literacy rate,
- combined enrolment rate in primary, secondary and higher education, and
- real income measured in purchasing power parity.

The HDI has become a widely accepted and respected indicator. It is very influential because it provides a previously lacking measurement tool needed by non-orthodox development theorists if they are to assert legitimacy. The HDI epitomizes the human development approach and because it assesses factors that fall within today’s definition of institutions, it adds weight to the argument that institutions are profoundly fundamental.

Human development was a new ingredient in development policy prior to 1980 as a component of “Basic Needs” and it re-emerged after 1990 with the publication of the World Bank *World Development Report* of 1990 subtitled “Poverty” (World Bank, 1990). During the decade of the 1980s, reformist proponents who insisted on looking differently at the issue of underdevelopment, such as Seers (1983) and Streeten (1995), were forced to yield before the hard reality of international macroeconomic crises. The neoclassical resurgence shouldered reformism out of the economic arena and into the sphere of other organizations, notably those within the United Nations family such as the United Nations Development Programme (UNDP).

Although the pre-1980 effort by reformists to move human development into the mainstream of economic analysis was stymied, it did have important repercussions: It generated much discussion. In highlighting poverty rather than growth as the essence of underdevelopment, it laid groundwork for later attention to that issue. And it directed attention to an examination of the significance of human capital. Human development enhances the health,

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41 Beginning with the first issue in 1990, it has been a part of the annual UNDP Human Development Report.
education, skills, and other capabilities of people, thereby by increasing human capital.

The importance of human capital received strong theoretical support from the “New Endogenous Growth Theory” mentioned above in the context of alternatives to neoclassicism. According to this theory growth can come from within a system (endogenously) when economic activity creates new knowledge; thus, production functions would have increasing returns because of specialization and investments in knowledge capital. (Romer, 1986, 1990, Lucas, 1988). The key to this process is a cumulative magnifier effect of new knowledge; it does not stay within the confines of the firm that creates or exploits it but ripples through the economy so that the efficiency of labor of a firm does not depend only on that firm’s investment but on the knowledge produced from the investment of all firms (Hayami, 2000: 171-2). This emphasizes the contribution to economic growth of knowledge-producing, human capital-intensive sectors.

Amartya Sen influenced this thinking by contributing the concept of capability to function. He continued the line of economists (discussed above as “Reformists”) who saw development in terms of quality of life rather than quantity of growth. Sen used the term “deprivation,” a lack of access to entitled capabilities which he described in the following words: “…what he can or cannot do, can or cannot be” (Sen, 1995: 11). A genuine capability to function—to choose and to react—is necessary to quality of human life and hence to absence of deprivation. Imposed benefit or benefit offered without alternative is not acceptable because there is no capability to function. Deprivation is not relative, it is absolute. Sen’s entitled capabilities include nourishment, shelter, community life, freedom to travel and freedom to associate and are clearly a legacy of the “Basic Needs” idea. When asked to characterize a successful economy, he told an interviewer, “This concerns how the worst-off members of society share in that society. Neglect of people at the bottom of the ladder would indicate a failed economy” (Longworth, 1999).

The complexity and interrelatedness of development constituents is very apparent here. Education is a key to capability because it is an entree to empowerment, the ability of people to influence forces that affect them. There is clear linkage here to the “empowerment” component of current poverty reduction strategy, as discussed below. There is also relevance to institutions as often the forces that affect people are “the rules of the game.” Sen looked

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42 Appendix 2 and Box 5 in Chapter IV present an array of “Elements of Development” and deal further with the interrelated complexity of the constituents of economic development.
closely at what creates social convention and has analyzed how the preferences of society as a whole relate to the values of individuals. One of his conclusions is that for capability to function to be realized, an environment of freedom, allowing free choice, is essential. For this reason he has equated development with freedom (Sen, 2001: 506).

These concepts have enormous currency today. Within the community of international organizations, after the hiatus of the 1980s, the concept of human development reappeared with considerable momentum. It has been adopted by the World Bank and now figures prominently among its assistance objectives.
Whether economic development can be induced by development assistance is revealed in the results of implementation. A number of organizations are active in the development assistance field at a number of different levels; national, bilateral, regional, international, non-governmental and private. Though some of them have ancillary expectations, perhaps related to ideology or foreign policy, all of them seek improved economic conditions for the aid recipients. This and next two sections discuss development assistance in practice with a focus on the World Bank. This section will review the evolution of the Bank’s development assistance practices, the trends in its actual lending pattern and how and why those patterns have changed. The next section will look at the current processes, strategies and lending instruments of the World Bank, and Section V will consider on-going issues related to assistance.

The focus is on the World Bank because it epitomizes development assistance and is the largest and most influential player. Tracing its lending and strategies is a useful proxy for a survey of the evolution of development assistance ideas and strategic thinking and the relationship between them. The prominence of the World Bank somewhat obscures the fact that other organizations have participated significantly in framing the operative concepts and continue to be very active in the field. These include the Organization for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), Department for International Development (DFID) of the UK, United States Agency for International Development (USAID), and the United Nations.

The United Nations, however, though very broad in scope, is not a

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43 This section also draws from an extensive bibliography but has relied heavily on certain works including the following: Shihata (1991, 1995); Kapur, Lewis and Webb (1997); numerous articles from the Financial Times newspaper; and various World Bank publications including Annual Reports and World Development Reports.
development organization. It is essentially a forum for debate and negotiation and a conduit for social services. UN development related activities flow through its conferences and commissions\textsuperscript{44}, but also through programs, funds and specialized agencies. The most prominent of these is United Nations Development Programme (UNDP), but others explore various aspects of the development issue, such as the United Nations Conference on Trade and Development (UNCTAD), United Nations Industrial Development Organization (UNIDO) and the United Nations Population Fund (UNFPA).

1. Beginnings and Background

The World Bank and its sister organization the International Monetary Fund were set up by the 1944 Bretton Woods Agreement. The Articles of Agreement which constitute the legal framework of the Bank provide that it is to facilitate capital investment in member countries for productive purposes through its own resources or by supporting private ones\textsuperscript{45}. One of its first concerns was post-war reconstruction and one of its first projects was in France, but the Bank also made funds available to non-European countries which had participated significantly in the victorious war effort.

In the late 1950s and 1960s, as colonies gained independence, this role was expanded to include international financial help for the newly created states. The World Bank was able to increase its loans substantially to very poor countries, including Sub-Saharan Africa, after International Development Association (IDA) was created in 1960. The cold war, ongoing at that time between the US and the former Soviet Union, was important to the Bank’s interest in assisting the newly independent countries because of the belief, on the part of the US in particular, that poverty encouraged developing countries to adopt a socialist stance. This belief was re-enforced by events in Cuba in the late 1950s (the revolution) and early 1960s (the missile crisis).

The United States has been a strong influence on the World Bank since its inception. To some degree, this influence results from its post-War “free-world” leadership and the aura of its superpower status. More concretely, the US has always been the Bank’s largest shareholder and by tradition the president of the World Bank is an American, selected by the incumbent administration. (The head of the IMF is traditionally a European, selected from among its European members.) Less well known, but equally important is the prerogative it enjoys by virtue of both of the above of placing selected people in important positions.

\textsuperscript{44} The UN and its agencies sponsored more than 12 major conferences in the decade of the 1990s.

\textsuperscript{45} Relevant excerpts from the Articles of Agreement can be found in Appendix 1.
positions. Prominent economists of the US administration’s choosing can and do mold the prevailing thinking. For this reason, changes in US administrations, especially when they entailed changes in the incumbent political party, have tended to mean changes in the World Bank. The effect has been such that, along with prevailing theory and reaction to project effectiveness, both discussed in this chapter, the sitting US administration has been a primary molder of World Bank policy.

From its beginning, the Bank has shadowed mainstream development theory, interpreting its mandate in ways closely corresponding with the prevailing approaches. It subscribed to the belief in government-led development and large infrastructure projects during the period of the pioneers. This was replaced by a belief in the power of free markets in the neoclassic resurgence (the Washington Consensus). Currently, the emphasis is on social/cultural factors and institutional design (the post-Washington Consensus).

2. World Bank 1950-1990

During the period of the pioneers, the World Bank consisted only of the International Bank for Reconstruction and Development (IBRD) and functioned essentially as a bank. The principle guiding theory was that developing countries were poor because they lacked capital. The prevailing development thinking at the time (discussed in the preceding section and shown in Figure 1), along with the success of the Marshall plan and the Bank’s own lending to Western Europe, gave support to this strategy. The Bank worked closely with client governments to provide financing for specific investment projects. This has been called the era of the engineer and large-scale project lending was the primary assistance vehicle. The lending pattern deployed however, could not address the crises that arose and the results were disappointing. Confidence in the capability of central governments to foster effective development was diminished by disappointment and was replaced by a confidence in the working of markets.

One of the prime success stories of the period of pioneers was Japan. As did Western Europe, Japan faced serious economic problems with high inflation and diminished production after the end of World War II. Japan implemented

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46 The position of Chief Economist is particularly strategic. For example, Anne Krueger in the 1980s, Lawrence Summers in the early 1990s, Joseph Stiglitz in the late 1990s.
47 Currently at the Institute for International Economics in Washington
48 The IBRD unit of the World Bank raises capital through the sale of bonds on the international open market backed up by callable capital. A description of the history and process of World Bank bonds is given in Appendix 3.
industrial policies and with loans from the World Bank managed to strengthen its infrastructure, which coincided with the Bank’s lending strategy. During the 13-year period of 1953-1966 Japan received total of US$860 million in loans and used it mainly for the development of power generation, ship building, steel mills, railroad and highways. The Bank’s loans were effective not only in terms of alleviating foreign currency shortage Japan faced at that time but also in terms of technology transfer. This relationship is the subject of Chapter VI.

The establishment of the IDA in 1960 marked a watershed in the Bank’s scale and pattern of operations. IDA is the soft loan, or concessional, lending facility of the World Bank Group and it makes funds available almost interest free to non-credit worthy governments who cannot qualify for IBRD loans. Opposition to the creation of this unit and the inclusion of it within the World Bank structure was opposed from both inside and outside the Bank because of the likelihood that it would change the nature of the organization. The reasons for its ultimate incorporation included the following (Kapur et al., 1997: Chapter 5, 17):

- There was a strong move by the Soviet Union to create an organization such as IDA within the UN system which the Bank and the US wanted to forestall;
- India, the Bank’s largest borrower at that time, was experiencing a severe foreign exchange shortage but could not afford IBRD loans beyond what it had already received;
- The Bank became increasingly interested in lending to developing countries because loan volume to wealthier countries, such as Western Europe and New Zealand, were declining; and
- No loans at all were available to newly independent African countries because they could not afford to borrow on IBRD terms.

IDA is funded differently than the IBRD. Rather than raising money on capital markets through the sale of bonds and earning market-rate interest on its loans, as does the IBRD, the IDA is subject to a triennial “replenishment” by its donors. This means that funding must be recommitted by the donors every three years. Each replenishment is concluded through negotiations on all aspects of IDA financing. IDA 13 (the thirteenth replenishment) was concluded in July 2002 (IDA, 2002).

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49 As a matter of terminology, IDA sourced financing is referred to as “credits,” while IBRD sourced financing is called “loans.”
In this early period there was the genesis of later emphases and orientation. McNamara, who became the Bank’s president in 1968 was influenced by the social programs of the Kennedy and Johnson administration and he set employment creation and poverty reduction as objectives of the Bank along with economic growth. His thinking is reflected in a succession of speeches, in Stockholm in 1972, Nairobi in 1973, and Washington in 1974, in which he declared and reiterated that poverty reduction was a Bank objective. RWG and then “Basic Needs” were the strategies.

However, as discussed above in Chapter II, this approach was fading by the early 1980s and mainstream efforts toward economic development became focused on markets. This focus was prompted by empirical and theoretical studies and by various world events. The change in government to a more conservative one in the UK and especially in the US probably also encouraged the neoclassical turn to market reform and privatization. The 1970s and 1980s were periods of severe macroeconomic upheaval caused by two oil shocks, debt crises which grew out of petro-dollar recycling, volatility in commodity prices, the end of dollar convertibility to gold, and abandonment of fixed exchange rates. In the face of such turmoil, the belief grew within the Bank that the rule of the markets should be honored. It is said that the engineers were replaced by economists, and the major reorganization of 1986-87 (during the presidency of Barber Conable) is the milestone for this change. The vice president at that time, Anne Krueger was a champion of neoclassical thinking within the Bank, especially in the area of trade liberalization. The operative belief was that structural dislocations would not correct themselves; therefore structural adjustment measures were necessary and policy-based lending was in order.

The dominant paradigm of this period was the “Washington Consensus.” According to John Williamson, a former World Bank regional chief economist who coined the term, this specifically referred to the “lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries as of 1989” (Williamson, 2000). But it generally has come to mean the assistance pattern of the 1980s according to which the international financial institutions made badly needed assistance conditional on market liberalizing policy changes. (See Box 1 below for the objectives of the Washington consensus).
Box 1: The Washington Consensus

- Fiscal discipline
- Redirection of public expenditure toward education, health and infrastructure investment
- Tax reform – broadening the tax base and cutting marginal tax rates.
- Interest rates that are market determined and positive (but moderate) in real terms.
- Competitive exchange rates.
- Trade liberalization – replacement of quantitative restrictions with low and uniform tariffs.
- Openness to foreign direct investment.
- Privatization of state enterprises.
- Deregulation – abolishment of regulations that impede entry or restrict competition, except for those justified on safety, environmental, and consumer protection grounds, and prudential oversight of financial institutions.
- Legal security for property rights.

Source: World Bank, 2001e

The goal became structural adjustment with growth, to the extent compatible with stability. The Bank and IMF came up with innovative structural adjustment instruments to address financial problems arising from severe debt. The debt was due to oil price hikes and bad macroeconomic management in Africa and Latin America and the new instruments were designed to encourage client governments to change or modify their policies in conformity with neoclassical thinking. This was based on the idea that the economies of many developing countries suffered from economic stagnation or even decline, especially in terms of private investment, due to the adverse impact of excessive government intervention. According to Mosley et al. (1991), these instruments were designed mainly to encourage a “retreat of the state from economic life and the opening up of economic activity, especially in agriculture.” The Structural Adjustment Loan (SAL) was introduced in 1980 and the Sectoral Adjustment Loan (SECAL) in 1984. SALs and SECALs effectively were policy-based loans extended for the purpose of supporting policy changes which had been identified as being necessary to reform either the client economy as a whole or certain elements within it. These were fast-disbursing loans in exchange for

50 From Williamson, 1993
which the client country would implement certain policy changes, a situation termed “conditionality.”

SALs were extensively implemented in agricultural sectors of Africa. Because of their debt problem, many of these countries had no choice but to accept the conditionalities imposed under structural adjustment loans. Much of the prescribed action was directed against the arrangements for handling primary commodities from production through export, including marketing boards, state ownership of processing centers, and controlled domestic prices (Meerman, 1997 and Akiyama et al., 2001). Consequently, by the late 1980s, in spite of their resistance to intervention, many governments had accepted the need to change their agricultural commodity marketing systems and policies.

Some of the main conditionalities of SALs and SECALs are given in Box 2. As World Bank ventured into policy-based lending for adjustment purposes it was moving from strictly investment finance into the broader arena of reform of national economies. This was not consistent with the Articles of Agreement which explicitly restrict Bank lending to the creation of conditions and incentives for the investment of capital for productive purposes. In order to satisfy that legal constraint, the severe balance-of-payments problems of the countries for which SALs were designed were defined as “exceptional circumstances” (Shihata, 1991: 26).

Although not usually looked at this way, the practice of policy-based lending can be seen as a reprise of the “policy dialogue” of the pioneers and a precursor of the institutional thrust of today.

3. The Post-Washington Consensus

Joseph Stiglitz, while a World Bank Senior Vice-President and Chief Economist, characterized the currently prevailing international approach to development as “the post-Washington Consensus” (OECF and the World Bank, 1997: 13). This can be summarized as follows: The explicit and overriding goal of international development effort is poverty reduction, poverty being defined in broad, multi-layered, holistic terms. To attain this goal, there must be broad-based cooperative/collaborative effort on the part of all stakeholders, including development agencies, governments and civil society. This goal cannot be attained unless client countries and poor people are shifted out of object roles as aid recipients and into participatory subject roles as assistance.

51 The two volume work by Ibrahim F.I. Shihata (1991, 1995), long time General Counsel to the World Bank, was largely devoted to explaining structural adjustment lending with reference to the Articles of Agreement.
52 Refer to Hoff and Stiglitz (2001: 360) quoted in on page 27.
**Box 2: “Conditionalities”**
Types of policy measures requested in return for SAL finance, 1980-1986

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage of SALs subject to conditions in this area</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade policy:</strong></td>
<td></td>
</tr>
<tr>
<td>Remove import quotas</td>
<td>57</td>
</tr>
<tr>
<td>Cut tariffs</td>
<td>24</td>
</tr>
<tr>
<td>Improve export incentives, etc.</td>
<td>76</td>
</tr>
<tr>
<td><strong>Resource mobilization:</strong></td>
<td></td>
</tr>
<tr>
<td>Reform budget or taxes</td>
<td>70</td>
</tr>
<tr>
<td>Reform interest rate policy</td>
<td>49</td>
</tr>
<tr>
<td>Strengthen management of external borrowing</td>
<td>49</td>
</tr>
<tr>
<td>Improve financial performance of public enterprise</td>
<td>73</td>
</tr>
<tr>
<td><strong>Efficient use of resources:</strong></td>
<td></td>
</tr>
<tr>
<td>Revise priorities of public investment program</td>
<td>59</td>
</tr>
<tr>
<td>Revise agricultural prices</td>
<td>73</td>
</tr>
<tr>
<td>Dissolve or reduce powers of state marketing boards</td>
<td>14</td>
</tr>
<tr>
<td>Reduce or eliminate some agricultural import subsidies</td>
<td>27</td>
</tr>
<tr>
<td>Revise energy prices</td>
<td>49</td>
</tr>
<tr>
<td>Introduce energy-conservation measures</td>
<td>35</td>
</tr>
<tr>
<td>Develop indigenous energy sources</td>
<td>24</td>
</tr>
<tr>
<td>Revise industry incentive system</td>
<td>68</td>
</tr>
<tr>
<td><strong>Institutional reform:</strong></td>
<td></td>
</tr>
<tr>
<td>Strengthen capacity to formulate and implement public investment programs</td>
<td>86</td>
</tr>
<tr>
<td>Increase efficiency of public enterprises</td>
<td>57</td>
</tr>
<tr>
<td>Improve support for agriculture (marketing, etc.)</td>
<td>57</td>
</tr>
<tr>
<td>Improve support for industry and subsectors (including price controls)</td>
<td>49</td>
</tr>
</tbody>
</table>

designers and implementers.

At this time there is throughout the donor community a very high degree of official public acceptance of this approach. This section looks at how the Washington Consensus of the 1980s, summarized in Box 1 above, gave way to the post-Washington Consensus of today.

Even while attention was fully engaged with the macroeconomic shocks of the 1980s and the neoclassic efforts to rectify them, things were happening that would significantly affect the tenor of development thinking in the 1990s and beyond. There was serious criticism of adjustment lending. Some of it questioned the theoretical rationale as mentioned in an earlier section. Other criticism was directed at the lack of clear outcomes. Conditionality became very extensive, in some cases many more than 100 conditions were set for just one SAL. Still other criticism targeted the social costs exacted by the drastic policy changes demanded.

Despite such criticisms, and while their effect on economic development remains controversial, SALs seem to have had beneficial effects, at least in the agricultural sectors of countries where price distortions were severe. A recent Bank study (World Bank, 1998) suggests that SALs are effective in countries where the government is willing to make adjustments and where institutions are adequate. However, there is an inherent limitation to a continuation of SALs because distortionary policies usually can be adjusted only once.

At the same time as the SALs were receiving criticism, large-scale development projects were also being criticized as too expensive, misguided and wasteful. The Sardar Sarovar Dam project on the Narmada River in India in the early 1990s is a famous case in point. In addition, it was coming to the attention of those who monitored economic development activity that too many Third World elite were prospering and too many poor people were not.

In 1992 Willi Wapenhans, a former vice president at the World Bank, conducted an analysis of the success/failure rate of the Bank’s lending portfolio and issued a devastating report, known as the Wapenhans Report (World Bank, 1992a). He found that more than one-third of the projects were failures. He found that the Bank operated in an “approval culture” meaning that pressure to secure loan approval overrode considerations of a project’s potential for success. According to the report, “staff perceive appraisals as marketing devices for securing loan approval (and achieving personal recognition).” The report

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53 See, for example, World Bank (1994) and Akiyama et al. (2001).
54 There have been cases where the Bank provided more than one SAL, with essentially the same conditionalities for some countries whose governments reverted back to the old policy after the initial SAL was disbursed.
55 NGOs were vehement in criticizing the negative impact of the project on environment and removal of people.
elicited a wave of calls for review, re-organization and re-orientation of the situation. The Wapenhans Report gave birth to a series of annual reviews by the Bank’s Quality Assurance Group (QAG). Entitled *Annual Report on Portfolio Performance (ARPP)*\(^ {56}\), these reviews present clear, if generalized, information on the composition and quality of the overall Bank portfolio\(^ {57}\).

Another development that was to have a long-term impact was the 1987 report of the World Commission on the Environment and Development (1987) entitled “Our Common Future.” The commission, better known as the Brundtland Commission after its chairman, Norwegian Prime Minister Gro Harlem Brundtland\(^ {58}\), was formed under United Nations auspices in 1983 to consider long-term environment strategies\(^ {59}\). Its lasting fame comes from having provided the definition of sustainable development: “satisfying present needs without compromising the ability of future generations to meet their own needs.”

The work of the Club of Rome is germane here. That group’s 1972 publication, *Limits to Growth* (Meadows *et al.*, 1972), had directly linked industrial growth in the West to depletion of non-renewable resources. Although the term “sustainable development” had appeared previously in international meetings and while there have been numerous variations since, the definition used by the Brundtland Commission resonated socially, economically, politically and environmentally. It also reinforced the idea that growth as a goal should be rethought; and, some reasoned, if that should be done then the market as arbiter should be rethought as well (ul Haq, 1976).

Some donors were not happy with the neoclassical approach to the extent that it had a libertarian bias. As with the theorists (discussed in Section II), so among the assistance practitioners, the performance of the East Asian economies became an issue. The Japanese considered that the phenomenal economic success in East Asia was to a great extent attributable to beneficent government intervention. To make this point the Japanese government asked the Bank to conduct a study of the East Asian economic development which resulted in a publication, *The East Asian Miracle* (World Bank, 1993). The study did not entirely endorse government intervention but it did find that under certain circumstances government can play an important role in economic development. This was a departure from the neoclassicist thinking of the time.

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56 The most recent issue is World Bank (2001b).
57 It also includes information on the “net disconnect,” or discrepancy between the QAG evaluation and the Bank operations staff perception of project effectiveness.
58 She is presently head of the World Health Organization.
59 A highly controversial project in the Amazon Basin of Brazil in the early 1980s, The Integrated Development of Brazil’s Northwest Frontier, galvanized NGO protest against environmental damage from the Bank’s activities.
East Asian economic growth highlighted another factor key to development, that of foreign direct investment (FDI). With FDI mushrooming in that region in the 1980s and the first half of 1990s, World Bank lending for a time significantly diminished and became minimal or even nil in those countries. Foreign private money, mainly from industrialized and other East Asian countries, was financing not only industry but also infrastructure in such sectors as energy, transportation and communication. The FDI dwarfed official development assistance (ODA) and brought into question the continued existence of ODA and the role of development agencies.

The decade of the 1990s was a period of considerable activity among groups interested in the condition of the world’s disadvantaged. A series of UN-sponsored conferences highlighted the global nature and effect of development. After the Brundtland Commission referred to above, these included the Jomtien Conference on Education for All in 1990, the Rio Conference on Environment and Development in 1992, the World Conference on Human Rights in Vienna in 1993, the World Conference on Women in Beijing in 1995, the World Summit for Social Development in Copenhagen in 1995, the renewal of the 1978 Alma Ata Summit on Health for All in 1995, the Habitat II Conference in Istanbul in 1996, the World Food Summit in Rome in 1996 and the Kyoto Conference on Climate Change in 1997.

In 1996 the Organization for Economic Cooperation and Development (OECD), comprised of industrial countries, conducted a review of the lessons of 50 years of international economic assistance. The review was carried out by the Development Assistance Committee (DAC) of OECD which, as part of its report, defined a limited number of “indicators of success” (DAC 1996). These were meant to be “ambitious but realizable” goals (DAC 1996), the identification of which might re-invigorate the effort by clarifying and to some reasonable extent quantifying the objectives of international economic assistance. These goals came to be called the International Development Targets (or Goals) (IDT). They were in the areas of poverty, education, gender, mortality, health and the environment. The Department for International Development of the United Kingdom (DFID) adopted them in 1997. The World Bank initially found some problems with the IDTs, mainly because it thought the list to be too limited, too general, or too unrealistic. Its development strategy is much more comprehensive and extensive than the IDTs. However, after weighing the advisability, in 1998 the Bank incorporated them into its poverty reduction program.

60 See various issues of Global Development Finance by the World Bank.
These goals, somewhat modified, were adopted by the United Nations member countries at the Millennium Summit in New York in 2000 and renamed “Millennium Development Goals” (MDGs) and as such provide a rallying point for current international development efforts. They were at the heart of the United Nations Conference on Financing for Development (FfD) held in Monterrey, Mexico in March 2002, and central to the World Summit on Sustainable Development (WSSD) held in August 2002 in Johannesburg. The eight Millennium Development Goals are given in Box 3. Associated with them are eleven “targets,” and thirty-one identified “indicators” against which to measure progress.

**Box 3: Millennium Development Goals**

- Eradicate extreme poverty and hunger.
- Achieve universal primary education.
- Promote gender equality and empower women.
- Reduce child mortality.
- Improve maternal health.
- Combat HIV/AIDS, malaria and other diseases.
- Ensure environmental sustainability.
- Develop a global partnership for development.

Source: UN website

Meanwhile, as was described above, in the late 1980s to early 1990s the institutional framework in developing countries became an issue and institution building moved into the center of development theory. There was recognition that the problem of the former Soviet Union and in particular the Russian Federation (which joined the Bank in 1992) was mainly that of inadequate institutions. The “shock therapy” of market immersion referred to earlier had not had the hoped for effect; this was significant because it demonstrated that “[m]arket economies cannot function well where the institutional and incentive environment permits…corruption to flourish” (World Bank, 2001e: 65). In

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61 It is instructive to compare these goals with targets set by the Bank early in the McNamara presidency. Over five years to 1973, the targets (which were met) were as follows (World Bank, 1997a: 14):
- To double the global total of Bank and IDA lending. *The total increased 128%*
- To triple lending to Africa. *It rose 214%*
- To double lending to Latin America. *It grew 128%*
- To quadruple lending for agriculture. *It increased 317%*
- To triple lending for education. *It expanded 362%*.

62 This entire schema of the MDGs is presented in Appendix 4.
another region, Sub-Saharan Africa, economies were stagnant or in long term decline, often because of the issues related to governance.

The almost universal endorsement of the fundamental importance of institutions to economic development is due to the fact that it offers solutions to the development conundrum that are compatible to development economists of all persuasions, from the most human development oriented to the most market oriented. The following reveals why this is so:

...if the basic institutions for the creation of capital and the full participation of the whole society in economic activity are not in place, investments in infrastructure, education, or health or economic reforms, or public sector reforms will not be effective, and will likely only increase income inequality...Building roads and bridges or undertaking agricultural research will not increase incomes...if people do not have secure property rights to farm land; education and health improvement projects will not promote income growth for the poor unless there is the generation of capital with which the healthier and better educated labor force can work; ... (Duncan and Pollard, 2001:8)

Also having a forceful impact was the perception, dawning throughout the development community, that whatever positive effects there might be, development assistance was not reducing the number of poor people in the world nor, in most cases, was it improving their lives. Poverty as a target of World Bank concern was first suggested by Robert McNamara in a speech in 1972 to the United Nations Conference on the Human Environment in Stockholm 63 when he concluded by saying that “The leading edge of that [practical] action must be to protect man from the one hazard which can injure not only his habitat and his health—but his spirit as well. Poverty. Cruel, senseless, curable poverty” (McNamara, 1981: 14). The poverty reduction envisioned by Mr. McNamara at that time was expected to result from increasing the productivity of poor people “thereby providing for a more equitable sharing of the benefits of growth” (McNamara, 1981: 269). This was the orientation that produced the “redistribution with growth” and “Basic Needs” campaigns of that era.

This is in contradistinction from poverty reduction as it is on the Bank’s agenda today. The post-Washington consensus reflects a clear shift of emphasis

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63 This conference was the predecessor for all of those others mentioned above and set the pattern for subsequent international conferences on global socioeconomic issues.
from growth to poverty alleviation. It accepts a new, broad, “multi-layered”
definition of poverty and the need for new, broad, multi-layered approaches.
Events, theory and sentiment have come together to proclaim that development
is a complex “highly nonlinear and highly multifaceted” process. (Adelman
and Morris, 1997: 833) Donor countries and the development community
actively seek some effective method for grappling with the situation. As has
been shown above, throughout the fifty years of development effort each of
the pieces constituting this multi-layered approach had already been recognized
as relevant, either singly or in combination.

A major source of the momentum pulling them together at this point in
time was the unrelenting insistence of NGOs. As mentioned earlier, in Chapter
I, with reference to the development community, NGOs as a group have become
an increasingly influential presence. They present themselves as champions
of the poor and of sustainable development. Their insistence and persistence
has garnered their inclusion as legitimate stakeholders in the development effort.
Beyond that, the participatory nature of current development strategy and the
“pro-poor” and community focus it espouses means that often NGOs, who
have experience with that strategy and work at that level, are well positioned
to play a key role in programs financed by more established agencies, whether
multilateral or governmental. That role may be as advisor or source of
information for an area where it has long worked and knows well, or it may be
as the actual agent on the ground working with communities of which it is
already an accepted member.

Their lack of accountability, self-selection, and adversarial stance, referred
to in Chapter I, causes some to doubt their credibility. Other critics fear that
their grass-roots, community level work creates a dependency on them in those
communities, for whom they may provide such services as food, health care
and educational support. Further, there is concern that through fungibility
(discussed at length in Chapter V) provision of services by NGOs in some
countries enables the central government to spend its money unproductively
(Onishi, 2002; Béjar and Oakley, 1996).

4. Lending Trends

With changes in strategies over the years, the Bank’s lending has changed
as well. This subsection examines these changes and discusses how and why
they occurred.

The World Bank has two main categories of lending: investment lending
and adjustment lending. There is also a third category of assistance, termed
“non-lending assistance.” This includes any non-financial aid, generally technical support, training in institution building, or access to World Bank knowledge resources. It is intended for situations where financial assistance is deemed unsuitable, usually because the institutional environment is unsatisfactory. This type of aid is becoming more important because, as will be seen later in this paper, it provides some means for helping countries that need assistance but cannot reliably use money well.

Investment, or project, loans have a long-term focus (5-10 years) and provide financing for specific development projects. Adjustment loans provide quick disbursing funds for policy or institutional reform. They come in two varieties: “structural” adjustment loans designed to target some existing distortion in the economy; and “programmatic” adjustment loans intended to forestall potential distortions by pre-empting them. Other multilateral development banks have similar instruments; in the case of the Asian Development Bank (ADB) programmatic lending is called “policy based lending.” The Inter American Development Bank (IADB) has “sector adjustment loans.”

The structural loans were conceived in the late 1970s in response to macroeconomic dislocations mainly caused by the heavy external debts due to high petroleum prices, as described above. They have a shorter-term focus than investment loans, 1-3 years. The programmatic loans are part of an on-going poverty reduction strategy, described in the next section. They have renewable tranches, continuation generally being contingent on satisfactory use of the previous tranch.

Investment lending is and always has been the predominant mode and currently accounts for about 70% of the total. In recent years adjustment lending has hovered around one-quarter of the loan total. Its share increased substantially in 1998 and 1999 but this reflects emergency loans made to East Asian 64 countries to assist them with the effects of their financial crisis. For similar reasons, the 2001/2002 share of SALs is high because of financial crises in Argentina and Turkey.

The parameters for each category of assistance have changed over time, generally becoming broader so as to include situations that had not been envisioned at first design. As discussed above, when adjustment lending was first widely used in the 1980s, the desired reform was that which would reduce market distortions and encourage retreat of state involvement in the economy. Now, however, the main objective of reform has shifted to poverty alleviation. Currently an investment loan can be used to finance social development as

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64 The Bank’s classification considers Southeast Asia to be a subset of East Asia and the Pacific.
**Table 1: World Bank Lending by Instruments, 1991 – 2001**  
*(Average for Two Fiscal Years)*

<table>
<thead>
<tr>
<th>Instruments</th>
<th>FY91/92</th>
<th>FY93/94</th>
<th>FY95/96</th>
<th>FY97/98</th>
<th>FY99/00</th>
<th>FY01</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adjustment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DRL</td>
<td>108</td>
<td>225</td>
<td>203</td>
<td>134</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PSL</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td>20</td>
<td>1,397</td>
</tr>
<tr>
<td>RIL</td>
<td>0</td>
<td>619</td>
<td>730</td>
<td>65</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAD</td>
<td>2,791</td>
<td>1,708</td>
<td>2,440</td>
<td>2,411</td>
<td>3,146</td>
<td>1,659</td>
</tr>
<tr>
<td>SAL</td>
<td>2,828</td>
<td>1,508</td>
<td>1,545</td>
<td>5,577</td>
<td>7,052</td>
<td>2,307</td>
</tr>
<tr>
<td><strong>SubTotal</strong></td>
<td>5,727</td>
<td>4,061</td>
<td>4,917</td>
<td>8,188</td>
<td>10,218</td>
<td>5,363</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>APL</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>715</td>
<td>1,099</td>
<td>1,067</td>
</tr>
<tr>
<td>ERL</td>
<td>472</td>
<td>614</td>
<td>175</td>
<td>343</td>
<td>1,123</td>
<td>782</td>
</tr>
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<td>FIL</td>
<td>1,030</td>
<td>984</td>
<td>1,014</td>
<td>117</td>
<td>197</td>
<td>151</td>
</tr>
<tr>
<td>LIL</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>68</td>
<td>119</td>
<td>78</td>
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<tr>
<td>SIL</td>
<td>12,206</td>
<td>14,118</td>
<td>13,635</td>
<td>13,649</td>
<td>8,653</td>
<td>9,000</td>
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<tr>
<td>SIM</td>
<td>2,388</td>
<td>2,021</td>
<td>1,569</td>
<td>851</td>
<td>297</td>
<td>277</td>
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<tr>
<td>TAL</td>
<td>373</td>
<td>470</td>
<td>628</td>
<td>331</td>
<td>430</td>
<td>134</td>
</tr>
<tr>
<td><strong>SubTotal</strong></td>
<td>16,469</td>
<td>18,206</td>
<td>17,020</td>
<td>15,683</td>
<td>11,919</td>
<td>11,488</td>
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<td><strong>Other</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>200</td>
</tr>
<tr>
<td><strong>Overall Total</strong></td>
<td>22,196</td>
<td>22,266</td>
<td>21,937</td>
<td>23,870</td>
<td>22,136</td>
<td>17,250</td>
</tr>
</tbody>
</table>


Abbreviations defined after Table 2

well as more traditional physical infrastructure development and an adjustment loan can finance legal and regulatory reform as well as the originally intended macroeconomic policy reform. Whichever the category of assistance, the Bank has become increasingly and actively involved with client governments’ management of rules and policies.

Tables 1 and 2 (World Bank Lending by Instrument in terms of US dollars and in terms of percentage) and Table 3 (World Bank Global Lending by Sector) show within lending categories how lending instruments and sector allocations have changed over the past decade. New instruments have been introduced since the late 1990s to allow more suppleness in targeting objectives, such as Learning and Innovation Loans (LILs) and Adaptable Program Loans (APLs) in the investment category, and to intensify the focus on poverty reduction, such as Programmatic Structural Adjustment Loans (PSALs/PSLs) and Poverty Reduction Support Credits (PRSCs/PRCs) in the adjustment category. (These
CHAPTER III

Table 2: Lending Shares by Instruments, 1991 – 2001
(Average for Two Fiscal Years)

<table>
<thead>
<tr>
<th>Instruments</th>
<th>FY91/92</th>
<th>FY93/94</th>
<th>FY95/96</th>
<th>FY97/98</th>
<th>FY99/00</th>
<th>FY01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DRL</td>
<td>0.5</td>
<td>1.0</td>
<td>0.9</td>
<td>0.6</td>
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<td></td>
</tr>
<tr>
<td>PSL</td>
<td></td>
<td></td>
<td>0.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RIL</td>
<td>2.8</td>
<td>3.3</td>
<td></td>
<td>0.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAD</td>
<td>12.6</td>
<td>7.7</td>
<td>11.1</td>
<td>10.1</td>
<td>14.2</td>
<td>9.6</td>
</tr>
<tr>
<td>SAL</td>
<td>12.7</td>
<td>6.8</td>
<td>7.0</td>
<td>23.4</td>
<td>31.9</td>
<td>13.4</td>
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<tr>
<td>SubTotal</td>
<td>25.8</td>
<td>18.2</td>
<td>22.4</td>
<td>34.3</td>
<td>46.2</td>
<td>31.1</td>
</tr>
<tr>
<td>Investment</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>APL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.0</td>
<td>5.0</td>
</tr>
<tr>
<td>ERL</td>
<td></td>
<td>2.1</td>
<td></td>
<td>0.8</td>
<td>1.4</td>
<td>5.1</td>
</tr>
<tr>
<td>FIL</td>
<td></td>
<td>4.6</td>
<td></td>
<td>4.6</td>
<td>0.5</td>
<td>0.9</td>
</tr>
<tr>
<td>LIL</td>
<td></td>
<td>0.3</td>
<td></td>
<td>0.5</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>SIL</td>
<td>55.0</td>
<td>63.4</td>
<td>62.2</td>
<td>57.2</td>
<td>39.1</td>
<td>52.2</td>
</tr>
<tr>
<td>SIM</td>
<td>10.8</td>
<td>9.1</td>
<td>7.2</td>
<td>3.6</td>
<td>1.3</td>
<td>1.6</td>
</tr>
<tr>
<td>TAL</td>
<td>1.7</td>
<td>2.1</td>
<td>2.9</td>
<td>1.4</td>
<td>1.9</td>
<td>0.8</td>
</tr>
<tr>
<td>SubTotal</td>
<td>74.2</td>
<td>81.8</td>
<td>77.6</td>
<td>65.7</td>
<td>53.8</td>
<td>66.6</td>
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<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.9</td>
</tr>
<tr>
<td>Overall Total (Mill. US$)</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


APL = Adaptable Program Loan
DRL = Debt Reduction Loan
ERL = Emergency Recovery Loan
FIL = Financial Intermediary Loan
LIL = Learning and Innovation Loan
PSL = Programmatic Structural Adjustment Loan
PRC = Poverty Reduction Support Credit
RIL = Rehabilitation Loan
SAD = Sector Adjustment Loan
SAL = Structural Adjustment Loan
SIM = Sector Investment Maintenance Loan
TAL = Technical Assistance Loan

last two are discussed in detail in a later chapter.) The new adjustment vehicles are critically important to the strategy developed by the Bank for attacking and reducing world poverty. Devising these instruments is an ongoing activity, and new variants emerge frequently

In terms of sectoral shares of loans, there has been significant change over the past decade. (See Table 3). Notable declines are in agriculture, education,
Evolution of Development Assistance

electric power and other energy, mining, oil and gas, industry, telecommunications, transportation and urban development. In the cases of agriculture and education, these declines seem inconsistent with the Bank’s poverty reduction thrust: agriculture because it touches the vast majority of the world’s impoverished people; education because it is key to empowerment, participation and improvement in many (even most) elements of deprivation. Conversely, the Bank has succeeded in substantially increasing its loans on public sector development, environment, finance and social protection in recent years. This reflects the current strategy, which is to strengthen institutions and be pro-environment and pro-poor.

The causes of the sectoral declines are several. Possibly the most important one is a shift by the Bank away from projects that can be carried out by the private sector. This posture is provided for in the Articles of Agreement and is the agreed position within the donor community. Private sector preference

### Table 3: World Bank Global Lending by Sector*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>3,216</td>
<td>2,205</td>
<td>3653</td>
<td>2,508</td>
<td>1,337</td>
<td>-58</td>
</tr>
<tr>
<td>Economic policy</td>
<td>9,890</td>
<td>1,287</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>1,811</td>
<td>2,052</td>
<td>1,017</td>
<td>1,344</td>
<td>684</td>
<td>-62</td>
</tr>
<tr>
<td>Electric power and other energy</td>
<td>2,466</td>
<td>2,242</td>
<td>1,889</td>
<td>440</td>
<td>994</td>
<td>-60</td>
</tr>
<tr>
<td>Environment</td>
<td>622</td>
<td>824</td>
<td>227</td>
<td>539</td>
<td>514</td>
<td>-17</td>
</tr>
<tr>
<td>Finance</td>
<td>1,477</td>
<td>2,930</td>
<td>1,179</td>
<td>2,322</td>
<td>1,677</td>
<td>14</td>
</tr>
<tr>
<td>Industry</td>
<td>634</td>
<td>178</td>
<td>196</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining</td>
<td>106</td>
<td>25</td>
<td>321</td>
<td>315</td>
<td>55</td>
<td>-48</td>
</tr>
<tr>
<td>Multisector</td>
<td>3,034</td>
<td>3,152</td>
<td>2,186</td>
<td>641</td>
<td>655</td>
<td>-78</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>843</td>
<td>603</td>
<td>136</td>
<td>18</td>
<td>167</td>
<td>-80</td>
</tr>
<tr>
<td>Population, health, and nutrition</td>
<td>1,037</td>
<td>1,101</td>
<td>920</td>
<td>1,107</td>
<td>987</td>
<td>-5</td>
</tr>
<tr>
<td>Private sector development</td>
<td>1,337</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public sector management</td>
<td>931</td>
<td>1,098</td>
<td>941</td>
<td>963</td>
<td>2,443</td>
<td>162</td>
</tr>
<tr>
<td>Social protection</td>
<td>337</td>
<td>1,051</td>
<td>1,390</td>
<td>2,679</td>
<td>990</td>
<td>193</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>437</td>
<td>325</td>
<td>111</td>
<td>109</td>
<td>109</td>
<td>-75</td>
</tr>
<tr>
<td>Transportation</td>
<td>2,803</td>
<td>2,253</td>
<td>3,832</td>
<td>3,022</td>
<td>1,690</td>
<td>-40</td>
</tr>
<tr>
<td>Urban development</td>
<td>1,141</td>
<td>1,502</td>
<td>668</td>
<td>707</td>
<td>622</td>
<td>-45</td>
</tr>
<tr>
<td>Water supply and sanitation</td>
<td>1,031</td>
<td>982</td>
<td>683</td>
<td>1,053</td>
<td>904</td>
<td>-12</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>21,925</td>
<td>22,522</td>
<td>19,147</td>
<td>28,996</td>
<td>15,276</td>
<td>-30</td>
</tr>
</tbody>
</table>

* Regional Lending by Sector is presented in Appendix 6.

Source: World Bank Annual Report (various issues), World Bank
probably has affected industry, mining, oil and gas, telecommunications and transportation. Concern for environmental impact is another factor and has affected agriculture, mining, and oil and gas. Competition from other donor countries and organizations, discussed further below, may also explain some of the sectoral declines.

With specific regard to agriculture, lending has been affected by the need to develop a new rural development strategy that extends beyond agriculture to all aspects of rural life, in World Bank terminology, the “rural space.” The new strategy, subtitled “Reaching the Rural Poor” was approved in November 2002 (World Bank, 2002e). It aims to incorporate job creation, infrastructure and services while honoring the safeguard policies and accommodating the current Bank interest in its strategic elements. There is great constructive possibility to the new strategy, given the potential for institutional change inherent in rural organizations. Perhaps the finalization of the strategy will permit that potential to be realized. However, some observers believe that the proposals for implementation may be overly idealistic.

There are several possible explanations for the decline in education lending after 1990.\footnote{It is important to note that lending to education had doubled between 1980 and 1990.} One is that school construction has slowed because there is an ample supply and the need now is for other, less tangible, inputs. Another is that some governments, India being one, are reluctant to accept aid for education. A third possibility is that competition from other donors who offer assistance on less onerous terms is attracting potential clients away from the World Bank.

This last is a consideration which may, in fact, be affecting the Bank’s portfolio as a whole. World Bank lending has hovered in the $20 billion range since 1990. While the Bank presents its historic lending trend as remaining “fairly stable for the past five years” (World Bank, 2001b: 2), the figures in Tables 3 and 5 reveal a declining portfolio with FY00 lending well below the FY92-97 average. The FY01 total is somewhat higher than FY00 but still significantly lower than the longer-term trend\footnote{As was previously mentioned, high lending in 1998 and 1999 was anomalous, due to huge adjustment loans to Southeast Asian countries.}. Analysis in the \textit{Annual Report on Portfolio Performance} (World Bank, 2001b) implicitly ascribes any decline to a healthy portfolio of improved quality and reduced risk. There are other likely explanations, however.

An increasingly important factor affecting the Bank’s lending level is the deterrent to recipients of the high cost of the lending process, termed “the cost of doing business.” Apart from interest payments on loans and the conditionalities to adjustment lending, there are high non-monetary costs
connected with the lengthy loan-appraisal period and heavy paperwork requirements. As mentioned above with reference to education, there are other donor organizations whose requirements are deemed less stringent, including regional development banks. In addition, most donors provide large amounts of grant aid for projects such as education and population, health and nutrition. The existence of these potential alternatives has reduced or stagnated demand for Bank loans in some sectors where, under its present strategy, it should be investing more. The fact is that the Bank faces stiff competition and savvy client governments can go elsewhere for assistance.

There is another constraint on World Bank lending called “absorptive capacity.” This refers to the quality of the client as a recipient of project (investment) lending: can it fund the domestic currency needs of the project; can the government be relied on to fulfill the goals of the project; and can the recipient handle operation and maintenance of the project once it is completed so that its effects can be sustained. Countries which might otherwise be eligible may lack absorptive capacity and any country may choose to use its available domestic currency for some other purpose. Thus, even when the Bank is willing to provide the foreign exchange component, projects may not go forward.

Lending can also be classified according to the insertion point. One strongly emerging view holds that development effort can be accentuated by directing it to the most effective level, community, national, or global/regional. Traditionally the Bank deals with governments, but it has become increasingly interested in targeting recipient communities and, at the other extreme, in addressing global issues. At the traditional, country-wide level, the most appropriate areas are those responsive to formulated policy, such as education, employment, private investment, and capacity building. At the community level, areas having primarily local impact and demanding on-the-ground action are appropriate, such as sanitation, health and local institutions. At the transnational level, the Bank would expand its activities and lending into an area referred to as global public goods. These are poverty and quality of life issues that transcend national boundaries and are defined as commodities or services that, once provided, can be obtained without payment by others (Stiglitz, 1996: 155). Their benefits are not restricted to any geographic region and are not diminished by increased use. Five global public goods have been identified by Stiglitz: international economic stability, international security, the international environment, international humanitarian assistance and knowledge (Stiglitz, 1995)\textsuperscript{68}.

\textsuperscript{68} Agriculture provides an example of an area demanding attention at all three levels. Refer to Appendix 2.
A contrasting view is that insertion points other than at the national government level tend to weaken its institutions, the very ones that should be strengthened. This occurs when donors seeking to administer aid through NGOs and/or other civil society bypass the government, thereby undermining its authority, preventing its scrutiny of the aid objective, and undercutting its “fledgling institutions of representative democracy” (UNCTAD, 2002b). The effect on the NGOs also is potentially damaging as it could compromise their independence and credibility. A clear instance of these potential stresses is in the assistance program for post-Taliban Afghanistan. The United Nations is coordinating the effort which is financed by all the major donors and implemented by a plethora of international non-governmental organizations. Senior Afghan officials have criticized the UN for setting up what is, in effect, a parallel government, saying: “As long as you continue to work the way you are accustomed to operating, the government can never establish itself.” The specific problems include the effect on the local society and economy of an influx of peace-keepers and aid workers, conflict between the priorities of the newly installed government and the donor community, and monopolization by the aid agencies of the available funds (Financial Times, 2002b).

Geographic region is a useful parameter for lending because to some degree issues faced by the developing world have regional characteristics and might be addressed most effectively by narrowly tailored assistance. Asia is home to the greatest number of impoverished people, so that despite its impressive reduction in poverty levels, poverty is major problem. In Latin America, a signature issue is income distribution. In Russia and other transitional economies, it is the suitability and quality of institutions. In Africa, the problems are widespread and systemic, with the living conditions of most people and the health of the different economies in serious straits.

When the US administration of George W. Bush took office, the spotlight was turned to another method by which the Bank can extend financial aid, that is by giving grants which would not have to be repaid. The Bank’s largest and most powerful shareholder began advancing arguments in favor of replacing fifty percent of IDA loan assistance with grant assistance, a huge jump from the current five percent (Beattie and Wolfe, 2001: 1). The grants would be

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69 The specific reference here was to Africa.
70 Of $1.3bn given in aid, only ten per cent had gone directly to the government. The government was reportedly considering seeking a limit on the amount of Afghan funding UN agencies could bid for in an effort to gain a bigger share of next year’s estimated $2bn in aid (Financial Times, 2002b).
71 The World Bank divides the developing world into six regions. Regional lending by sector tables is in Appendix 6.
given in support of facilities and services that are best provided by a public sector, such as education and health care leaving economic infrastructure to the private sector to fund, an arrangement in keeping with the position that private investment be included in the development paradigm. This change in aid pattern was strongly opposed by other major donors, including Japan and the UK, for two reasons: It would be an undesirable change in the nature and function of the IDA, duplicating too much the aid programs of UN agencies; and, it would eventually require that the IDA seek increased contributions from the donors. As part of the IDA 13 agreement, a compromise was reached of boosting the grant dispersal to a range of 18 to 21 percent (International Development Association, 2002: 27).

The apparent source for this position by the incoming Bush administration is the report of the International Financial Institution Advisory Commission (US Congress, 2000) established by the US Congress in 1999 to explore the role of international financial institutions in the new world economy. The main recommendations of “the Meltzer Report,” as it is informally known because the commission was chaired by economist Allan Meltzer, were that the organizations be significantly scaled back (or even abolished) and that the World Bank shift from loans to grants. The Report was submitted in March, 2000, during the Clinton Administration. It received initial wide publicity and then it quickly faded from view.

Another lending concept being discussed within the international development community is that of a common pool of aid money, to be disbursed to individual countries in accordance with plans they have drawn up and which have been accepted by pool contributors. The British DFID supports it as does a high-level United Nations panel on financing for development (FfD).

If this system were adopted, bilateral aid and related conditionalities would diminish or cease altogether. This is theoretically in harmony with the Comprehensive Development Framework (CDF) process of shared strategy. It is also consistent with the theme of “ownership” in that the burden of using the pooled funds effectively would fall on the recipient government.

Actual adoption of a development common fund is not close, however, because some major donor countries will not readily cede total control over their money and interests while others are reluctant to totally entrust the recipient government with allocating the money. In answer to the latter concern, the UN

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72 This blue ribbon panel, chaired by Ernesto Zedillo, former Mexican president, examined financing for development for the United Nations conference on that topic held in March, 2001, in Monterrey, Mexico. The conference is discussed in the final chapter of this book.
FfD panel has said: “...a part of ownership is the right to make mistakes...A new relationship...will never be established if donors put safety first” (Beattie, 2001b). This thought is echoed in an influential World Bank publication, which states “The important question is whether developing countries are systematically gaining knowledge from such experiments. Failed projects can often teach as much (or more) than successful ones” (World Bank, 1998: 91).
To comply with the post-Washington consensus as described in the previous section, the World Bank has been compelled to change its image, processes, strategies and lending instruments. This section discusses the Bank’s current main strategies and instruments with a focus on new trends, especially that of poverty reduction.

The Bank’s development strategy since the early 1990s is to a large extent a response to criticism directed at its structural adjustment loans and its neoclassical approach to development. To address this criticism and to accommodate the emerging new views, the Bank revitalized the dormant poverty issue, looked at the complaints voiced by interested parties, and started to focus on issues of wide social concern. This shift occurred during the presidencies of Barber Conable (1986-1991) and Lewis Preston (1991-1995) and it was continued and accelerated by the current President, James Wolfensohn. Mr. Wolfensohn felt that unless the Bank changed, its survival was in doubt. He has vigorously promoted poverty reduction as the Bank’s overarching objective and he is responsible for the Bank’s current slogan, “Our Dream is the World Free of Poverty.”

Although the World Bank today identifies its fundamental objective as the reduction of poverty very broadly defined, poverty reduction is not one of the purposes stipulated in the Bank’s Articles of Agreement. Poverty is not even mentioned there. The Bank has addressed this inconsistency through a creative redefinition of the term “development,” which the Bank is mandated to promote. To some degree, as with structural adjustment lending, it has also used the “special circumstances” loophole in Article III, Section 4, Paragraph vii to incorporate poverty. ( Relevant excerpts from the Articles are presented in

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73 WDR 2000/2001 devotes a number of pages to a discussion of the effects of market reform and acknowledges that sometimes market reform fails (World Bank 2001c: Chapter 4).
CHAPTER IV

Appendix 1.)

Since the 1990s, the view that economic development is a matter of improved living conditions rather than increased Gross National Product (GNP) per capita has become widely endorsed but there are some nuances of opinion as to the ultimate objective: the Organization for Economic Cooperation and Development (OECD) favors sustainable development, and at least one Nobel laureate believes that it is freedom (Sen, 2001: 506). For today’s World Bank, however, it is unequivocally poverty reduction. To attain that objective, the Bank under Wolfensohn has seriously adopted the theories of the institutionalists and incorporated the concerns of the human development advocates. This began the era of the social scientist and their influence is manifest in its programs and projects (Refer to Figure 2).

1. Poverty and Institutions

Though poverty has not always been in the forefront, the awareness of poverty as an issue separate from growth has existed and persisted. As discussed previously, the shift in the development paradigm toward a focus on poverty has been championed by several UN organizations and donor countries. However, within the Bank, it was not until the publication of the World Development Report 1990 (World Bank, 1990) that the issue of poverty really came into its own. Subtitled “Poverty,” the WDR of 1990 was written during the presidency of Barber Conable. It declared that the “principal elements of an effective [poverty reduction] strategy are well understood” (World Bank, 1990: 6) and presented them as follows. First, rekindle economic growth, particularly labor-intensive growth. This would provide opportunity to the poor to be more productive. Second, increase government expenditure on human capital to equip people to take advantage of that opportunity. Third, provide a social safety net for those unable to enter the labor force.

On the surface, this is little different from recommendations of the World Development Report 2000/2001 (World Bank, 2001e), subtitled “Attacking Poverty,” written during presidency of James Wolfensohn. That also recommends three actions. First, promote opportunity. Second, facilitate empowerment. Third, enhance security (World Bank, 2001e: vi). The major difference between 1990 and 2000/2001 is how the problem is defined. In 1990 poverty alleviation was still considered in economic terms and the strategy

The World Bank: Poverty Reduction Strategy

was based on growth, productivity and income distribution. In 2000/2001 it was considered in human development terms. This reveals a new focus on people and has resonance with the Human Development Index (HDI); as such, it reflects the influence of economists such as Amartya Sen and organizations such as UNDP.

The [2000/2001] report accepts the now established view of poverty as encompassing not only low income and consumption but also low achievement in education, health, nutrition, and other areas of human development. And...it expands this definition to include powerlessness and voicelessness, and vulnerability and fear. (World Bank, 2001e: v)

In terms of Bank policy the 1990 WDR can be seen as the turning point. That publication heralded the impending change in development orientation from an economic emphasis to a human one and foreshadowed a dramatic re-orientation toward addressing poverty and economic development in all its complexity rather than in narrow terms of growth. In noting that poverty is often accompanied by other forms of deprivation including reduced life expectancy it presaged the direction toward which the Bank was turning. It declared “[a]ttacking poverty is not primarily a task for narrowly focused antipoverty projects...[i]t is a task for economic policy in the large. (World Bank, 2001e: 4) And it acknowledged the importance of access to basic social services, of improved status for women and girls, of security, of political inclusion and of the role of NGOs.

This reorientation was solidified in 1997 when Mr. Wolfensohn, two years into his presidency, entered into a “Strategic Compact” with the Bank’s Board of Governors (representatives of each of the 183 member countries). The Compact, subtitled “Renewing the Bank’s Effectiveness to Fight Poverty,” offered changes in organization, changes in skill mix, and a change in orientation. Many of the measures it promised are part of the current Bank poverty reduction strategy. With the compact, decentralization of staff (locating more Bank staff in the client countries) and restructuring of the administrative system occurred, with much responsibility put on a newly-established position, country director. Through the strategic compact, Mr. Wolfensohn put his stamp on the World Bank.

In placing poverty reduction at the center of its efforts, the World Bank

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75 He is now into his second five-year term.
76 Fuller details on this Compact are in Appendix 7.
CHAPTER IV

gave the term the widest possible definition, “pronounced deprivation in well-being” (World Bank, 2001e: 15). There is almost no aspect of human existence that cannot be included within this definition: health care, sanitation, education, gender equity, job opportunity, freedom from fear, empowerment, responsive government, etc. Following is the Bank’s definition:

\[
\text{Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not being able to go to school and not knowing how to read. Poverty is not having a job. Poverty is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom.} \ (\text{World Bank, undated-b})
\]

An examination of the distribution of jobs among World Bank staff over the past decade reveals the re-orientation (See Table 4). The most significant increase in staff positions, quadrupling over the past decade, was in the area of environment and social development. Other areas of marked increase have been external affairs, doubling over the past decade, (6.9% p.a.), human development, about 60% increase (5.2% p.a.), legal, about 60% increase (5.2% p.a.), public/private sector development more than tripling (12.9% p.a.), most of which is public sector development. Most other categories either stayed relatively stable or declined. The most significant decline was of staff positions in rural work, two-thirds reduced (9.1% p.a.), probably a reflection of the lending decline in that sector discussed above.

Even while poverty reduction is the ultimate objective of a broad, multi-layered web of development assistance, it is accepted that there is one layer that undergirds and supports all the others, that of institutions. The World Bank recognized that the ideas of the institutionalists could have useful application in addressing the poverty issue. As discussed above in Chapter II, the relevance of institutions to economic functioning has been widely acknowledged over time, and by 1990 with the work of Douglas North, institution building had been identified as a desirable goal. In the new paradigm, however, institutions are not simply useful and relevant, they are critical and important. The belief is that without appropriate institutions, development will not occur and that, in fact, the character of institutions defines a country’s readiness for adjustment lending. This is explicit in the position of the World Bank:
Table 4: World Bank – Staff/Skills Distribution at Headquarters, Fiscal Year 1989-2001

(Biannual Averages)

<table>
<thead>
<tr>
<th>JOB FAMILIES</th>
<th>FY 89/90</th>
<th>FY 91/92</th>
<th>FY 93/94</th>
<th>FY 95/96</th>
<th>FY 97/98</th>
<th>FY 99/00</th>
<th>FY 2001*</th>
<th>Change (% p.a.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting/Admin &amp; Budgeting/Auditing</td>
<td>178</td>
<td>198</td>
<td>233</td>
<td>236</td>
<td>228</td>
<td>230</td>
<td>226</td>
<td>2.1</td>
</tr>
<tr>
<td>Board Operations</td>
<td>11</td>
<td>12</td>
<td>12</td>
<td>14</td>
<td>9</td>
<td>10</td>
<td>9</td>
<td>-2.2</td>
</tr>
<tr>
<td>Economics</td>
<td>806</td>
<td>826</td>
<td>850</td>
<td>805</td>
<td>693</td>
<td>708</td>
<td>697</td>
<td>-1.7</td>
</tr>
<tr>
<td>Editorial Publication</td>
<td>12</td>
<td>11</td>
<td>14</td>
<td>11</td>
<td>9</td>
<td>15</td>
<td>15</td>
<td>1.3</td>
</tr>
<tr>
<td>Energy/Mining/Telecommunications</td>
<td>115</td>
<td>105</td>
<td>113</td>
<td>100</td>
<td>86</td>
<td>93</td>
<td>104</td>
<td>-1.8</td>
</tr>
<tr>
<td>Environment &amp; Social Development</td>
<td>31</td>
<td>54</td>
<td>87</td>
<td>109</td>
<td>135</td>
<td>195</td>
<td>214</td>
<td>18.3</td>
</tr>
<tr>
<td>External Affairs</td>
<td>20</td>
<td>29</td>
<td>32</td>
<td>33</td>
<td>37</td>
<td>44</td>
<td>49</td>
<td>6.9</td>
</tr>
<tr>
<td>Finance</td>
<td>279</td>
<td>295</td>
<td>289</td>
<td>262</td>
<td>253</td>
<td>327</td>
<td>368</td>
<td>1.2</td>
</tr>
<tr>
<td>General Services</td>
<td>50</td>
<td>49</td>
<td>44</td>
<td>33</td>
<td>36</td>
<td>38</td>
<td>39</td>
<td>-3</td>
</tr>
<tr>
<td>Human Development</td>
<td>86</td>
<td>119</td>
<td>142</td>
<td>112</td>
<td>130</td>
<td>170</td>
<td>166</td>
<td>5.2</td>
</tr>
<tr>
<td>Human Resources</td>
<td>69</td>
<td>76</td>
<td>87</td>
<td>91</td>
<td>84</td>
<td>91</td>
<td>93</td>
<td>2.3</td>
</tr>
<tr>
<td>Information Technology</td>
<td>182</td>
<td>202</td>
<td>234</td>
<td>240</td>
<td>225</td>
<td>213</td>
<td>186</td>
<td>0.9</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>133</td>
<td>154</td>
<td>166</td>
<td>152</td>
<td>141</td>
<td>163</td>
<td>172</td>
<td>1.2</td>
</tr>
<tr>
<td>Investment</td>
<td>173</td>
<td>223</td>
<td>267</td>
<td>278</td>
<td>299</td>
<td>373</td>
<td>386</td>
<td>6.9</td>
</tr>
<tr>
<td>Legal</td>
<td>93</td>
<td>100</td>
<td>122</td>
<td>132</td>
<td>140</td>
<td>161</td>
<td>151</td>
<td>5.2</td>
</tr>
<tr>
<td>Management</td>
<td>521</td>
<td>559</td>
<td>584</td>
<td>555</td>
<td>595</td>
<td>644</td>
<td>621</td>
<td>1.6</td>
</tr>
<tr>
<td>Non-Regular Staff</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>N. A.</td>
</tr>
<tr>
<td>Operations &amp; Evaluation</td>
<td>319</td>
<td>346</td>
<td>388</td>
<td>381</td>
<td>403</td>
<td>481</td>
<td>475</td>
<td>3.6</td>
</tr>
<tr>
<td>Office Support</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td>4</td>
<td>N. A.</td>
</tr>
<tr>
<td>Other</td>
<td>85</td>
<td>106</td>
<td>121</td>
<td>117</td>
<td>137</td>
<td>214</td>
<td>225</td>
<td>8.6</td>
</tr>
<tr>
<td>Public/Private Sector Development</td>
<td>42</td>
<td>47</td>
<td>80</td>
<td>121</td>
<td>112</td>
<td>154</td>
<td>131</td>
<td>12.9</td>
</tr>
<tr>
<td>Rural</td>
<td>144</td>
<td>136</td>
<td>127</td>
<td>98</td>
<td>65</td>
<td>64</td>
<td>51</td>
<td>-9.1</td>
</tr>
<tr>
<td>TOTAL JOB FAMILIES</td>
<td>3345</td>
<td>3643</td>
<td>3989</td>
<td>3912</td>
<td>3815</td>
<td>4386</td>
<td>4382</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: World Bank

Development is a process of societal transformation that takes place over time...[And] lasting development and poverty reduction require a true transformation of society...A transformation of this magnitude will entail changing institutions so that they are accountable to all, including the poor... (World Bank, 2000a: 2)
As has been mentioned, the term “institution” is very broad and extends beyond the public sector. It encompasses an amorphous concept meant to include organizations, associations, informal groupings and unspoken understandings. Among the institutions critical to development, public sector institutions\(^77\) are the most critical and governance is the most important. This has already been mentioned with respect to investment (project) lending in the context of absorptive capacity. It is now an increasingly significant factor in the newer adjustment lending vehicles as well, not only in terms of the recipient’s capacity to participate, but also in terms of the honesty and reliability of those entrusted to handle hard-to-monitor program loans\(^78\).

The World Bank and its sister Bretton Woods organization, the International Monetary Fund, explicitly incorporate an assessment of governance into their lending decisions. The IMF adopted guidelines on governance issues in 1997 as it came to understand the importance of governance to economic efficiency. Its guidelines limit the organization to involvement with the economic aspects of governance but they also permit the use of funding conditionalities “to safeguard the use of IMF resources” (IMF 1997: 6). For the IMF, the issue seems to be one of corruption and misuse of its funds. For the Bank governance is an essential ingredient to aid effectiveness and it is a component of development itself\(^79\). It is a target as well as a lending consideration. For this reason, the Bank takes a more complex and comprehensive approach to the issue. It is currently piloting a new instrument of governance assessment called the Institutional and Governance Review (IGR) to provide CAS input on institutional weaknesses that affect governance\(^80\).

It has been pointed out earlier that a recognition of the need for changes in government policy dates as far back as the “policy dialogue” of the pioneers and can be seen in the policy-based lending of the neoclassicists. Today’s preoccupation with achieving good governance is a clear, if unacknowledged, continuation of that effort. The role of government, in today’s view, is to secure an effective state, one which both invites investment and protects the vulnerable. There are several essential pieces: tax administration, expenditure and budgetary systems, legal and judiciary systems, civil service, public infrastructure, basic social services, non-distortionary policies, and

\(^{77}\) Defined as “any institutions that shape the way public functions are carried out.” in World Bank (2000b).

\(^{78}\) These program loans are described further in the sub-section on “New Lending Instruments” and in Appendix 5.

\(^{79}\) Refer to Box 5 and Appendix 2.

\(^{80}\) An undated exposition on IRGs can be found at http://www1.worldbank.org/publicsector/PREMweek/PREMNoteIGRs.doc.
environmental protection (World Bank, 1997b). Appropriate public sector institutions are also key to controlling corruption.

While the need for appropriate institutions seems clear, how to create them remains a challenge. Efforts to change institutions or to reform them is now called by the World Bank “capacity building.” Capacity building means “building effective and accountable institutions to address development issues and reduce poverty in borrowing countries.” (World Bank, 2000b: 6) This is at the core of Bank strategy with particular emphasis on building capacity in governance and in legal and judicial reform. This sensitive area, the essence of sovereignty, is ostensibly to be approached at the request of and with the support of the government.\footnote{The earlier discussion on Afghanistan in the context of aid insertion points is also relevant here.} The actual approach is somewhat different, however, it is more insistent. The following statement justifies the difference.

> Reform will proceed only when a country’s leaders are committed and in the driver’s seat. But changing the internal rules of government is usually not enough to achieve reform. To be effective, we need to work with our partners to understand and address the broad range of incentives and pressures—both inside and outside of government—that affect public sector performance. (World Bank, 2000b: 7)

Not all development assistance observers and practitioners agree that the presence or absence of enabling institutions is the point of departure for financial aid. UNCTAD differs significantly (UNCTAD, 2002a). It finds through its analysis that emphasis on institutions, policy and governance will be ineffective without resolution of problems related to protectionism, aid and debt. Furthermore, governance related conditionalities can create and/or exacerbate poverty and economic stagnation, especially in Sub-Saharan Africa.

One study analyzed the situation of a group of countries which UNCTAD characterizes as in a condition of “generalized poverty.”\footnote{Generalized poverty is absolute, persistent poverty, defined as “a situation in which a major part of the population lives at or below income levels sufficient to meet their basic needs, and in which the available resources in the economy, even when equally distributed, are barely sufficient to cater for the basic needs of the population on a sustainable basis” (UNCTAD 2002a: 39).} For such countries (49 in total), institution building, governance, and the World Bank’s poverty reduction process in general are inappropriate and perhaps even destructive (UNCTAD 2002a: 199). The report suggests that without first attaining economic growth and increased consumption, institution building and governance cannot be addressed successfully.
A subsequent report, focusing on Sub-Saharan Africa, questions more acutely the prevailing assumptions. Entitled *Economic Development in Africa*, subtitled *From Adjustment to Poverty Reduction: What is New?* (UNCTAD, 2002b), this report makes the case that the poverty reduction strategy posited by the post-Washington consensus and adopted by the Bretton Woods organizations, both the World Bank and the IMF, is in actuality structural adjustment of the 1980s in a new guise, complete with conditionalities that are burdensome and detrimental to the poorest countries of the world.

A close examination of the macroeconomic and structural adjustment policy contents of PRSPs shows that there is no fundamental departure from the kind of policy advice espoused under what has come to be known as the “Washington Consensus.” Current policy advice continues to contain all the main elements of the first generation of economic reforms, designed to “get prices right.” The second generation of reforms now advocated, rather than revising and improving the economic policy framework so far pursued, adds new elements, emphasizing the importance of “getting institutions right” or simply “good governance” (UNCTAD, 2002b: 6).

UNCTAD is highly critical of conditionalities, which in their view continue to drive development assistance strategy: They are too numerous, averaging 114 for each of 13 sub-Saharan countries over the period 1990-2000, 82 of which were governance related (UNCTAD, 2002b: 17); they exceed the proper areas of competence of the international financial institutions (UNCTAD, 2002b: 17), and they are inconsistent with the themes of country ownership and participation, so that “…it is unlikely that a reconciliation [of country ownership and participation with conditionality] will be possible without a considerable roll-back of conditionality” (UNCTAD, 2002b: 16).

2. Strategy
A. Themes

At this point-in-time, then, the World Bank (and the larger development community) is focused on a target that has proved elusive over half a century, poverty, and has defined that target all-inclusively. In order to grasp this unwieldy concept analytically and practically, the Bank has developed a “poverty reduction strategy.” This consists of an array of what may be termed

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themes which serve as the organizing principles supporting new processes and lending instruments. It is a strategy designed to incorporate a wide range of poverty reduction elements in a way that recognizes and builds on their interrelatedness.

The themes are benchmark concepts which the Bank wants to incorporate into individual projects and overall strategy. They are the following: 1) **Sustainability**, a legacy of the Brundtland Commission report of 1987 that is being broadened to encompass a wider range of concerns; 2) **Participation** which means that there are many stakeholders in the development process all of whom should be heard because each is affected; 3) **Ownership**, which refers to the commitment of the client government to the development activity, a commitment that continues even after project completion; and, 4) **Institutions**, thought to form the essential and fundamental enabling framework within which development occurs.

1) **Sustainability** is a concept introduced into the international lexicon by the Brundtland Commission and originally had strictly environmental implications. In development language it signified the nexus between poverty, inequality and the environment. The link is a bit murky, but the position is that environmental degradation is a poverty issue because poverty exacerbates degradation and degradation exacerbates poverty by diminishing well-being. Therefore environmental health is important to the alleviation of poverty and poverty reduction is to be achieved through sustainable development.

*We also believe, with the Brundtland Commission, that meeting the needs of the poor in this generation is an essential aspect of sustainably meeting the needs of subsequent generations. There is no difference between the goals of development policy and appropriate environmental protection. Both must be designed to improve welfare* (World Bank, 1992b: 8).

This interpretation is weakened by the fact that it excludes the significant environmental damage caused by industrialized rich countries. The conclusion is inescapable that the World Bank wanted to include sustainability in its strategy but could not on its own merits, rather it had somehow to be tied to the declared target of poverty reduction.

The term “sustainability” is no longer restricted to the environmental context.

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It has been extrapolated beyond environmental impact to encompass social impact. “Social sustainability” has been identified as important to development and Social Assessments (SA) as well as Environmental Assessments (EA) are increasingly conducted (World Bank, undated-a). Like environmental sustainability, social sustainability is largely a matter of ensuring non-destructive measures that can be supported over time. This has allowed the terms to be applied to a broadening range of concerns as is clear from a perusal of “sustainability” on the World Bank web site: There has been work on sustainability in Guinea worm eradication\textsuperscript{86}, sustainability of investment in education\textsuperscript{87}, sustainability of government targeted credit programs\textsuperscript{88}, sustainability of immunization\textsuperscript{89}; transportation sustainability\textsuperscript{90} as well as fiscal, financial and debt sustainability\textsuperscript{91} (World Bank web site).

2) \textbf{Participation} distills up the prevailing idea that there are many stakeholders in the development effort and input from all of them can only strengthen the process. This theme emerged in part as a reaction to criticism that the conditionalities of the structural adjustments loans were excessively Bank-driven and insufficiently receptive to input from the borrower. It is now thought that in a sense everyone is a stakeholder; the development community, the recipient government, donors, civil society including NGOs, and the poor themselves. The active participation of those who are targeted, people living in poverty, is considered paramount but the inclusion of stakeholders who previously were sidelined, such as non-governmental organizations and civil society (defined as affected or interested parties outside the government) is also important.

There are several reasons why widespread participation is now considered helpful. The most fundamental is the belief, espoused by institutionalists, that participation elicits cooperation and willingness to sacrifice for common objectives (Griffin, 2000: 21). With regard to the poor, social scientists believe that unless the recipients of assistance are part of the process, they will not be

\textsuperscript{86} Nigeria Guinea Worm Eradication Programme (NIGEP) began in 1988 with the goal of eradicating the parasite by 1995.

\textsuperscript{87} Presentation by the Bank Human Development Network Education Team (HDNED) and Social Protection Team (HDNSP) at Brown Bag Lunch, February 28, 2001.

\textsuperscript{88} World Bank Discussion Paper 316 reviewing a project by the Bangladesh Rural Development Board for provision of credit and ancillary services, 1996.

\textsuperscript{89} Terms of Reference for a consultant to review a program by government of Nepal to immunize children against Hepatitis B, 2001.

\textsuperscript{90} Specifically, transportation indicators for sustainability, subject of a World Bank Conference, 1997.

\textsuperscript{91} Many may be found on the Bank web site; for example, Sustainability of the Farmer Field School approach to agricultural extension.
motivated to help that process succeed. This also applies to the NGOs, many of which are well financed, well organized and well informed. They have become extremely vocal when opposed to actions affecting their particular sphere and the hope was that by bringing them into the process as stakeholders, their opposition would be defused92. Beyond this, there is a recognition that they, and civil society in general, can function very effectively within client communities to render real help in program implementation.

The World Bank is avowedly “pro-poor” and believes that while participation by all is valuable, that by the poor themselves is enormously important. It believes that they are the real experts on poverty and can offer valuable input to any assessment of their needs. At the end of the 1990s, the Bank surveyed 60,000 poor people in 60 countries to gather some of that input and it has issued a report in three volumes collectively entitled *Voices of the Poor* (Narayan et al., 2000 and 2002).

Another important facet of participation is the role of the client government in the formulation and implementation of strategies and projects. This is closely related to the theme of “ownership” discussed below. To enhance both “participation” and “ownership,” the Bank often takes the lead in organizing meetings to communicate with the various stakeholders including NGOs and representatives of the “poor,” especially during the process of formulating strategies and projects.

3) **Ownership** has some similarity with participation in that it refers to depth of involvement. In the new lexicon, ownership means the active, even primary, involvement of the client government. Imposed development has been shown not to work. For development efforts to be successful the country must “own” the process and it demonstrates ownership by engagement backed by a significant level of national consensus. A specific instrument, the Poverty Reduction Strategy Paper (PRSP) has been devised to create ownership. This document is written by the client and it presents the government’s own strategy for reducing poverty as it exists within that country. The PRSP is explained more explicitly in the sub-section below on “instruments.”

In 1995 the Bank received stinging criticism on its attitude toward national ownership in the highly influential Helleiner Report (Helleiner et al., 1995). This report was commissioned by the Royal Danish Ministry of Foreign Affairs and is officially entitled *Report of the Group of Independent Advisors on*

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92 As is discussed in the next section, judging from increasingly antagonistic protests and demonstrations, this hope seems not to have been realized.
Development Cooperation Issues Between Tanzania and Its Aid Donors. As with other commissions, it is commonly known by the name of its chairman, Gerald K. Helleiner. The Helleiner Report was a watershed document presenting an independent and authoritative analysis of donor-client relations that is applicable much beyond the specific situation of Tanzania. With regard to ownership (Part II of the Report), it singles out the World Bank as particularly egregious in its disregard for local ownership.

Then there is the World Bank...The perception is of an institution encouraged by its superior manpower and other resources to be self-confident to the point of arrogance, with little consideration of others’ views. Local ownership is the first casualty of such an attitude, as illustrated by the fact, reported to us, that in the preparation of technical cooperation projects, the Bank staff routinely drafts terms of reference, instead of leaving that to the GOT (Helleiner et al., 1995: 15-16).

Despite the Helleiner Report’s severe criticism for failing to respect ownership and the Bank’s own understanding of “the right to make mistakes,” the central importance of PRSPs has caused World Bank staff to become heavily involved in their formulation. It was foreseen that input from staff would be helpful but in many cases it has been essential, so much so that routine advice and assistance has been supplemented with special staff training in guiding the process. It is unclear to what extent this might dilute the sense of ownership,

4) Institutions have been extensively mentioned. In the current climate, their importance cannot be over-estimated. It is widely held that they constitute the enabling environment of a client country in the absence of which development is difficult and assistance uncertain. Institutions can be discrete organizations, such as commercial associations or religious organizations, but as the term “the rules of the game” (North, 1990: 1) indicates, they are also the abstract but clear morés that give a society its coherence. There is a recognition that strategies and projects will not be sustainable unless salutary institutions exist to support development efforts. In particular governmental institutions that control corruption, legal and judiciary institutions that protect rights and social service institutions that protect health and provide education are thought to be fundamental.

While the importance of institutions is widely accepted, the sequencing is more controversial. In particular, some UN family agencies, such as UNCTAD
(discussed above) and UNIDO believe that economic growth and increases in income should set the stage for institution building while the international financial institutions believe that appropriate institutions set the stage for growth and economic development.

B. Processes

The “Strategic Compact” of 1997, discussed earlier in this chapter, brought into the Bank’s repertoire some new processes, often with corresponding new documents, even while enhancing the importance of some existing ones. These processes that the Bank and other stakeholders must go through often entail analyses, discussions and negotiations to establish strategies, to identify necessary institutional changes, and to formulate projects. Within these processes, the Bank must ensure that the themes mentioned above are given due attention.

Among the existing processes, the Country Assistance Strategy (CAS), the main forum for Bank-client interaction, is probably the most important. A more recently devised document, the Poverty Reduction Strategy Paper (PRSP) has become central for IDA-eligible countries as the client country’s own detailed and comprehensive strategy for poverty reduction. Another new process, the Comprehensive Development Framework (CDF) is designed to map a total development plan for the client country, including sectors and donors, and to incorporate within it both the CAS and the PRSP. A process to apply the poverty reduction strategy to middle-income countries where the majority of the world’s poor reside is still being discussed, although there are indications of the form it will finally take.

1) The Country Assistance Strategy (CAS) defines the Bank’s relationship with the client government and is, in effect, a business plan. To create it the Bank conducts an assessment of priorities for a particular country and recommends the level and composition of assistance. In this way it determines the form of assistance it will extend: investment lending, adjustment lending, or non-lending assistance. Although it is to be prepared with the client government in a highly engaged (and increasingly participatory) way, it is not a negotiated document. Any differences that do emerge between the country’s own agenda and that advocated by the Bank are highlighted in the CAS. CASs are updated regularly according to a rotating schedule, usually every three years.

The CAS is well established as the central vehicle for assessing both IDA
Chapter IV

Credits and IBRD loans and every Bank client country has one.

2) The Poverty Reduction Strategy Paper (PRSP), adopted in 1999, has become the very heart of the poverty reduction program, such that the program has come to be called the “PRSP process.” It is a document prepared by the client government in two steps. First, an Interim PRSP (I-PRSP) is prepared and submitted to the relevant committee. The oversight committee is the Joint Staff Assessment (JSA) Committee of the World Bank and the IMF. After consideration by the committee, it is modified to become a final PRSP. Before the final PRSP can be accepted, the government must have in place policy and institutional reforms sufficient to carry out poverty alleviation measures.

The PRSP is a central element of the CAS and a basis for the CDF. It is a decision point prerequisite to the HIPC Initiative. It is linked to the Poverty Reduction Support Credit (PRSC) of the Bank (described in the next subsection) and the analogous Poverty Reduction Growth Facility (PRGF) of the International Monetary Fund. Written by the government, it formalizes “ownership” of and, presumably, “participation” in the process. Considering its pivotal role and stringent requirements, it is not surprising that, as noted above, Bank staff often become deeply involved in its preparation—offering suggestions, giving comments, and reviewing drafts—effectively acting as advisors. The PRSP is only prepared by countries eligible for IDA credits. Middle income and credit worthy poor countries, candidates for IBRD loans, are not included in this program.

Uganda submitted the first PRSP in March 2000. As of January 2003, twenty-two countries had finalized PRSPs and 42 others had prepared Interim PRSPs. As now planned, PRSPs are to be undated every three years, with provision for yearly changes.

While PRSP and the process it epitomizes has been widely accepted by the development community, there is strong theoretical and operational disagreement with it. This is most cogently presented in the UNCTAD report cited earlier (UNCTAD, 2000b).

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93 Under the two stage Highly Indebted Poor Country Initiative, the decision point is the end of the first stage, when a determination has been made that the country’s debt level is sustainable.

3) The Comprehensive Development Framework (CDF) is a newer process (introduced in May 1998). It emphasizes the holistic but faceted nature of development; social, structural, human, institutional, environmental, economic and financial. It also addresses the problem of coordination among various international and bilateral donors, civil societies such as NGOs, and the client government. It is a conceptual matrix with players in the development effort on one axis and elements of development on other axis and is illustrated schematically in Figure 3, below. The CDF is intended to display all the permutations in the poverty reduction mix and provide, in the cells of the matrix, concrete details as to which player is addressing which area of poverty reduction. The Bank’s activities in the matrix would be those agreed under the CAS. In this way overlap and duplication can be avoided and gaps made obvious. In keeping with the “ownership” theme, the client country takes the lead in the CDF process. It directs the development agenda, while the Bank and other partners defining their supporting roles within their respective plans. The CDF is not always documented as such, it is essentially a process—in the words of one involved Bank staff member, it is essentially “spirit”.

All projects within the CDF are managed in-country and one of its critical aspects is the coordination it is intended to facilitate. Analysis of coordination problems was the mandate and main subject of the Helleiner Report mentioned above in the context of ownership. The CDF effort can be understood as a result of that report and its recommendations. Under the lead of the client government and its departments, project or sector working groups develop a “shared strategy” to which donors can then align their assistance. Recently a sector version of the CDF process has been introduced, the SWAP or Sector-Wide Approach Program. This process presents a problem for donors who centralize their decision making at home because for them effective participation in a multi-party, in-country based framework is difficult. This is particularly the case for Japan, the world’s second largest contributor of ODA and the second largest shareholder of the World Bank. The Japan situation is discussed in detail below in Chapter VI.

Like the PRSP, the CDF is designed specifically to raise the development level of IDA countries and is not relevant to IBRD borrowers. The public information notice in Box 4, regarding Vietnam (World Bank 2001f), clarifies the role of the CAS and its relationship to the CDF. This notice also highlights the importance of the previously discussed themes, “institutions” and “participation”.

95 Personal interview.
Box 4: CAS Public Information Notice
World Bank Board Discusses Country Assistance Strategy Progress Report for Vietnam


Country Context
A major new analysis on poverty in Vietnam confirms that poverty, however measured, has been reduced impressively during the 1990s. Despite this progress, poverty remains widespread and deep. The driving forces of the gains to date, which are agricultural productivity and the small service sector, cannot be expected to continue to deliver such gains, indicating rapid growth of off-farm employment is essential. For the last two years of the East Asian crisis, Vietnam has managed to maintain macroeconomic stability, but the economy has recently performed at well below its long-run potential. In order to maintain the momentum of poverty reduction and to bring Vietnam back onto the high growth path, the Government has recognized that structural reforms in areas of banking and SOE (state owned enterprise) sectors, in trade policies and in creating a private sector conducive environment are critical. Good preparatory design work has been undertaken in all sectors. Nonetheless, Vietnam has not yet restored confidence by investors in its business environment, which requires actual implementation of those programs. The World Bank, together with the IMF, has been assisting the Government in formulating the reform programs, whose implementation will be supported by the World Bank’s SACII (Structural Adjustment Credit II) and IMF’s PRGF (Poverty Reduction Growth Facility).

The Government, together with all stakeholders in Vietnam, has been adopting and implementing the CDF approach, which has already started to generate results on the ground through better coordination and deeper policy dialogue towards a share vision. It was agreed between the Government and all stakeholders that this calendar year would be used in an effort to reach a common vision in key sectors and to engage together to support the Government’s preparation of its upcoming 10-year development strategy, which will be discussed at the Ninth Party Congress in the spring of 2001.
Bank Strategy

Vietnam’s last full CAS was prepared at a time when the effects of the East Asian crisis were already being felt and there was a concern about the implications of slower growth for employment generation, poverty reduction, and social equity. Under this backdrop, the CAS had the twin focus of restoring the momentum and deepening the quality of development. It was also built around the Government’s announced development agenda, which consisted of: (i) supporting the Government’s program of economic renewal, (ii) raising productivity through infrastructure, (iii) accelerating rural development, (iv) investing in people and promoting social equity, and (v) improving public administration, transparency and participation.

The Progress Report, jointly prepared by the IFC, suggests that the strategy laid out in the last CAS remains valid, though progress on policy and institutional issues has not yet been sufficient to bring Vietnam up to the “high case” lending scenario (see footnote on next page). IDA credits to Vietnam for the last two years remained about annual $300 million, and we expect it to be around $400-500 million for the next two years. The World Bank Group will continue to stay engaged, with partners, in active support to the Government as it implements its structural reform program, stand willing to finance their associated costs of reforms, and assist its capacity building in project implementation, so that Vietnam can benefit from the high case lending. While it is too early to specify the impacts in detail, the implications of the CDF on the Bank Group’s strategy are expected to be substantial and will be laid out in the next CAS.

Partnership

The CAS and its Progress Report is a joint strategy of the World Bank Group. The CAS was formulated through very participatory process based on full consultation with the Government of Vietnam, other donors including UNDP, ADB and Japan, and NGOs in the field. The Bank has been working closely with the IMF to assist the Government formulate and implement the structural reform program for the last three years. Furthermore, within the context of the CDF, our strategy should become an integral part of the Government’s comprehensive development strategy, for which all stakeholders are currently working together to provide inputs96.

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96 There are three lending scenarios for Vietnam: low case, $283 million per year; base case, $581 million per year; and high case, $812 million per year. There are triggers that signal a move to a higher case, allowing a graduated response to changes in the country’s policies and portfolio performance (World Bank web site: www.worldbank.org).
Figure 3, below, is a schematic showing the matrix character of the Comprehensive Development Framework and the positions of the CAS and PRSP within it. The cells are occupied under the horizontal heading by projects and activities to be implemented by the donors in the vertical headings. The PRSP is the basic policy document of the government and is noted in its cell; the CAS is the basic document for the World Bank and is noted in its cell. Though such a matrix is useful for conceptualizing, the CDF is unlikely to actually be charted in this way. The matrix is more of a “hook” on which to hang the process than an instrument for effecting it.

<table>
<thead>
<tr>
<th></th>
<th>Structural/Institutional</th>
<th>Social/Human</th>
<th>Physical/Rural/Urban</th>
<th>Macroeconomic/Financial</th>
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<tr>
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<tr>
<td>Private Sector</td>
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<td></td>
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<tr>
<td>NGOs</td>
<td></td>
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<tr>
<td>Bilateral Donors</td>
<td></td>
<td></td>
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<tr>
<td>World Bank CAS</td>
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<tr>
<td>EU/IMF/UN/others</td>
<td></td>
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</tbody>
</table>

4) An instrument to serve as a middle-income-country (MIC\textsuperscript{97}) counterpart to the PRSP is still under discussion. (World Bank, 2001c: 3). The task force on middle-income countries of the World Bank Development Committee has recommended a deferred drawdown option. This would allow

\textsuperscript{97} Middle income countries are divided into two categories, lower middle with gross national income (GNI) per capita between $756-$2995 and upper middle income with GNI per capita between $2996-9265. China, the Philippines, Egypt, Mexico, Brazil, Russia are all MICs.
a country to access it or not depending on its situation and alternatives (World Bank, 2000a). There are tentative indications that this will take the form of a “Letter of Development Strategy (LDS),” or perhaps a “Letter of Development Policy.” According to these indications, the LDS (or equivalent) would allow a middle-income country to set out its own development priorities. The actual form would be less controlled than that of the PRSP and would vary in accordance with the widely varied circumstances of this group of countries.

Middle-income countries, despite their relatively healthy economies, have large populations of very poor people. In fact, middle-income countries are home to nearly 80% of the world’s poor (World Bank, 2001c; 3). Proponents of poverty reduction as a goal see this situation as justification for targeting them in the Bank’s poverty reduction strategy. Others, among whom are major Bank shareholders, believe that MICs can attract sufficient private investment and that development aid should go to countries who cannot. This is a clear instance of poverty-oriented assistance colliding with growth-oriented assistance. Some middle-income countries, themselves, reject inclusion in the poverty reduction process because they don’t want the concomitant level of involvement nor the onerous documentation burden demanded. While the issue is being resolved, the CAS has continued to be the main method for selecting Bank interventions in MICs.

C. New Lending Instruments

To assist its client countries in reducing poverty, the Bank has introduced new lending instruments (briefly referred to above in the discussion on lending.) They include the Programmatic Structural Adjustment Loan or Credit (PSAL/C) to support governments in implementing poverty reduction measures and the Poverty Reduction Support Credit (PRSC) to fund the strategy set out in the PRSP. These instruments are in principle available to IDA (concessional) borrowers who satisfy eligibility requirements, generally having to do with intact enabling institutions. As stated above, the counterpart poverty reduction instrument for middle-income-countries has not yet been officially released. All of these new instruments are controversial because monitoring their disbursement is very difficult.

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99 Depending on whether it is an IBRD loan or an IDA credit. Refer to section on IDA, above.
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1) The Programmatic Structural Adjustment Loan or Credit (PSAL/C) is to support long term reform that addresses systemic social, structural, and institutional issues. This reflects the importance the Bank places on institution building which is thought to be an integrated process sequentially related over time, with clear triggers and benchmarks to move the process along. The PSAL/C will supply funds directly to the treasury of the client country once criteria have been met, rather than sequestering it for a particular purpose, as had been the practice before. The client government can then use the funds for poverty reduction purposes as it sees fit. As with the PRSC, some Bank shareholders are leery of this feature and the monitoring problems it presents.

2) The Poverty Reduction Support Credit (PRSC) is a newly designed instrument of the World Bank in the early stages of implementation. The first one was given to Uganda on May 31, 2001. The PRSC is extended in support of a PRSP for the express purpose of enabling the country to pursue the poverty reduction strategy it has laid out. The thinking is that once the PRSP has been finalized and a suitable policy framework is in place, funds should be available for the government to exercise ownership of its poverty reduction strategy by deciding how to implement it.

The support credit is integrated into the client government’s annual budget rather than scattered among separate lending projects. Several major donor countries, including the UK, the Netherlands, and the Nordic countries, already extend assistance this way. Even so, this aspect of it is quite controversial and there is significant opposition to it as being difficult to monitor.

3) The Development Support Loan (DSL) is putatively the instrument to support MICs and is extended in conjunction with the LDS or equivalent document. It has been described in one publication as a series of one-year adjustment loans extended over some three years, with the annual disbursements based on completed reform actions and timed to coincide with the annual budget cycle. (Globalization Challenge Initiative, 2001) According to the World Bank web site, two such loans have already been approved; one to Brazil and one to Georgia.

D. Problems in Employing the Strategy

There are a number of difficulties in implementing the World Bank’s poverty reduction strategy, the PRSP process. As was made clear in the earlier section on the history of development assistance, there have always been overwhelming
and even insurmountable hurdles to achieving the objective. This has not changed and probably is exacerbated by the complexity of the current objective.

**Internal Managing**

Within the World Bank, itself, managing the complicated issue of broadly defined poverty and monitoring the effectiveness of the poverty reduction strategy has become almost a growth industry. The Bank has deconstructed poverty into discreet elements for its own purposes and to formalize the “safeguard” policies that apply to private investment projects it supports. (The safeguard policies cover the environmental and social impact of the projects and are monitored for compliance.) Most of these discreet elements have become objectives in their own right, with their own home pages on the World Bank website (www.worldbank.org) and their own task forces or other dedicated staff attention.

The discreet elements are mitigators or aggravators of deprivation (the operative definition of poverty). These are the elements that the Bank wishes particularly to attend to in designing and evaluating projects. Some of these are concerns, others are specific problems, others require only a general awareness. Most of them overlap, some are mutually subordinate to each other. Some are not traditionally thought to be within the purview of development activity. This welter is a consequence of the scope of the poverty issue and the linkages within it. Following is a random list of elements, possibly incomplete because the analysis is on-going.

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100 The World Bank supports private sector investment through The International Finance Corporation (IFC).

101 More detailed information on them is given in Appendix 2.
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**Box 5: Elements of Poverty**

<table>
<thead>
<tr>
<th>Category</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
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</tr>
<tr>
<td>Corruption</td>
<td><a href="http://www1.worldbank.org/publicsector/anticorrupt/">http://www1.worldbank.org/publicsector/anticorrupt/</a></td>
</tr>
<tr>
<td>Empowerment</td>
<td><a href="http://www.worldbank.org/poverty/empowerment/">http://www.worldbank.org/poverty/empowerment/</a></td>
</tr>
<tr>
<td>Gender</td>
<td><a href="http://www.worldbank.org/gender/">http://www.worldbank.org/gender/</a></td>
</tr>
<tr>
<td>Globalization/Marginalization</td>
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</tr>
<tr>
<td>Governance</td>
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<tr>
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<tr>
<td>Knowledge/Information Technology</td>
<td><a href="http://www.worldbank.org/wbi/knowledgefordevelopment/">http://www.worldbank.org/wbi/knowledgefordevelopment/</a></td>
</tr>
<tr>
<td>Participation</td>
<td><a href="http://www.worldbank.org/participation/">http://www.worldbank.org/participation/</a></td>
</tr>
</tbody>
</table>

External Monitoring and Measuring

In addition to the challenges of internal management, monitoring of the poverty reduction effects of investment loans extended directly by the Bank to client countries has proven to be very difficult. According to a Bank report (World Bank, 2001b: i), due to “conceptual difficulties” and “data limitations,” it is extremely difficult to identify poverty reducing features in most projects so that, overall, monitoring the success of this effort cannot be meaningfully done. For adjustment loans, whether structural or programmatic, monitoring is even more problematic because the funds are not tied to specific measures.

This problem has been augmented by a new campaign called “results-based management.” This is an attempt to organize a system by which concrete results, as opposed to project or program objectives, can be assessed. Results-based management was a by-product of the March 2002 UN Conference on Financing for Development (FfD). It originated in the position of the United States that it would only increase its aid package if it were possible to measure actual results, children educated, for example, rather than schools built, or patients served rather than health clinics opened.

The World Bank created a new unit\footnote{Better Measuring, Monitoring and Managing for Development Results (BMMMDR) \url{http://lnweb18.worldbank.org/MIP/BMMMDR.nsf/}} under a vice president, to work on designing and building the system; a round-table hosted by the Bank and sponsored by the multilateral development banks was held in June 2002; and at the Annual Meeting of the World Bank-IMF in September 2002, the Development Committee received and approved a progress report (World Bank, 2002f). According to the Bank, results-based management represents advancement to a third stage in refining project/program evaluation: First came evaluation in terms of loan quantity; next, following the critical Wapenhans Report of 1992, there was a shift toward project/program quality; now emphasis is to be placed on measurable results.

Measurement is also one of the exigencies of the Millennium Development Goals (MDGs). The goals are largely couched in terms of targeted percentage increases or declines so that determination of success will require statistical data. Data availability and reliability are, however, weak links in the assessment chain, most especially for those countries with poorly functioning institutions, high levels of poverty and low levels of development. Several statistical organizations are working on compiling data, to the extent possible in a time series, nationally, regionally and organized around goals. One of these is the United Nations Statistics Division\footnote{http://unstats.un.org/unsd/} which is a repository for data gathered by
UN member countries. Another is PARIS21\textsuperscript{105} a statistical capacity building consortium working with developing countries so that the necessary data can be correctly gathered and analyzed. PARIS21 has created a task on “improved statistical support for monitoring development goals” which held its first meeting in October 2002.

Results are also of key importance to the Millennium Challenge Account (MCA), a new aid program of US administration. That money, $5bn additional per year, will go to countries selected according to criteria embodied in 16 indicators that will be used to assess national performance. The indicators will be used to identify eligible countries (Bush, 2002).

**Including the Ineligible**

Another complication posed by the poverty reduction program is how to treat those countries which clearly lack policies and/or institutions that have been identified as prerequisite. The fundamental importance of governance has been mentioned above. According to the currently operative paradigm, countries which lack acceptable governance also lack the absorptive capacity to benefit from financial assistance and should not receive any (World Bank, 1998). These countries have been grouped by the World Bank under the acronym LICUS (Low Income Countries Under Stress), implying that their lack of governing capacity is both caused by and a source of abnormal stress. There is considerable overlap, though not complete congruence between the UNCTAD least developed countries (LDC\textsuperscript{106}) and the World Bank low-income countries under stress (LICUS). The main similarity is the lack of development-enabling institutions; the main difference is that not all the LDCs meet the World Bank criterion of being under stress.

Under its prevailing assumptions, the Bank cannot justify extending financial assistance to these countries because the money could not be effectively used. Instead, a task force has put together a complex strategy built on “capacity building” at various levels. The strategy is complex both because it assumes that each country under stress is different and because the course it charts is a rather tricky one (World Bank, 2002b). The task force report was discussed by the Board of the World Bank in March and July 2002.

Because governance is the underlying limitation with the LICUS, the basic question is on the one hand how to work with an inadequate government and


\textsuperscript{106}Refer to UNCTAD 2002a
on the other how to bypass the government to work with other agents of change. The direction recommended by the Task Force report is to create extra-governmental “Independent Service Authorities”\(^\text{107}\).” These authorities would provide channels for basic social service financing that would effectively bypass the central government. At the same time, it recommends “highly selective capacity building support targeted to critical public and/or private sector reform or change-agent entities…Where called for, it may also be effective to place Bank staff in LICUS, providing direct assistance and advice to the central government (World Bank 2002b: vii).” This would be a very judicious modulation of the ownership theme.

The Task Force proposals are based on a separation of development aid into two categories: knowledge aid and financial aid. Finance is in principle excluded for the LICUS countries because of their poor governance, throwing the weight of assistance onto the knowledge category. Socio-political analysis must be applied here to design a public and/or private sector reform agenda, identify the change agents, and to build the capacity. The conventional economic analysis, which has been the World Bank’s great strength, would not be sufficient. Specific strategies suggested are support for local leaders, so-called “champions of reform,” twining with successful organizations elsewhere, and exploiting the potential contributions from the emigrant community. (World Bank, 2002b: 35-36).

The re-orientation of the Bank toward broader social science methodologies mentioned early is again apparent here. Other development agencies, including the UNDP, have greater expertise and experience in the socio-political approach. The World Bank unit most concerned with knowledge and capacity building is the World Bank Institute (WBI), a social science research and training unit. It was created in 2000 from a merger of the Economic Development Institute (EDI) and the Learning and Leadership Center. Given the constrains of the Bank’s “mandate and operational policies”\(^\text{108}\),” the task force recommends that the Bank take a catalytic role, working jointly on the LICUS problem.

\(^{107}\) World Bank, 2002b: vi for the first of many mentions of this concept.

\(^{108}\) Refer to the Articles of Agreement excerpts in Appendix 1.
The apparent convergence of development assistance perspectives toward the post-Washington consensus does not obscure the reality that other strong views exist. As during the period of the “pioneers” and during the “neoclassic resurgence,” so at this time of wide-spread agreement, divergent voices are being raised. This chapter discusses this situation and its implications.

1. Consensus

The international community, development specialists, donors and others seem to accept the philosophy underlying the current approach to underdevelopment. This philosophy informs the programs of the World Bank as well as the relevant programs of the International Monetary Fund (IMF) and receives declarations of support from organizations such as Organization for Economic Cooperation and Development (OECD) and Department for International Development (DFID) of the UK. The philosophy is “pro-poor” and considers poor people rather than their governments as clients. Its avowed aim is to institute change in their clients’ condition from the ground up. This is to be accomplished through participation and through ownership created by putting responsibility for people’s well being firmly in the hands of their governments with technical and financial support from the development organizations.

The essence of this, the post-Washington consensus, is summarized in the following statement:

*The development debate appears to be...coasting toward a consensus: developing nations must not focus their energies on the growth rates of the GDP, NNP, GNP and the like but should instead try to achieve ‘human development.’ A remarkable feature of these new goals is that everyone*
seems to be supporting them, although few know what the terms mean...One may argue that it is better to be somewhat arbitrary but have your broad objective right than to have a sharply defined but morally indefensible objective (Basu, 2001).

European donors, in particular, strongly support linking economic assistance, poverty reduction and institutional reform. As was noted above, several European countries were already coordinating their bi-lateral aid to the budget cycle of recipient countries at the time this policy was adopted by the World Bank for the Programmatic Structural Adjustment Loan (PSAL). Even without reference to a particular paradigm, Europe historically has demonstrated a pattern of relatively strong support for development efforts. This is attributable to some extent to cultural values. Entitlement to social services and a social safety net has traditionally been more expected and more protected within Europe than within the United States or Japan. Northern European countries contribute the largest portion of their GNP to economic assistance¹⁰⁹ (UK DIFD website).

Beyond this tradition, however, the modern paradigm offers convincing research linking institutional reform and poverty and suggesting that exploiting the connection could actually help poor people (World Bank, 1998). The regional multilateral bank for Eastern Europe and the former Soviet Union, the European Bank for Reconstruction and Development (EBRD), unequivocally accepts the importance of institutions, saying that “Lack of democracy, corruption, monopoly and the absence of the rule of law go hand-in-hand with poverty and economic hardship” (Wagstyl, 2001a). It accepts as well the importance of social justice as a business consideration. According to its head¹¹⁰:

*Beyond a certain threshold, inequalities are not just socially unacceptable, they are also a threat to the economic security of the countries concerned* (Wagstyl, 2001a).

Among other regional Multilateral Development Banks (MDBs) the Asian Development Bank has also accepted the importance of governance institutions, stating that “Governance issues, which have increasingly moved to the forefront

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¹⁰⁹ Denmark, Luxembourg, the Netherlands, Norway, and Sweden contribute 0.7% of GNP to official development assistance (ODA), meeting the target set by the United Nations.

¹¹⁰ At that time, Laurent Fabius
in recent development debates, are important in virtually all areas of
development” (ADB website). At the Inter-American Development Bank (IADB) in 1996 the Board of Executive Directors formally considered\textsuperscript{111} the position that “There is a direct relationship between economic development and the quality of government. Economic reform and poverty reduction strategies will not be successful without strong institutions (Inter-American Development Bank Strategic Planning and Operational Policy Department, 1996: 3).

2. Dissension

Despite the wide acceptance of the holistic, multi-faceted approach, there remains a measure of unease about the actual process and some distrust toward the World Bank. There are several reasons for this:

- As discussed in the preceding chapter, there is a lack of clear measurement and verification of result to back up the words.
- International development and the field of development economics are susceptible to political and ideological slant. Personal and professional zeal, the amount of money involved, the alternative costs, the political ramifications as well as personal egos and reputations are real factors when development decisions are made.
- There is a tension between “aid people” and “development people” who are frequently at cross purposes. Aid people, typified by NGOs, favor redistribution of income and other benefits targeted at the poor (using “empowerment” as a code word), and development people promote economic liberalization and growth (using “opportunity” as their code word\textsuperscript{112}).

These considerations are not necessarily isolated and clearly delineated, they are more likely to blur and blend into each other. But in this section it looks at some of the objections to the World Bank’s poverty reduction strategy and the way in which they are presented.

\textsuperscript{111} According to the IADB website, this statement was adopted as a “mandate,” a statement of the Bank’s priorities. (IADB website, http://www.iadb.org/exr/english/POLICIES/policies.htm).

\textsuperscript{112} This schism was exemplified in the resignation of Ravi Kanbur as lead writer of the World Development Report 2000, \textit{Attacking Poverty}, over the issue of how to balance opportunity and empowerment (Financial times, 2000).
**Professional theoretical disagreement**

There is a viewpoint that the poverty reduction strategy as embodied by the Poverty Reduction Strategy Paper (PRSP) process is neither as innovative nor as beneficial as purported. The analysts at United Nations Conference on Trade and Development (UNCTAD), writing about the least developed countries and Sub-Saharan Africa (UNCTAD, 2002a and UNCTAD, 2002b), appear to be in the vanguard. They criticize the process generally as being little more than old-fashioned conditionalities with a social overlay and specifically as inappropriate or even harmful for countries in generalized poverty. If, as the PRSP process continues, results are disappointing this viewpoint will gain adherents.

**Donor unease**

The reluctance of some large donors to authorize unmonitored or weakly monitored lending has been mentioned in Chapter III. There is also disagreement from some of them with the scope of the poverty reduction goal and the way it has been couched. The United States, the largest and most consequent shareholder whose influence was noted earlier, has been the most outspoken but has not been alone in this concern. When the current administration, more conservative than its predecessor, took office Secretary of the Treasury, Paul O’Neill, was quite clear on the subject: The priority of the US Government is to enhance the overall economic performance of countries rather than the welfare of particular groups.

*The scope of the World Bank’s activities is now too diffuse, and this reduces its focus on [its] core objective...In the case of each new loan and each new grant they need to ask: how is this decision going to raise income per capita, or raise productivity* (Washington Post, 2001: E1)?

Apart from disagreement over the principles and mechanics of poverty reduction, some donors feel disquiet at the attitude of the World Bank. There are reservations about the transformation of society which its comprehensive development strategy implies and requires. This was mentioned above in the discussion on institutions and is also clearly expressed in a speech by the then Chief Economist Joseph Stiglitz in 1998:

*Development represents a transformation of society, a movement from traditional relations, traditional ways of thinking, traditional ways of*
CHAPTER V

dealing with health and education, traditional methods of production, to more “modern” ways. For instance, a characteristic of traditional societies is the acceptance of the world as it is; the modern perspective recognizes change, it recognizes that we, as individuals and societies, can take actions that, for instance, reduce infant mortality, increase life-spans, and increase productivity (Stiglitz, 1998).

The reservations are whether or not social transformation is within the purview of this organization. Whether its vision is so correct as to justify pursuit of such wide-scale change or whether it is being arrogant. Whether it has grasped the complexity of the problem or whether it has failed to productively prioritize? Doubts are reinforced by a discordant ideology and posture of righteousness. The World Faiths Initiative on which the Bank embarked in 1998 is an instance of this, another is in a recently published statement by John Williamson (the coiner of the phrase “Washington consensus”) referring to criticism from the US Treasury Department: “That’s a natural conservative view, which many of us think is morally wrong” (Washington Post, 2001). The morality perspective implies a messianic posture incompatible with the Bank’s core function which is to promote productive development.\(^{113}\)

**The United States administration**

While the US administration did speak in favor of poverty reduction, it initially appeared to be in terms quite different from those used by the World Bank. The desirability of poverty reduction, according to President George W. Bush, comes not from its human development implications, but from the purchasing power that will result. In May 2001, Mr. Bush is quoted as saying “Conquering poverty creates new customers” (Washington Post, 2001: A18). Furthermore, he took the position that the impoverishment of the low-income countries (not the middle-income countries) should be addressed by giving them grants which will not have to be repaid. The financial needs of the middle-income countries should, in the main, be left to private investment. As discussed above in the section on lending patterns, this recapitulates the basic recommendations of the Meltzer Report.

The Bush administration has put forward two aid initiatives, one in March 2002 and the second in December 2002. Both have a significant governance component and there is speculation that they were prompted by the terrorist

\(^{113}\) Refer to Appendix 1.
attacks of September 11, 2001 and the awareness that poverty might nurture sympathy and/or haven for terrorism. This is reminiscent of the earlier cold war concern about Communism.

The Millennium Challenge Account (MCA) was introduced by the President at the Inter-American Development on March 14, 2002, just prior to the FfD Conference held March 18-22. In the President’s words, it will be designed to “reward nations that root out corruption, respect human rights, and adhere to the rule of law…invest in better health care, better schools and broader immunization…[and] have more open markets and sustainable budget policies, nations where people can start and operate a small business without running the gauntlets of bureaucracy and bribery” (Bush, 2002). The MCA will be administered through a new agency, the Millennium Challenge Corporation (rather than through USAID) and will disburse an additional $5 billion annually over current levels\textsuperscript{114} to eligible, selected governments that:

- Govern justly
- Invest in their people, and
- Encourage economic freedom.

The second initiative is a “US-Middle East Partnership Initiative” announced in December 2002 by Secretary of State Colin Powell (Powell, 2002). This initiative commits an additional $29 million (beyond the $1 billion already available) to promoting democracy in the Moslem world. The countries of the Middle East are, with the notable exception of Yemen, middle income and high income countries by World Bank classification.

The initiative will have three pillars (US Department of State, 2002):

- Education — scholarships, teacher training, girls education and female literacy, and internet connectivity;
- Economic reform and private sector development – help with meeting World Trade Organization (WTO) criteria, financial sector reform, anti-corruption measures and enterprise start-up assistance;
- Strengthening civil society – judicial regulatory reform, support for NGOs and training for political candidates and journalists.

While their political overtones and foreign policy implications are clear,

\textsuperscript{114} Increases will be spread over a three-year schedule starting in 2003 so that the $5 billion annual figure will be reached in 2006.
and despite the bilateral nature of these programs, they appear quite compatible with the human development and institutional focus of the post-Washington consensus.

**Other stakeholders and interested observers**

The World Bank is a huge presence and offers a convenient target for criticism and protest even when unwarranted. Vigorous, vocal and vociferous objection to the World Bank comes from NGO protestors who loosely organized behind the slogan “Fifty Years is Enough.” This group appeared in 1994 and its slogan refers to the fifty years since the Bank’s inception. They have been joined in their opposition to the Bank by various other protest groups under a coordination umbrella called Mobilization for Global Justice\(^{115}\). Their objections are to what they see as damage done to economically defenseless countries. They demand a series of far-reaching reforms which would make the World Bank less secretive and more accountable\(^ {116}\), and would force it to undertake fewer and smaller projects and to involve local populations in project development and implementation” (Multinational Monitor, 1994).

Thinking these demands to be unattainable, these critics advocate dismantling the Bank as an easier alternative. However, the Bank has responded to the protesters and the demands by NGOs have been very influential in defining the Bank’s current strategy. As far back as 1987, during the presidency of Barber Conable, cooperation with NGOs was expressly endorsed and from 1989 this cooperation was graphically presented in the Bank’s Annual Reports. In 1993, during the term of Lewis Preston, the Inspection Panel was created as an independent body to receive and satisfy requests for inspection of projects to ascertain their compliance with operating policies and procedures. The participatory strategy of including NGOs as stakeholders has apparently not succeeded in allaying their distrust of international financial institutions. The broad, anti-globalization movement that has emerged, taking the form of street demonstrations and parallel conferences, specifically accuses the Bretton Woods institutions of being anti-democratic and unjust, with policies and practices that “have caused widespread poverty, inequality, and suffering among the world’s peoples and damage to the world’s environment” (Fifty Years is Enough

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\(^{115}\) Website: http://www.a16.org/

\(^{116}\) Apparently to defuse impending demonstrations at the September 2001 Joint Annual General Meetings of the World Bank/IMF (which were ultimately cancelled due to terrorists attacks on September 11), the Bank issued a revised disclosure policy on September 7, 2001. The new policy announced changes that “will bring greater transparency and accountability to the Bank’s support for the development process.” (World Bank, 2001d).
Closure of the Bank is also advocated by those who believe that aid is unnecessary, that private capital markets can provide enough development finance without public intervention and private consulting firms can provide enough development advice. There is some suspicion among Bank supporters of an “unholy alliance between debt campaigners and political conservatives,” especially in the United States, to dismantle multilateral organizations (Beattie, 2001b). The recommendations of the Meltzer Report, if implemented, would effectively downsize the Bank by making redundant much of its loan making apparatus, historically the bulk of its activity. The resurrection of this report by the Bush Administration only fueled such speculation. A recent report from the Bank’s vice-president for external affairs states, in part, that “The openness revolution and the anti-globalization backlash have brought the Bank’s poverty reduction mission under global scrutiny…Support in the authorizing environment for the World Bank and other multilateral agencies is weakening” (Beattie, 2001c). The World Bank’s Department of External Affairs doubled in size over the past decade (Table 4), perhaps to counteract this perceived wave of animosity.

On another front, respected international editorial opinion questions the scale of the organizations, as in the following excerpt:

> It is quite right to ask…whether these bodies [World Bank and IMF] need to exist at all, exactly what purpose are they intended to serve, and just how well they are discharging their duties, whatever these may be…To be more effective, the Fund and the Bank both need to do less (Economist, 2001: 24).

**Internal dissatisfaction**

Concerned donors, impassioned activists, and impartial journalists are not the only critical parties. From within the World Bank, itself, strong criticism has been voiced (Allen, 2001; Fidler, 2001b and 2001c). There has been internal dissatisfaction with the organization’s direction among the professionals who do the Bank’s work, misgivings among the staff that perhaps there is now a new kind of “approval culture.” This one is not fixed on lending approval and project marketing, as was described by Willi Wapenhans a decade ago. Rather it is an atmosphere imbued with pressure to accommodate the “post-Washington consensus” no matter to what degree or for what reason ill advised. For example, as was explained earlier with reference to capacity building, legal and judicial
institutions are considered so fundamental to the poverty reduction strategy that staff of the World Bank legal department report intense pressure to bring reform to those institutions even if it has not been requested. In the past, reform of legal institutions had been undertaken only at the request of the client but currently this restraint is not being exercised\textsuperscript{117}. Again, the urge to modulate ownership, mentioned above with regard to the Helleiner Report and to Low Income Countries Under Stress (LICUS) challenges, is evident.

Internal dissent has to some measure been eased through staff turnover. Mr. Wolfensohn broadly replaced top level management and instituted a far reaching re-organization of the Bank shortly after becoming President in 1995\textsuperscript{118}. That plus the changes in staff mix (illustrated in Table 4 above), which effectively brought an influx of sociology, anthropology and political science (SAP) professionals and a diminution of economists, means that current Bank employees are more supportive of their organization’s direction than were those in place when the changes were introduced.

3. Bank Reactivity

Paradoxically in light of the breadth of its currently defined objectives, a characteristic exhibited by the Bank over its 50+years has been a tendency to react to impediments and/or criticism by redirecting operations into new or less contentious areas. In the era of the pioneers, criticism that it was too close to governments and too biased toward big infrastructure projects caused the Bank cut back on such projects and to began confronting governments on their distortionary policies. When the effects of SALs were challenged, the Bank reevaluated the neoclassical approach and cut back on conditionalities. The withdrawal of the “redistribution with growth” program when it came under criticism in the 1970s is one specific example. Although seemingly incongruous, given the World Bank’s size, scope and influence, this tendency to pull back operationally has been repeated with respect to a host of issues such as the environment\textsuperscript{119}, social safety net, culture, poverty and private sector investment. Seeking to avoid criticism, the Bank has tried to accommodate all concerns. As each criticism registered, it has shied away from that area or shielded itself by creating a bureaucracy or task force to deal with it or to monitor it.

The quasi-political nature of the Bank has perhaps made such accommodation necessary. It can even be seen as a desirable attempt to

\textsuperscript{117} Personal interview
\textsuperscript{118} Refer to the Strategic Compact in Appendix 7.
\textsuperscript{119} The experience of the Narmada Dam, in India, referred to above, and that of the Rosia Montana Gold Mine, in Romania (McAleer, 2003) are examples of this.
recognize and respect the legitimacy of criticism. It can also been seen, however, as a lack of clarity of mission and/or a lack of commitment to it. On a less speculative level, steadily increasing filters and restrictions have contributed enormously to the time, complexity and cost associated with doing business with the World Bank. As was explained above, this “cost of doing business” has made the Bank uncompetitive vis-à-vis the private sector, individual donor countries and other international development agencies.

A slightly different predicament faces the Bank with respect to its attempt to condition lending assistance on appropriate institutional structure. It has embraced recent studies that make clear what has been suggested throughout the five decades of development assistance, that the success of economic assistance is intimately tied to the soundness of governance (and other institutions) in the recipient country. “Improvements in economic institutions and policies in the developing world are the key to a quantum leap in poverty reduction…Efforts to ‘buy’ policy improvements in countries where there is no movement for reform, by contrast, have typically failed” (World Bank, 1998: 3). The predicament is that this has the effect of restricting lending mainly to countries with acceptable governance and institutions, the best candidates for private sector investment and withholding from those lacking them, who have no other recourse. The problem of how to help impoverished countries with poor enabling institutions, such as LICUS, has not been solved.

There are similarities here with the issue of “absorptive capacity” referred to above, in that client countries in need of help are not eligible for it for reasons that result directly from their disadvantaged condition. The problem was flagged by the World Bank Quality Assurance Group (QAG) in its Annual Report on Portfolio Performance, FY 2000 (January 17, 2001):

Since FY95, portfolio composition has seen a marked shift towards countries with good policy and institutional environment… Another noteworthy development of the past five years is a significant decline in the portfolio share of the low-income countries….It…reflects…reduced lending to some of the low-income countries due to poor performance. There is much to commend about the increased focus on results in Bank lending. However considering the overarching objective of poverty reduction, a challenge for the Bank is to sharpen its assistance strategies, especially non-lending services, to strike an appropriate balance between need and performance (World Bank, 2001b: 3).
Perhaps the new initiatives and lending instruments being introduced, the strengthened coordination with other agencies, and the processes described in Chapter IV above will resolve this dilemma. These measures are too recent for their effects to have been properly evaluated so it is too early to tell whether the strategy will work. Meanwhile, in the absence of reliable evaluation, the advocacy of these same processes is bolstering criticism that the Bank’s activities have become too diffuse.

4. Fungibility, Program Approach and Sector Wide Approach

A recent study by the Bank (World Bank, 1998: Chapter 3) has drawn attention to the fungibility of aid money. The essence of this issue is that because money is fungible, there can be no assurance that financial assistance will actually be used for the purpose the donor intended. For example, money intended to improve education may, in reality, supplant money that the recipient would have spent, allowing the recipient’s education funds to be used for some other purpose, such as tax reduction, debt repayment, or some other project completely unrelated to education.

This situation has been recognized by the World Bank from its very earliest days. The Annual Report for 1949-50 was quite direct on the issue: “The Bank recognizes, of course, that by financing one particular investment project, it may be releasing resources already available to the borrower for some other investment activity.” (Kapur et al., 1997) In the intervening half century fungibility was seldom referred to, let alone admitted. More recently however, the Bank has admitted the reality and has taken the position that in such cases “The safest assumption for donors is that they are, more or less, financing whatever the government chooses to do” (World Bank, 1998: 74).

Once the fungibility of aid money is admitted, the question arises whether there is any rationale for donor specification of sectors or sub-sectors for its projects. Pursued a step further, it raises the implication that donors might just as well provide aid money directly to the recipient government treasury (program lending) or to the budget of some sector ministry (sector-wide approach). Pursued to the ultimate, it leads to budgetary support; that is, injection of funds directly into the treasury to be used at the discretion of the spending authority. This in fact is the approach toward which DFID of the UK is moving. DFID claims that such an approach has several advantages. It would reduce the project costs to the donor for design, appraisal, monitoring and evaluation. It would more effectively accommodate basic development

\[120\] It need not have restricted the possibility to “investment activity.”
needs that require long term, recurrent funding, such as education and health care. It would also provide recipient government officials themselves the opportunity to take the lead in designing, implementing and evaluating projects (Lowcock, 2002\textsuperscript{121}).

There are clear shortcomings, however, to utilizing fungibility as a vehicle for economic development. One problem is that the aid becomes “invisible”. Even though they may understand and even appreciate the logic of fungibility, some donor countries prefer to have clearly defined projects physically on the ground. This is often to satisfy domestic constituents and for some donors it is a political necessity. Probably the most serious drawback to fungibility is that the donor loses touch with the project and related tasks, ignorant of and unable to trace where its contribution is going and what it is buying. A specific variant of this problem is military expenditure (see Box 6), a situation not yet being addressed in donor community discussions. In 1999, for example, the following low income countries (according to World Bank classification) devoted greater than 10% of central government expenditure to their military\textsuperscript{122}, for some it was far greater than 10%.

Possibly this disconnect of donor from contribution could be overcome by the donor providing technical assistance, in various sorts, for projects of particular interest. In spite of these shortcomings, fungibility is a strategic issue and it can be used to increase and enhance program and sector wide assistance. If adopted as a tool, fungibility could significantly change the way aid is provided.

\textsuperscript{121} Mark Lowcock is DFID’s Director for Finance and Development Policy.
\textsuperscript{122} This is related to, though separate from, any link between conflict and development.
### Box 6: Military Expenditure as percent of Central Government Expenditure 1999

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>41.1</td>
</tr>
<tr>
<td>Armenia</td>
<td>20.2</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>24.4</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>10.1</td>
</tr>
<tr>
<td>Burundi</td>
<td>26.7</td>
</tr>
<tr>
<td>Cambodia</td>
<td>26.0</td>
</tr>
<tr>
<td>Cameroon</td>
<td>10.6</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>15.4</td>
</tr>
<tr>
<td>Chad</td>
<td>12.7</td>
</tr>
<tr>
<td>Eritrea</td>
<td>51.1</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>29.1</td>
</tr>
<tr>
<td>India</td>
<td>14.6</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>14.0</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>11.1</td>
</tr>
<tr>
<td>Mauritania</td>
<td>18.9</td>
</tr>
<tr>
<td>Pakistan</td>
<td>27.9</td>
</tr>
<tr>
<td>Rwanda</td>
<td>22.7</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>13.5</td>
</tr>
<tr>
<td>Sudan</td>
<td>46.8</td>
</tr>
<tr>
<td>Tanzania</td>
<td>10.1</td>
</tr>
<tr>
<td>Uganda</td>
<td>13.9</td>
</tr>
<tr>
<td>Vietnam</td>
<td>11.6</td>
</tr>
<tr>
<td>Yemen</td>
<td>18.0</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>12.1</td>
</tr>
</tbody>
</table>

(World Bank 2002g: 304-307)

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123 The World Bank presents this data with the disclaimer that such data are often unreliable, for a variety of reasons.
5. Suitability of International Financial Institutions

The concept of development in currency today is significantly different from that which prevailed when the Bretton Woods international financial institutions were first envisaged and created. It may be that yesterday’s organizations are not suited for today’s approach to development with its broad definition of poverty and emphasis on institutions. The organizations are skilled at assessing aid effectiveness in terms of traditional economic and financial cost/benefit analysis, which may be a wrong or inappropriate way to assess projects aimed at changing or strengthening institutions. Accomplishing these new objectives will be difficult and efforts will be long in producing tangible results which may finally be difficult to evaluate or measure.

As one example of the potential mismatch, consider the freedom to associate and communicate which is included in the new definition of poverty: Should a road project aimed at addressing this “poverty” issue be implemented even if the economic return is low? Similarly, on what basis should a project aimed at improving a judicial system be evaluated? Should assistance go to a country with development-compatible institutions and an authoritarian government? It is conceivable that such questions cannot be answered by applying the methods and skills of the established international development agencies. If the poverty reduction approach continues to dominate and poverty reduction strategies continue on their current trajectory, the international assistance organizations may be ill-suited to deal with the time frame and analytic tools required.

As long as the World Bank remains, at its core, a bank which must earn a return on its loans in order to continue operating, there will be an inconsistency among its roles. In 1999 a task force commissioned by an independent think tank strongly recommended a more circumscribed role, even while expressing strong support for the continued operation of the Bretton Woods organizations and for the poverty alleviation objective:

Both the Fund and the Bank have tried to do too much in recent years, and they have lost sight of their respective strengths. They both need to return to basics... The World Bank... should focus on the longer-term structural and social aspects of economic development. It should not be involved in crisis lending or crisis management, and it should refrain from publicly second-guessing the Fund’s macroeconomic policy advice... One area where the Bank can and should do more is in the design of social safety nets... it is well to remind ourselves that financial stability is not an end in
itself but rather a means to broadly shared global prosperity and that it is a fantasy to believe that financial stability can be maintained without attention to the social aspects of development.” (Council on Foreign Relations, 1999: 17).

6. Measuring Change

The World Bank has in place at least two units to evaluate its performance. One is the Operations Evaluation Department (OED), started in 1973. This unit is independent of Bank management and reports directly to the Board of Executive Directors. It evaluates country programs, sector policies and operational process and transmits its findings to the relevant parties with the Bank as well as to the general public. The second is the Quality Assurance Group (QAG) already mentioned. It was created in 1996 to monitor implementation of development activities, both financial aid and knowledge services. The QAG reports to management.

Now results-based managing will require a third layer, focusing on what assistance actually accomplishes. In addition to the theoretical and technical hurdles to be surmounted in devising results-based management, it may be difficult to reconcile a results-orientation with an increasingly sector-wide and programmatic approach. As was pointed out above, one problem with programmatic lending is that it becomes “invisible,” due to fungibility or to the way the funds are allocated. It will be difficult to measure something that is invisible.

7. Compliance with the Articles of Agreement

The suitability of the Bank for the role it has assumed is related to its legal underpinning. As noted in several places above, over the years many of the Bank’s activities seem to have wandered from the provisions of the Articles of Agreement. When structural adjustment lending was introduced in the 1980s, enormous legal expertise was called on to establish its compatibility with the Articles. In recent years, however, less attention seems to be paid to incompatibility. Perhaps poverty reduction is such a sympathetic objective that its legal foundation can be ignored. However, the perception of a disregard for conformity with its Articles of Agreement puts the Bank in a vulnerable position as a legal challenge to its activities could come up any time. This is worrisome given that a number of groups exist that are inimical to and extremely critical of the Bank.

124 Excerpted in Appendix 1
A comparison between the World Bank and the European Bank for Reconstruction and Development is illustrative. Both are multilateral development banks, but the EBRD has a commitment to foster democracy written into its founding articles. The World Bank does not; it has a mandate to foster economic growth.
Japan occupies a unique and important position on the development assistance stage. It was one of the first recipients of World Bank assistance, as a war ravaged country striving to rebuild. It transformed from a devastated economy in the aftermath of World War II into an economic powerhouse by the end of the 20th century, changing its relationship with the World Bank from aid recipient to major contributor. Furthermore, the extent of Japanese economic success, echoed in the performance of the East Asian tigers, made it a role model for other countries seeking growth.

The Japanese aid program originated in post-World War II flows originally intended as reparations for war damage. It was particularly directed to the countries of East and Southeast Asia and to this time, the bulk of Japanese aid goes to the countries of Asia. As Japan’s role in the international economy grew, this purpose was expanded to include that of a disguised “tax” levied to maintain the world economic and political order important to Japan’s continued economic prosperity. In a sense it was also a membership fee, for inclusion in the first circle of international relations. Because Japan is forbidden by its constitution from the sort of international military participation that other countries can use to establish their presence, foreign aid became the center of its international role. This was critical during the Cold War era. The end of the Cold War has meant that such a “tax” is less important and difficulties in the domestic economy have made it more difficult for policymakers to justify the aid outflows. These changed conditions are forcing the policymakers to come up with concrete strategies that can convince not only the international community but also, possibly more importantly, the Japanese tax payers of the importance of its development assistance.

As an aid donor, Japan’s development assistance strategy, as that of the World Bank, shifted with the prevailing thinking and with international events.
In the period of “neoclassic resurgence,” when issues of external debt and structural adjustment were central, Japan was experiencing significant current account surplus. As the new views emerged, focusing on such concepts as good governance, institutions, social capital and human development, Japan’s development assistance policy also endorsed them, as is reflected in the ODA Charter of 1992. During this period it increased its ODA sharply in recognition of “interdependence among nations” with the objective of furthering a shared “humanitarian viewpoint.”

However Japan’s assistance has also been influenced by its own foreign policy (as is bilateral assistance of all donor countries) and by its concern for international trade. This includes the strategic importance Japan places on East and Southeast Asia and other developing countries as a source of natural resources and as markets for its industrial goods. Japan’s own development projects have generally focused on large scale infrastructure, establishment of conditions attractive to foreign investment and export promotion.

With regard to Japan and development, the post-war era can be divided into two periods: Japan as loan recipient is described in the first section of this chapter. It looks at Bank loan assistance for Japan’s post-war reconstruction, presenting background, content, impact and reasons for the effectiveness of the assistance. Japan as financial contributor is presented in the second section. It gives an overview of situation since the mid-1980s. The third discusses Japan’s current shareholder relationship with the World Bank. And the fourth and final section explores some of the implication of the current situation for Japanese ODA.

1. Japan as Recipient of World Bank Loans

Japan joined the World Bank in 1952, a year after it signed the San Francisco Peace Treaty ending World War II. From 1953 to 1966 Japan implemented 31 World Bank financed projects with a total value of some 863 million dollars. These projects were concentrated in capital intensive and large-scale infrastructure including power, steel, automobile plants, shipbuilding, agricultural land development and transportation. The final loan was received on July 29, 1966 and all were completely repaid by July 1990.\(^\text{125}\)

A. Post-War Economy and the Impact of World Bank Loans

Japan was facing a number of economic difficulties in the aftermath of the war. Among the most serious was the large unemployed population of

\(^{125}\) Refer to Appendix 8 for a complete list of World Bank loans to Japan.
demobilized soldiers and former munitions industry workers, energy and food shortages, and severe inflation. The level of production dropped sharply in almost all industries with the decline in production of two basic industrial materials, coal and steel, being especially serious. In 1948, the Economic Stabilization Board\footnote{The mission of the board established in 1946 was emergency planning of measures for the post-war economic reconstruction and stabilization.} formulated a five-year program for economic reconstruction, which aimed to restore living standards to the prewar level.

By the early 1950s, Japan had gradually improved its capacity to receive foreign investment. Within this improving investment climate, a plan took shape in 1951 for power companies to import high-efficiency thermal generators from the US. Originally the plan envisioned borrowing from the US Export-Import Bank but from the outset the World Bank insisted that it should handle this kind of long-term development plan in a member country. When in 1953 the US government decided to reorganize and scale down the US Export-Import Bank, it was agreed that the World Bank would handle long-term capital investment loans to Japan (Japan Development Bank, 1963). Following on the loans to power companies were loans to the steel industry, to the automobile industry (including Toyota), and for land reclamation. In the 1960s, loans were extended for highway construction and for the Shinkansen “bullet train.”

The World Bank loans had significant macroeconomic impact on Japan in several ways:

- helped directly to overcoming financial difficulties;
- induced private investment;
- improved project quality through the appraisal process; and
- provided technical assistance and project advice.

**Direct Financial Input**

The direct financial input was a crucial enabling factor making possible the implementation of projects with large financial requirements. Although the average of World Bank loans for the period 1953-1966 was only 0.12% of Japanese GNP, it was 4.5% of Japanese foreign reserves (See Table 5). In the late 1950s and early 1960s, the Bank provided 60% of the foreign funds raised by Japan\footnote{The rest came from investors including the US Export-Import Bank, private American banks and security brokers.} (Kawasaki, 1962).

\emph{Loans from the Bank [were] a very valuable source of finance for Japan}
until the early 1960s. When finance ministers went to the IMF/World Bank annual meetings, their mission was to obtain $100 to $200 million in loans from the Bank. Japan had such a severe shortage of foreign currency funds” (Yusuke Kashiwagi cited in Honda and Hata, 1998).

**Table 5: World Bank Lending to Japan in comparison with Japan’s GNP, Current Balance and Foreign Reserves**

<table>
<thead>
<tr>
<th>Year</th>
<th>World Bank Lending</th>
<th>GNP</th>
<th>Current Balance</th>
<th>Foreign Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>40.20</td>
<td>20,906</td>
<td>-205</td>
<td>913</td>
</tr>
<tr>
<td>54</td>
<td>0.00</td>
<td>21,736</td>
<td>51</td>
<td>637</td>
</tr>
<tr>
<td>55</td>
<td>10.25</td>
<td>24,625</td>
<td>227</td>
<td>738</td>
</tr>
<tr>
<td>56</td>
<td>27.45</td>
<td>27,642</td>
<td>-34</td>
<td>941</td>
</tr>
<tr>
<td>57</td>
<td>7.00</td>
<td>31,247</td>
<td>-620</td>
<td>524</td>
</tr>
<tr>
<td>58</td>
<td>164.00</td>
<td>32,736</td>
<td>264</td>
<td>861</td>
</tr>
<tr>
<td>59</td>
<td>54.00</td>
<td>37,803</td>
<td>361</td>
<td>1,322</td>
</tr>
<tr>
<td>60</td>
<td>53.00</td>
<td>45,019</td>
<td>143</td>
<td>1,824</td>
</tr>
<tr>
<td>61</td>
<td>132.00</td>
<td>55,147</td>
<td>-982</td>
<td>1,486</td>
</tr>
<tr>
<td>62</td>
<td>0.00</td>
<td>60,167</td>
<td>-49</td>
<td>1,841</td>
</tr>
<tr>
<td>63</td>
<td>75.00</td>
<td>71,089</td>
<td>-780</td>
<td>1,878</td>
</tr>
<tr>
<td>64</td>
<td>75.00</td>
<td>82,394</td>
<td>-480</td>
<td>1,999</td>
</tr>
<tr>
<td>65</td>
<td>125.00</td>
<td>91,150</td>
<td>931</td>
<td>2,107</td>
</tr>
<tr>
<td>66</td>
<td>100.00</td>
<td>106,719</td>
<td>1,251</td>
<td>2,074</td>
</tr>
<tr>
<td>average</td>
<td>61.60</td>
<td>50,599</td>
<td>-1.7</td>
<td>1,368</td>
</tr>
</tbody>
</table>

Converted at the rate of 360 yen to the US dollar

Most World Bank lending to Japan in the 1950s went to the steel and power industries. (Refer to Appendix 8 for a list of World Bank loans to Japan.) Production capacity of the steel industry expanded thanks to the successful completion of the government’s First Rationalization Plan. The expanded production scale necessitated further technological innovations and the Japanese government implemented the large-scale Second Rationalization Plan. As these measures went forward, the steel industry became increasingly dependant on Bank loans to resolve financial constraints and to serve as a source of foreign exchange. From 1956 to 1960, the “share of foreign funds in the steel industry’s fund for capital investment was 5.1%, 9.1%, 20.9%, 10.1% and 9.1%, respectively (Japan Development Bank 1963). World Bank funds also helped meet increasing domestic investment demand, necessary due to inadequate
domestic savings.

In the 1960s World Bank assistance was concentrated in major infrastructure projects, a sector where the importance of this assistance was especially evident. The loan to the Japan Highway Corporation for the construction of the Meishin Expressway, signed in 1960, is one example, the Tokaido Shinkansen is another. At a time when there was only 7.2 billion yen available in the budget, the Ministry of Construction estimated the total construction cost for the expressway to be 114.2 billion yen (Fujimori, 1966).

Another area that received Bank loans was agriculture. Agricultural production in Japan began to increase with overall economic growth in the early 1950s. In order to expand agricultural land as part of its policies to increase agricultural production, the government implemented large-scale land reclamation projects, including drainage of wetlands, in addition to traditional land improvement projects. In many cases large-scale development of agricultural land would have been impossible without Bank funds.

**Inducing private investment**

As in other countries, World Bank loans had the important effect of inducing private funds, both domestic and foreign, to invest in Japan. With regard to steel, for example, the very fact that steel companies qualified for Bank loans enhanced their creditworthiness. American securities companies obtained information from the Bank on the Japanese steel industry and passed it on to American investors. Such practices made the very existence of Bank loans advantageous for Japan in raising funds commercially on financial markets (Takeda, 1995).

American private banks provided loans in conjunction with the first set of World Bank loans to the steel industry in 1955\(^{128}\). With the second set of Bank loans to those same companies in 1958, private banks in the US were joined by banks in Switzerland, Germany and other countries (Kawasaki, 1962\(^{129}\)).

**Improvement in project quality**

World Bank financial participation had the effect of improving project quality through its appraisal process. The Bank attached quite stringent conditions to its loans, demanding, for example, that companies strengthen their financial condition by raising the capital-asset ratio\(^{130}\). This rigor

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\(^{128}\) Manufacturers Trust Co. funded Yawata Steel and Chase Manhattan Bank funded NKK Corp.

\(^{129}\) Those banks are Manufacturers National Trust Bank, Manufacturers Trust Company, Morgan Guaranty Bank, Continental Illinois Bank, Geneva Bank, Frankfurt Bank, and Dusseldorf Bank.

\(^{130}\) Required lending conditions included the following: (1) the project must contribute to development or reconstruction; (2) the financing shall be of exclusively economic nature; and (3) the projects to be financed must be designed independently and in detail.
contributed greatly to the modernization of finance management by the borrower country.

*Technical assistance and project advice*

The technical guidance and expert advice provided by the Bank in conjunction with its project loans were as valuable to rebuilding Japanese industry as was the money, itself, and had an important impact on post-war industrialization.

In terms of highway construction technology, for example, Japan lagged far behind developed countries. It had paving technology for ordinary roads but lacked the paving and construction technologies to build expressways. The Japanese road authorities seized the opportunity presented by World Bank loans to upgrade technologies using technical guidance and advice from Bank experts as well as transferring technology from other participants (Honda and Hata, 1998). In the case of the steel industry, the principal objective at that time was to increase the capacity of ironworks and to modernize aging facilities. Because equipment embodies technology, the industry was able to upgrade technology by purchasing and applying the most advanced equipment.

World Bank loans also triggered domestic debates on the lending policies of Japanese private banks. As a condition for approving large loans, the World Bank required borrower companies to raise their capital-asset ratio. These loans also included “elaborate provisions requiring improvement of finances which were quite different from the common practice of Japanese banks” (Takeda, 1995). Drawing from this “World Bank lending method,” the Ministry of Finance contemplated regulating Japanese bank lending based on borrower companies’ financial ratios. This plan was regarded by some as internationalist and provoked fierce opposition from industrial groups such as Japan Federation of Economic Organizations. It was never implemented and the “World Bank lending method” eventually faded away. (The Society for Industrial Studies, 1995; Ito, 1995).

**B. Explaining the Effectiveness of World Bank Loans**

A main reason for the success of most World Bank loans to Japan is that

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131 The so-called “main bank system” was in common practice. Under this system a company has a key bank among the several with which it holds accounts. This “main” bank provides large loans to the company, of which it is also a major shareholder. This system assured companies of continued bank support even if their financial condition deteriorated.

132 In retrospect, Japan probably missed an opportunity to enhance the financial fitness and competitiveness of companies when its banks did not adopt the “World Bank lending method”.

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the projects were appropriate to the country’s needs. The loan for the construction of the Tokaido Shinkansen in 1961 is a case in point. In 1959, a Japanese delegation was able to convince skeptical World Bank officials that a high speed railway was necessary to compete with the road and air transport for which expressways and airports were being constructed and that it was consistent with economic and social needs and feasible in terms of technology and profitability.

Bank loans were also effective in helping clear constraints in several important industries. In the early 1950s, electric power, steel, marine transport and coal were thought to cause bottlenecks to growth. The government’s policy to address this problem was based on rehabilitation and on upgrading capital equipment. The World Bank facilitated this by providing loans directly to the power and steel industries and by providing indirect benefits to the maritime transport and coal industries through support for shipbuilding and steel production, respectively. Later, during the “Jinmu” boom\textsuperscript{133} years of 1956 and 1957, power supply, steel supply and transportation network were considered the bottlenecks (Economic Planning Agency, 1958).

The absorptive capacity of Japan and the appropriateness of its institutions were also factors in the effectiveness of World Bank loans. As the *East Asian Miracle* (World Bank, 1993) pointed out, Japan had sufficient absorptive capacity, sound policies and development-compatible institutions\textsuperscript{134}. Yusuke Kashiwagi described the World Bank’s reaction to this in the following words:

\begin{quote}
*The Bank…always considered that Japan had a great potential for growth, and [it] provided a maximum amount of loans that Japan could afford to borrow. I believe that our country achieved high growth because we did our ‘homework’ assigned by the Bank in each project and faithfully implemented their recommendations on overall economic policies* (Honda and Hata, 1998).
\end{quote}

It is impossible to directly compare aid to post-war Japan with current aid to developing countries because, strictly speaking, aid to Japan was for reconstruction and not for development. However, its post-war reconstruction experience indicates that selection of projects that meet socioeconomic needs, attention to economic bottlenecks, and the existence of aid absorptive capacity are important factors to aid effectiveness.

\textsuperscript{133} “Jinmu” that is a name of the first Emperor, was used to call this historical economic boom.

\textsuperscript{134} The absorptive capacity was largely embodied in the institution of Japan’s very competent bureaucracy.
2. Japan as Financial Contributor to the Bank

Having achieved high growth, Japan, through its public and private sectors, has supported the World Bank. Most of its contributions have been through provision of Official Development Assistance (ODA\textsuperscript{135}) or through the purchase of World Bank’s bonds.

A. ODA

Japan became the second largest shareholder of the World Bank (after the US) in 1984 and in 1991 it surpassed the US to become the world’s largest provider of ODA. Throughout the 1990s Japan provided $10 to $15 billion per year in bilateral and multilateral ODA (See Table 6). About a quarter of the amount was provided through international organizations\textsuperscript{136}, the rest through direct bilateral assistance. Japanese ODA extended through the World Bank Group hovered above 1 billion dollars in the early 1990s and peaked at $2.3 billion in 1995.

*Table 6: Japan’s ODA through International Organizations*\textsuperscript{137}

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Grants to international institutions</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) UN agencies</td>
<td>524</td>
<td>695</td>
<td>660</td>
<td>657</td>
<td>758</td>
<td>826</td>
<td>780</td>
<td>689</td>
<td>697</td>
<td>813</td>
<td>1,598</td>
</tr>
<tr>
<td>(2) Other agencies</td>
<td>483</td>
<td>648</td>
<td>602</td>
<td>593</td>
<td>678</td>
<td>744</td>
<td>701</td>
<td>616</td>
<td>627</td>
<td>727</td>
<td>1,304</td>
</tr>
<tr>
<td>2. Capital Subscriptions, etc. to international financial institutions</td>
<td>1,758</td>
<td>1,467</td>
<td>2,187</td>
<td>2,652</td>
<td>3,029</td>
<td>3,344</td>
<td>471</td>
<td>2,133</td>
<td>1,428</td>
<td>4,074</td>
<td>2,180</td>
</tr>
<tr>
<td>(1) World Bank group</td>
<td>1,198</td>
<td>1,186</td>
<td>1,282</td>
<td>1,603</td>
<td>1,762</td>
<td>2,323</td>
<td>12</td>
<td>1,539</td>
<td>806</td>
<td>268</td>
<td>1,153</td>
</tr>
<tr>
<td>(2) Other institutions</td>
<td>559</td>
<td>281</td>
<td>904</td>
<td>1,048</td>
<td>1,266</td>
<td>1,020</td>
<td>459</td>
<td>593</td>
<td>621</td>
<td>3,806</td>
<td>1,027</td>
</tr>
<tr>
<td>Total</td>
<td>2,282</td>
<td>2,163</td>
<td>2,847</td>
<td>3,309</td>
<td>3,788</td>
<td>4,170</td>
<td>1,251</td>
<td>2,822</td>
<td>2,125</td>
<td>4,887</td>
<td>3,778</td>
</tr>
<tr>
<td>Percentage of total ODA (%)</td>
<td>25.2</td>
<td>19.1</td>
<td>24.8</td>
<td>28.6</td>
<td>27.8</td>
<td>28.1</td>
<td>13.3</td>
<td>30.0</td>
<td>19.8</td>
<td>31.6</td>
<td>28.0</td>
</tr>
</tbody>
</table>

Source: Ministry of Foreign Affairs, Japan (2002)

For a number of practical and economic reasons\textsuperscript{138} most of Japan’s aid money is given bilaterally. Nonetheless, financial assistance extended through

\textsuperscript{135} Refer to the definition of ODA in the Overview.
\textsuperscript{136} The two-year average share in 1997 and 1998 was 24.5% while the average among the DAC (Development Assistance Committee) member countries was 32.8%.
\textsuperscript{137} Notes: 1) Includes contributions to European Bank for Reconstruction and Development (EBRD); 2) ODA to Eastern Europe and contributions to the EBRD have not been included in the calculations of percentage of total ODA
\textsuperscript{138} These reasons relate to reparations and compensation for damages from World War II, to financial interests of Japanese companies, and to geopolitical pressures in Asia.
international organizations enables it to leverage that assistance through the organizations’ expertise, experience and global network. This is especially valuable in addressing global problems such as the environment, narcotics, refugees and infectious diseases. Japanese policy recognizes that this multilateral approach can magnify assistance beyond that available within a bilateral assistance framework (Ministry of Foreign Affairs, Economic Cooperation Bureau, 2001).

B. The Japanese Investor in World Bank Bonds

Japan’s contribution to the Bank has also been through purchase of International Bank for Reconstruction and Development (IBRD) issued bonds. The World Bank opened its office in Tokyo in 1970. While its purposes included liaison with the Japanese government, public relations and recruitment of Japanese employees, its most important objective was to raise funds on the Japanese financial market. World Bank bonds have been well received by Japanese investors. While the majority of the bonds issued in Japan are purchased by institutional investors\textsuperscript{139}, an estimated one-third has gone to individual investors. Individual investors are probably attracted to the bonds due to the inherent low risk as reflected in their credit ratings. Another factor motivated them may be the conviction that through the purchase they are helping developing countries.

Until 1986, with some hiatus periods, the Bank issued so-called samurai bonds (yen-denominated foreign bonds). Following the internationalization of financial markets and the yen, the Bank introduced daimyo bonds (yen-denominated foreign bonds settled in Europe) and shogun bonds (non-yen-denominated foreign bonds). There were only six issues of shogun bonds due to various regulations in the financial market and to Japanese business practices. This created some doubts within the Bank about the efficiency of the Tokyo market (Gyohten, 1997). Since 1991 the Bank has launched global yen bonds by coordinating markets in Tokyo, New York and Europe. Euro-yen structured bonds were issued in 1994. Yen-denominated bonds had 19% share of total IBRD bond issues in 2001, second after the 60% share held by US dollar-denominated bonds.

\textsuperscript{139} Japanese financial institutions are well represented among the 47 international financial institutions among whom the World Bank distributes bonds. They include Nomura Securities, Daiwa Securities, DKB International, Sanwa Bank and Industrial Bank of Japan.
3. Japan as World Bank Shareholder

In its shareholder relationship with the World Bank, Japan occupies a position of significance. It is the second largest shareholder and the second largest contributor of ODA (in both cases after the United States). Its voting power accounts for as much as 7.89% of the total vote in IBRD and 10.96% in International Development Association (IDA). It appoints a member of the 24 member Executive Board, the Bank’s policy making body for general operations including approval of all lending. In 2002 Japanese nationals occupied two out of the Bank’s 27 Vice President positions.

Officially Japan occupies a position of considerable power. It has not, however, been able to effectively use it to mold Bank policy and direction. Perhaps for this reason, interaction between the Bank and Japanese non-governmental organizations, including private sector companies and civil society, has been minimal. Nonetheless, it has worked effectively in partnership with the Bank through several channels.

A. Development Strategy Debate

Although Japan has generally maintained a low profile in Bank policy formulation, it has had significant interest in influencing the organization’s approach to development assistance. As is explained in Chapter II, the main pillar of Bank economic theory has been neoclassic economics, but Japanese economists have often reasoned differently. Extrapolating from their own experience with economic development and industrial policies, these economists have emphasized economic development through active government intervention in the private sector. The Japanese disagreement with the neoclassical approach included dissatisfaction with the structural adjustment policies of the World Bank (and IMF) because of their heavy dependency on market mechanisms and their minimalization of any government role.

Starting in the late-1980s and continuing to the present, this divergence of views sparked debate on the role of government in development. Japanese analysts were particularly critical of the Washington Consensus for disregarding the successful development experiences of several East Asian countries.

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140 In 2001 Japan ceded the position of largest ODA contributor to the United States. Partly this was due to financial tightening by the government and partly to exchange rate movement.

141 Of the 24 people on the Executive Board, five are appointed by the member countries with the largest number of shares and the rest are elected by groupings of other member countries.

142 Japan stresses long-term planning, an active role by the government and country specific strategies, none of which is compatible with the Bank/IMF approach. Both do agree on the importance of macroeconomic stability, control of global financial flows, human resources development, environmental protection, poverty reduction, rural development, creation of institutions and good governance. For example, see Ohno (2003).
(Shimomura, Nakagawa and Saito, 1999). In 1991 the Overseas Economic Cooperation Fund (OECF\textsuperscript{143}) voiced this position in and argued for investment promotion, protection of infantry industry, export promotion, financial market policies and gradual privatization (OECF, 1992). This issue is a rare instance of Japan taking a strong stand and insisting that its position be explored.

The Ministry of Finance funded research by the Bank on the economic development of East Asia. This research lead to the publication in 1993 (under the initiative of then Chief Economist Lawrence Summers) of \textit{The East Asian Miracle - Economic Growth and Public Policy} (The World Bank, 1993). As was discussed earlier in Chapters II and III, this report contributed significantly to the subsequent shift in international development strategy from neoclassical theory to emphasis on institutions\textsuperscript{144}. More recently, in 1999, the Japanese Government instigated the “East Asia Prospects Study” as a follow-up to the \textit{East Asian Miracle}. This study examines the direction of economic change in East Asia with a view toward development approaches for the early 21st century. Thus far two books have come out of this study, with more to follow\textsuperscript{145}.

\textbf{B. Supplementary Aid Arrangements}

Japan is the largest contributor of World Bank co-financing, by which the Bank and other aid agencies jointly provide financing for a specific project or program. Co-financing has certain advantages for donors: one is that it enables them to access Bank resources such as research and appraisals; another is that it facilitates the donor in making recommendations to recipient countries that are difficult because of political sensitivities in the bilateral framework (Imai, 2001). The Bank’s co-financing partners in Japan have long been OECF and the Export-Import Bank of Japan, now consolidated into the Japan Bank for International Cooperation (JBIC).

There are also arrangements between Japan’s aid agencies and the World Bank beyond co-financing. Recently the Bank and JBIC began collaborating at the policy level, including the PRSP process\textsuperscript{146}. Another growing area of collaboration is technical assistance. The Bank is expanding its technical cooperation and grant facilities in addition to traditional loans. Consequently, the Japan International Cooperation Agency (JICA), Japan’s technical assistance agency, is gaining importance as a partner to the Bank and closer links are

\textsuperscript{143} OECF later merged with the Export-Import Bank of Japan to become the Japan Bank for International Cooperation.

\textsuperscript{144} Refer to Ishikawa (1996) for details.

\textsuperscript{145} Shahid and Evenett (2002) and Shahid (2003).

\textsuperscript{146} JBIC has participated in the formulation of PRSPs in Vietnam, Laos and Bangladesh, among others.
anticipated.

Japan also supports the Bank through the following government sponsored programs:

**Japan Policy and Human Resources Development (PHRD) Fund**

PHRD was co-established by the Japanese government and the World Bank in July 1990 to facilitate the planning and implementation of policies that will foster human resources and enhance the effectiveness of financial cooperation. The fund encompasses technical cooperation, especially in the following areas:

- Technical cooperation in environmental protection;
- Women in Development (WID\(^{147}\));
- Private sector development;
- Education and health; and
- Agriculture

The size of the fund has been in the range of 10 billion yen per year\(^{148}\). This fund is financing research for the ongoing East Asia Prospects Study referred to above.

**Japan Social Development Fund (JSDF)**

JSDF was established by contribution of the Japanese government in June 2000 for the purpose of alleviating poverty and negative social effects arising from the global economic crisis of 1997-1999 which began in East Asia\(^{149}\). It is intended to help developing countries achieve sustainable development.

**Japan’s Contribution to the World Bank Institute (WBI)**

WBI is the unit of the World Bank charged with human resource development and capacity building in developing countries. For this purpose it conducts research and provides training. The Japanese contribution to WBI includes general training, partnership programs with various development agencies and the Brain Trust Program; which is a program aimed at applying

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\(^{147}\) WID is based on the belief that the role of women is important, that their impact on development must be recognized, and that their active participation in the development processes deserves special consideration.

\(^{148}\) The total of 187 loans from the fund was disbursed in 2000 mainly in the sectors of agriculture, education, environment, health and population, nutrition, and water supply and sanitation. The major recipient countries were China, India, Thai and Guinea. (Ministry of Foreign Affairs, 2002)

\(^{149}\) The major projects that received JSDF loans include the northern mountain poverty reduction project in Vietnam, the child development program in Bulgaria, and the community development program in Nicaragua (Ministry of Foreign Affairs, 2002).
CHAPTER VI

East Asia’s development experience to developing countries.

C. Private Sector Relationship

Currently Bank hires few Japanese firms for its projects due to an apparent mismatch between Bank requirement and Japanese availability. Though there are many Japanese project implementation experts with good practical abilities, they tend to be unfamiliar with the academic-style discussions and reports which the Bank emphasizes. Conversely, there are many Japanese scholars knowledgeable about theory and policy planning but they lack practical knowledge and experience. Education, training and re-orientation of the experts are probably necessary to change this situation.

D. Social Sector Relationship

The World Bank actively promotes working relationships with NGOs because they are usually knowledgeable, committed and able to provide information on and access to impoverished communities in developing countries. However, as was mentioned above, Bank ties with Japanese NGOs are weak. Given the shared goal of international development, it should be possible to remedy this and form constructive and cooperative arrangements. Since 1996 the World Bank Tokyo Office has been working in this direction.

4. Implications for Japanese Development Assistance

Implications on Japanese development assistance strategy of the current world thinking and prospects are critical especially given that there is relatively less enthusiasm for assistance because of the prolonged economic stagnation of the country. It is unfortunate that the Japanese had to reduce its assistance funding when the US and EU were increasing it by substantial amount at the Monterrey Conference.

There is, however, enormous potential for constructive engagement between Japan and the World Bank. Japan’s importance to the Bank and the international development effort in general entitles it to have significant input; and the Bank and the development community at large can benefit not only from Japanese funds but also from its experience, expertise and perspective. In the past, this potential has not been fully realized because Japan has preferred not to engage in the international community for historical and cultural reasons, ceding the platform to other voices150. Over the years this reluctance has left Japan

150 Following the formulation and adoption of its ODA Charter in 1992, there have been indications of change in this policy. See Shimomura et al. (1999).
somewhat ill-equipped to join in despite the resources it has to offer.

The current shifts in emphasis and direction in the international development assistance make it opportune to review strategies and implementation methods. A review of overall Japanese ODA should analyze the total program from several angles including comparative advantage, foreign policy objectives and economic interests. A review should also consider what is one of the most sensitive of issues, the balance between the interests of the donor and the interests of the recipient. Realistically speaking, assistance should serve both sets of interests, donor interests for political viability and recipient interests as the ultimately objective. But the balance needs to be clarified. A good starting point would be an in-depth critical evaluation of past Japanese financed projects in terms of impact on growth, poverty, sustainability, ownership and participation. This is the approach DFID of the UK implemented to define new assistance policies. While Japanese strategy should not necessarily be similar to that of DFID, there may be lessons to learn from DFID’s experience in the strategic evaluation of its assistance program.

In conducting such a review, it would be important to look into the following key features:

- Increased coordination among the various ministries and agencies involved in assistance;
- Intensified cooperation and coordination with other donors and clients in both planning and carrying out projects;
- Sustainability and ownership of the projects;
- In-depth analyses of the impact of the assistance on the recipient countries and Japan; and
- Greater emphasis on “software,” the social sciences factors such as institution building, empowerment, and human development;

Attention to these features will require a re-orientation by Japan’s development community. It will mean moving beyond “hardware,” or infrastructure, which has traditionally been the focus of economic assistance from Japan. And it will mean greater international coordination. Donor harmonization is thought to be less cumbersome, more efficient and more effective than unilaterally managed assistance but it has not been an important element of Japan’s aid practice. Partly this has been due to communication barriers and differences in leadership styles; but it may also reflect weak strategic thinking and poor coordination within the Japanese development assistance
community, itself.

Some view this as an indication that a separate government agency should be created to centralize and concentrate ODA management. Meanwhile, other steps are being taken; both JBIC and JICA are participants in a joint website to share country analytic work. They join 22 other multilateral and bilateral donor agencies on the “Country Analytic Work (CAW) Partnership website”. Close and active participation in the World Bank’s Comprehensive Development Framework (CDF) and Poverty Reduction Strategy Paper (PRSP) process is another avenue to be pursued.

151 http://www.countryanalyticwork.net/
Concluding Remarks

The area of development assistance in the early 21st century is in a significant transition stage. The reason is that in spite of the evolution of ideas, strategies and approaches over the past five decades, in spite of the billions of dollars in assistance and the untold man-years of effort by skilled and committed practitioners, the fundamental problem remains — many countries and billions of people are mired in poverty. Whole segments of population, and in the case of Sub-Saharan Africa, an entire continent, are being marginalized at increasing speed as technology and globalization take off elsewhere. Beyond this discouraging situation, transnational problems such as global warming, water resources, and HIV/AIDS are barely under control.

With a half century of history and experience informing today’s development assistance effort, aid cannot truthfully be said to work. In spite of several successful cases such as those of East Asia, Uganda and Mozambique, economic development is not really associated with economic development assistance. Much more is known now than in the past about what is necessary for development to occur, but the conversion of that knowledge from the academic to the operational requires a methodology which is not yet known and which may not exist. As one observer recently noted, “Knowing the destination does not produce a road map for getting there” (Einhorn, 2001).

1. Recapitulation

In retrospect, the time of pioneers was a period of relatively little tension. The norm, supported by the development community of that period, was government-led development through heavy investment especially in the industrial sector. The belief was that developing countries lacked capital;

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152 A just published book by a current World Bank Senior Advisor offers an on-the-ground account of these failures, as well as his own recipe for surmounting them, “[g]etting incentives right.” (Easterly, 2001: 143)
therefore, assistance should emphasize the transfer of capital, something that could be conducted most efficiently through the government. The success of the reconstruction of Western Europe and Japan reinforced this belief. Tension began to appear in the 1980s when severe macroeconomic shocks and disillusionment with the application of generalized economic principles prompted the Bretton Woods institutions to turn to neoclassical and free-trade economic theories. This was signaled by the introduction of new lending instruments; the structural adjustment loans (SALs). This was the zenith of the neoclassical approach and the Bretton Woods institutions implemented it.

The United Nations family of organizations continued to espouse the other approach. Many countries were reluctant to implement SALs and their opposition often entailed demonstrations and social upheaval. The most serious criticism was the claim by policymakers of SAL recipient countries that the harshness of the conditionalities created a lot of suffering among the poor populations. Several UN organizations, including United Nations Development Programme (UNDP), took up this criticism and proposed that the development assistance focus on poverty and on increasing human capability. A people-oriented approach (today called “pro-poor”) resonated well, as reflected by the awarding of the Nobel Prize in Economics to Amartya Sen. Some donor countries, especially influential ones of northern Europe, gave strong support to this orientation. When James Wolfensohn became president of the World Bank in 1995, the organization was in transition. Many perceived that there was little to show for fifty years of analysis and implementation, little evidence that poor countries and their populations had been helped. Those few previously poor countries that were prospering were apparently doing so for reasons unrelated to World Bank assistance. New concepts and theories were promoted amid loud criticism. A number of NGOs accused the Bank, claiming that its contribution to the development efforts was negative in many areas. Mr. Wolfensohn considered that if the Bank were to survive, significant changes would be necessary and he set about to make them. One change was to soften the “arrogant” image that the Bank had acquired. But the most significant changes was raising poverty reduction to the level of primary objective.— “Our dream is a world free of poverty” became the slogan of the World Bank.

The Bank was joining the movement toward development with a human face, emphasizing qualitative rather than strictly quantitative indicators. One consequence of this was a softening of the market-based/intervention-based dichotomy. In the words of UN Secretary General Kofi Annan, the World
Bank and the UN have “become closer than they had been for several decades” (Annan, 2001). This cooperative attitude is reflected in the success of the Monterrey Conference on Financing for Development at which major donors committed substantial increases in ODA.

2.Possibilities and Prognoses

The World Bank and the entire development community are likely to continue to face many unresolved issues over the coming years. The story of development and economic assistance is continually being written. Speculation is a risky matter but the cyclical nature of development assistance over time hints at a pattern: Criticism gives rise to pessimism which spurs intense analysis which generates new thinking which prompts effort and money to render new ideas operational in expectation (or hope) that they will work. Generally this pattern has been manifested in pendulum swings between the interventionist and the market-based philosophies. Such was the case when interventionist capital accumulation, promoted after the Second World War, yielded to neoclassic structural adjustment in the 1980s and when market oriented neoclassicism gave way to the institution-based approach in currency today.

Pendulum swings in development assistance have resulted not only from disillusionment with prevailing theories; but also from changes in the US administration. Ideologically the Republican political stance is closer to the neoclassicists’ position and has generally favored market-based strategies with economic growth as the objective. The Democratic stance generally is more interventionist and places more importance on achieving social and quality of life objectives. Thus, the incumbent US administration is another clue to the near future. It is unclear how indicative of its policy are the two aid packages recently presented, the Millennium Challenge Account (MCA) and Middle-East Initiative..

This is, in fact, a time of considerable composure among the development community. There is an air of satisfaction among practitioners that they have discovered a paradigm that will lead to poverty reduction through sustainable development. But while there is confidence that the elements are known and hope that the relationships among them are understood, the dynamics of the relationship remain unclear. Both the confidence and the reservations are revealed in the following statement:

153 Said with regard to the reforms of the Wolfensohn presidency in reference to criticisms leveled at Mr. Wolfensohn.
154 This should not be understand as implying that development assistance is unusual in following this pattern. On the contrary, it is a widespread problem solving technique, used in most areas of human endeavor.
We know both the economic conditions and the institutional conditions that make for good economic performance. What we do not know is how to get them. For that, we need a body of theory that explores the process of economic, political, and social change. When we have such a theory, we will make much better progress toward solving problems of development (North, 2001: 49).

Satisfaction with the new paradigm means that the institutional and other “software” facets of economic development have taken hold so strongly that development strategies are unlikely to revert to those of the 1980s. Nonetheless, the shift of emphasis from growth to poverty alleviation is being modulated and there are indications that growth and market orientation are regaining their centrality. In its World Development Report 2002, for example, the World Bank evokes a symbiosis between institutional orientation and market orientation by subtitling it Building Institutions for Markets (World Bank, 2002a, sic).

To some extent, this is a manifestation of the pendulum swings in development assistance. As the poverty reduction strategy becomes fully deployed, inconsistencies and inadequacies become apparent, necessitating realignment, either by curtailing its scope or by reintegrating it back into a growth oriented strategy. It may also hint at a reprise of neoclassicism, possibly promoted by the policies of the US administration which has called for re-enforcement by international lending institutions of the fundamentals of the market economy. As a consequence of its status as the “flagship” development bank, the World Bank was the first to be singled-out for this call. The Bank was also called on, by the Secretary of the Treasury\textsuperscript{155} to approach poverty elimination in a new way, by focusing exclusively on production (Fidler, 2001a).

How the dynamic of development strategy, aid effectiveness and world events in the early 21st century will impact on the World Bank is uncertain. Speculation is a risky matter but one possible scenario features a World Bank reduced in size and more limited in scope. As described above, there is evidence suggesting that despite the apparent breadth of its objective, the Bank’s playing field is narrowing.

- The high cost of doing business with the Bank and/or insufficient absorptive capacity by some clients is reflected in a reduced portfolio.

\textsuperscript{155} At the time, Paul O’Neil who has since left that position. There is no firm indication at this time that this signals any change in policy.
A turn more toward more grant extension and away from project lending it could reduce the portfolio even further.

- Criticism by stakeholders has, in the past, caused a retreat from controversial involvement. This trend could well continue into the future. Between the strident criticism, from right and left, and its own push toward coordinated development efforts (i.e. CDF and SWAP), the Bank is already, in the words of its own Quality Assurance Group, “a more marginal player…its capacity to set the agenda is diminished” (World Bank, 2001b: 26).

- Even if these do not occur, the Bank might well be persuaded to rein in some of its more peripheral activities and focus on its core functions, as some of its supporters recommend. The Bank may restructure into a smaller, more specialized organization.

In addition to the above items, the suitability of the international financial institutions, such as the World Bank and the regional banks, to conceptualize and manage the type of assistance needed for institution building is debatable. It will take a long time to bring change to those areas that have emerged as critical, including gender, corruption, education, health, environment, governance, legal and judiciary, etc. Beyond the issue of time frame, it is doubtful that the international financial institution’s traditional lending approaches are suitable to the needs now being defined. Possibly a new organization is required to implement assistance in these specific areas, leaving more purely economic matters to the financial institutions.

Even if there is no new organization, other players are available to take up slack created by a reduced World Bank presence. The British Department for International Development (DFID) and the UN’s UNDP are prominent adherents of the post-Washington consensus. DFID has recently moved into 4th place in terms of ODA after Japan, the US and Germany. DFID supports fully the millennium development goals and is very serious about meeting them. Very recently it has untied the totality of its loans to help it target the lowest income countries (UK DIFD website, www.DFID.gov.uk). UNDP is, of course, the keeper of the Human Development Index. Mark Malloch Brown became its Administrator in 1999 (after 5 years at the World Bank) with a goal of increasing the heft of that organization within the development community. UNDP provides funds and helps developing countries attract and use aid effectively. Mr. Brown intends to take it in the direction of consulting, rather than “bricks and mortar development” (Hoyos, 2001).
The United Nations, itself, is continuing its activities with respect to development. The Conference on Financing for Development in Monterrey, Mexico and the later World Summit on Sustainable Development in Johannesburg were important in the campaign to tackle the Millennium Development Goals (MDGs). In addition, the regional multilateral development banks, Asian Development Bank (ADB), Inter-American Development Bank (IADB) and European Bank for Reconstruction and Development (EBRD) have sector specific expertise.

How Japan, a huge player in development assistance, should adjust to the situation is being debated. The traditional focus on infrastructure assistance has been and will continue to be important to recipient countries and Japan appears to have a comparative advantage in it. Its wisest course may be to continue this approach but with increased emphasis on institutional factors. With so many organizations emphasizing poverty reduction, some donor should attend to infrastructure.

3. Summing up

Stepping back and looking at the critical path of development thought and assistance over the past five decades a recurring counterpoise is evident and it can be expressed in two fundamental questions: Is development best achieved through more or less government involvement? Should development assistance focus on income redistribution and poverty reduction, generally pursued through economic management, or on expansion of the economic pie through reliance on market forces? The factors that have propelled the swinging pendulum between these axes have been intellectual theories, key world events and on-the-ground assistance efforts.

All these factors intertwine and are reflected in the activities of the World Bank, reflected because the Bank is not an independent entity but a vehicle through which its “stakeholders” exert influence. While the policies of the incumbent US administration have historically had huge impact, the influence of others appears to be increasing and there appears to be a confluence with the United Nations. If the pendulum should swing back toward emphasis on

156 Though not explored in this paper, this same counter-position has generally existed between the United Nations family of organizations and the Bretton Woods institutions. Because of their structure, especially with regard to voting rules, the stances of the UN organizations and the Bretton Woods institutions have been quite different, the UN reflecting more the demands of developing countries and the Bretton Woods institutions more those of the industrialized countries. In terms of their position, the UN generally has favored government involvement and the Bretton Woods institutions have tended toward private sector interests; the UN has been more inclined to support redistribution of income while its Bretton Woods counterparts have believed in economic growth.
growth and to market forces, it will be with an enlightened comprehension of why poverty persists. The nearly unanimous acceptance of the fundamental importance of institutions by development economists of all stripes ensures that.

*If most people are poor, it is clear that the most important resource of the economy, i.e., its people, is being underutilized. It also appears irrelevant in such cases to be debating whether the focus of development should be on promoting economic growth or on reducing poverty* (Duncan and Pollard, 2001: 2).

If a perusal of the history of development assistance, as presented in this paper, gives any cause for optimism it is that the international will seems there and so there is little cause for pessimism. Probably the most serious potential threat to future efforts to solve the development conundrum is discouragement on the part of the donor community. Words of Paul O’Neill, as Secretary of the Treasury, resonate here. In his view, echoing the conclusions of the earlier quoted OECD/DAC report and shared by a number of respected experts, little has been accomplished for the US$225 billion lent over the past decade by the World Bank. “Visit some of the poorest nations in the world, and you will see that we have little to show for it” (Fidler, 2001a). From a humanitarian point, this is a great tragedy, from the human point of view it is a great waste, and from the economic point of view it is a great loss in purchasing power. There is a critical need for some positive results. This would not only signal that underdevelopment was being eased, but would do a lot to counter donor fatigue and re-invigorate the struggle.

The situation has always been fluid. The review of the history of development assistance conducted in the current study suggests that at any given time the focus or emphasis of assistance is unbalanced, that the “fashionable” becomes dominant and overshadows other points of view. This was the case with capital accumulation during the era of pioneers, with diminished government involvement during the era of neo-classicists, and with poverty reduction in recent years. The current pre-occupation with MDGs is an example of this. Dramatic changes occur in this field rather abruptly, frequently growing out of ideas proposed by individuals, or sometimes organizations, well-placed to exert strong influence. Robert McNamara initiated the shift to a poverty focus, Douglas North is largely responsible for the importance today of institutions, the Organization for Economic Cooperation
and Development (OECD) created the International Development Targets (IDTs). The next innovation is still a wild card in the deck, and when it might be played is unclear.

In a sense, “development theory has come full circle” (Hoff and Stiglitz, 2001: 427). This is neatly illustrated by a recent statement by Bank president Wolfensohn that “there are stages of development,” echoing clearly W.W. Rostow’s “stages of growth” theory that started it all. It is unrealistic to think that development issues have been conclusively resolved. If the current approach (the “post-Washington consensus”) does not produce results on-the-ground, tensions will inevitably resurface and the lurking counter positions will re-emerge. Perhaps resultant debate will produce a synthesis and new paradigm, so that the “full circle” will be a spiral upward.

157 Statement made during a keynote address to a gathering in Tokyo in January, 2003.
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Appendix 1

Articles of Agreement

Presented here are excerpted sections from the Articles of Agreement of two organizations of the World Bank Group, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD provides loans and development assistance to middle-income countries and creditworthy poorer countries. Voting power is linked to members’ capital subscriptions, which in turn are based on each country’s relative economic strength. The IBRD is not a profit-maximizing organization but has earned a net income every year since 1948. The IDA is the World Bank Group’s concessional lending window. It provides long-term loans at zero interest to the poorest of the developing countries.

There are three additional members of the World Bank Group, the International Finance Corporation (IFC) which promotes private sector investment; the Multilateral Investment Guarantee Agency (MIGA) which provides investment insurance against non-commercial risk in developing countries; and the International Center for Settlement of Investment Disputes (ICSID) which provides facilities for conciliation and arbitration of investment disputes. As they are basically irrelevant to this paper (the IFC being only marginally so), their Articles of Agreement are not presented.

The complete Articles of Agreement of the two organization is quite lengthy. For this reason, only those provisions most pertinent to the contents of this paper are offered here. However, the complete documents are easily available on the World Bank web site, www.worldbank.org, for anyone wishing to examine them.

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IBRD:

Articles of Agreement
of the International Bank for Reconstruction
and Development (IBRD)
(As amended effective February 16, 1989)

Article I: Purposes:

The purposes of the Bank are:
(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 labor 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 bringing 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.
Appendix

Article IV: Operations

Section 10: Political Activity Prohibited

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.

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IDA:

Articles of Agreement
of the International Development Agency
(Effective September 24, 1960)

Article I: Purposes

The purposes of the Association are to promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world included within the Association’s membership, in particular by providing finance to meet their important developmental requirements on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans, thereby furthering the developmental objectives of the International Bank for Reconstruction and Development (hereinafter called “the Bank”) and supplementing its activities.

The Association shall be guided in all its decisions by the provisions of this Article.

Article V: Operations

Section 1: Use of Resources and Conditions of Financing

(a) The Association shall provide financing to further development in the less-developed areas of the world included within the Association’s membership.

(b) Financing provided by the Association shall be for purposes which in the opinion of the Association are of high developmental priority in the light of the needs of the area or areas concerned and, except in special circumstances, shall be for specific projects.
(c) The Association shall not provide financing if in its opinion such financing is available from private sources on terms which are reasonable for the recipient or could be provided by a loan of the type made by the Bank.

(d) The Association shall not provide financing except upon the recommendation of a competent committee, made after a careful study of the merits of the proposal. Each such committee shall be appointed by the Association and shall include a nominee of the Governor or Governors representing the member or members in whose territories the project under consideration is located and one or more members of the technical staff of the Association. The requirement that the committee include the nominee of a Governor or Governors shall not apply in the case of financing provided to a public international or regional organization.

(e) The Association shall not provide financing for any project if the member in whose territories the project is located objects to such financing, except that it shall not be necessary for the Association to assure itself that individual members do not object in the case of financing provided to a public international or regional organization.

(f) The Association shall impose no conditions that the proceeds of its financing shall be spent in the territories of any particular member or members. The foregoing shall not preclude the Association from complying with any restrictions on the use of funds imposed in accordance with the provisions of these Articles, including restrictions attached to supplementary resources pursuant to agreement between the Association and the contributor.

(g) The Association shall make arrangements to ensure that the proceeds of any financing are used only for the purposes for which the financing was provided, with due attention to considerations of economy, efficiency and competitive international trade and without regard to political or other non-economic influences or considerations.

(h) Funds to be provided under any financing operation shall be made available to the recipient only to meet expenses in connection with the project as they are actually incurred.

Section 6: Political Activity Prohibited

The Association 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 this Agreement.
Appendix 2

Elements of Poverty

The information below is not meant to be all inclusive. It is an attempt to cover most of the ground in terms of the World Bank’s implementation of its poverty reduction development strategy. The inter-relationship among these areas is readily apparent and has been acknowledged by pairing a few of them. This is a fluid area, subject to change in response to data, theoretical analysis or philosophic approach.

Agriculture is viewed by some countries as a declining sector. But today, as was recognized by Johnston and Mellor in the early 1960s, is critical to the transition from an agrarian society to an urban-industrial one. Without growth in agriculture, poverty reduction and general economic development will be seriously hindered. The Bank’s thinking on the rural sector mirrors that for the economy at large: holistic, focusing on governance, institutions, social issues and sustainability.

Almost 72% of the world’s poor are rural and this ratio is expected to continue well into this century. (World Bank, 1997c: 1) These people are vulnerable to global forces as well as domestic ones. The capacity building, empowerment and participation helpful to the economy at large are vital to them. In addition, environmental sustainability and information technology are of critical importance. An agricultural strategy is relevant for all three levels of activity, the community level where rural poverty is concentrated, the national level due to the importance domestically of a healthy rural sector, and regionally (or globally) because export is so critical.

Conflict Resolution/Resettlement. Project induced resettlement has long been a concern of the World Bank. That necessitated by dam or road construction is an example. Now attention is being given to the human costs of displacement and resettlement from other causes. Some displacement is a byproduct of development activities. Urbanization, globalization, structural adjustment, all can and often do cause large groups of people to migrate without having any place really to go.

Now post-conflict resettlement is becoming a major issue. More than 120 developing countries are affected by armed conflict. (Takahashi, 2000: 2) Post-
conflict settlement is critical to two different groups: civilians who were forced to flee and combatants who return after the fighting has ended. Both need to be re-integrated into a structured society.

Frequently, the social fabric has been seriously damaged, so effort must be given to stabilizing institutions, such as the legal, political, and financial systems. In addition, infrastructure has to be reconstructed. In many of the modern conflicts, de-mining is a necessary first step to that.

**Empowerment** is the ability of people to influence forces that affect them. (It has been suggested that “empowerment” as used within the World Bank is a code word for “redistribution” (Beattie, 2000b). It is closely related to participation and governance because it requires access to and respect from institutions. Disadvantaged people are unempowered, by definition. The corollary to this is that empowerment will move them from the ranks of the disadvantaged.

The drive for empowerment is being approached from two different directions. One is a grassroots level approach. This would strengthen existing processes and introduce new ones that promote inclusion of the poor and encourage them to speak out. The other approach is to insure access to information and communication through modern information technology.

**Environment/Sustainable Development** acknowledges the interdependence of development and the environment. Consensus has been reached that sustainable development (using the Brundtland Commission definition) is an international development target. However, many development activities happen in areas where the environment cannot easily absorb the effects, creating pressures that threaten sustainability. Urbanization; sanitation including clean water, transportation, energy, water supply, public health and natural resources management are all critical areas where tension between the environment and development must be carefully managed.

NGOs are particularly sensitive to this latent conflict. Two marketing campaigns related to coffee growing offer examples of their engagement. The first relates to the loss of coffee canopy, which provides habitat for birds as well as natural cover for the coffee plants, due to adoption of intensive planting methods. This has prompted a campaign of “coffee for the birds,” coffee guaranteed to have been grown under canopy. The second deals with remuneration to the small grower who normally receives only a small return after intermediaries have taken their share of the proceeds. This campaign is called “Fair Trade Coffee” and has the support of some major coffee outlets, including Starbucks.
The World Bank has reconciled the sustainability/development tension by stressing the impact that the environment has on economic growth and on well-being, which is the goal of the development effort (World Bank, 1992b: 1). That is, the Bank’s position is that environmental degradation negatively impacts the poor in terms of quality of life and in terms of reduced opportunities for economic freedom.

**Gender** is an issue with two faces. On one side is the issue of equality. For cultural and religious reasons, women in many societies occupy difficult, subservient positions. Following the World Conference on Women in Beijing in 1995 and response to urging by women’s organizations, the Bank has committed itself to lending that would “advance gender equality.” Education, health and nutrition and credit programs have been designed for this purpose.

On the other side is the issue of women’s impact on economic development. The impact is widespread. As workers in the field and in the home, they have direct economic impact. But their indirect impact, as wives and mothers and social participants, is possibly even more significant.

Education for women and girls is of particular importance. The World Bank president has referred to this as “the single most important development tool” (Wolfensohn, 2001). Educated mothers rear fewer, healthier, better nourished, better educated children, both boys and girls. Education of women increases human capital and there are indications that equality in education creates long-lasting positive social and economic effects. The view is that investment in women pays dividends and will raise economic growth in the long run.

There is a dissenting view, that women will be helped by the same effective development measures — health, education, opportunity — that benefit all those living in poverty. Therefore, gender should not receive special focus.

**Globalization/Marginalization.** Globalization is the creation of an international economic system regulated by market forces. It involves the simultaneous widening and intensifying of linkages in international trade and finance. It encompasses the international flow of goods and services, of private capital and also of people through migration. It is fundamentally an economic activity and has tremendous economic impact; but it also has social and cultural ramifications. While globalization is not really a new phenomenon, it is increasingly conspicuous. In the words of one observer,” globalization has replaced the Cold War as the defining international system” (Friedman 1999: 7)

Part of the problem with the globalization issue is that there is little
agreement on cause and effect. There is agreement that 1) globalization is powerful; 2) that some countries benefit from it; and 3) some countries suffer from it. The World Bank roughly divides these two groups of countries into “globalizers and non-globalizers”. It has created “an agenda for action,” to bring the benefits of globalization to all. (World Bank 2002d). Dani Rodrik, of Harvard University, is a critic of the World Bank approach and a vocal advocate for using globalization as a development tool (Rodrik 2001). Rodrik calls on the WTO to put development rather than trade liberalization at the top of its agenda. WTO is doing just that, having dubbed the current round of negotiations, known as the Doha Round, the “development round.” In operational terms, WTO is preparing a framework for “special and differential treatment” for developing countries (WTO website, www.wto.org). UNCTAD is another interested party in this. They suggest an “investment-export nexus” to build export capacity and higher incomes in the least developed countries, but promote a measure of insulation from market forces while that nexus is being built and having impact (UNCTAD, 2002).

Because globalization is 1) subject to interpretation; 2) of as much economic interest to wealthy countries as to developing ones or least developed ones; and 3) complicated by social and cultural ramifications, it will probably remain an unresolved issue for some time to come. Since it is undoubtedly inexorable, much attention is being given to how it can be managed so that it becomes a beneficial force, especially for those vulnerable countries being left behind in marginalized condition.

Marginalization is exacerbated by the two-track nature of the world economy. Wealthy nations are able to build on their strengths through technological changes and formation of regional blocks while poor nations experience deterioration of physical capital, ill-equipped human capital, and increasing loss of traditional comparative advantage. There are echoes here of the center-periphery and dependency theories of an earlier era. The globalization/marginalization dichotomy is attracting increasing opposition by organized protesters.

**Governance/Corruption.** Within the current development paradigm, governance is fundamental in much the way that institutions are fundamental. In fact, governance is defined as more than simply governing, it is the way that institutions are interrelated. Referring to a systemic relationship among economic, social, population, gender, human settlements and human rights issues, Maurice Strong has defined governance as “the ability to manage this

158 The globalizers encompasses some 3 billion people, and the non-globalizers some 2 billion people.
complex system of relationships” (Strong, 1999: 4). A briefer definition is “good order” (Shihata, 1991: 93).

But the issue of governance includes its opposite, corruption, the use of public power for private purposes. Corruption is intentional distortion and a symptom of “weak, dysfunctional governance” (World Bank, 1997b: 5). Corruption has a devastating social and economic impact, destroying trust, diverting resources and discouraging private investment. It must be rejected by any government that is transparent, honest and legitimate.

These issues are exceptionally critical to the current “participatory” development strategy, with its emphasis on “ownership.” Given that development assistance is fungible money, it is absolutely vital that the governance be appropriate and that corruption be controlled.

Highly Indebted Poor Country (HIPC) Initiative Many developing countries have accrued heavy debt. The HIPC Initiative is a program to reduce the debt overhang of qualifying countries thereby freeing up for them resources for use in their poverty reduction strategy. It is constituted by an agreement among official creditors to help worthy (in terms of institution framework), heavily indebted countries obtain debt relief. There is concern about the moral hazard implication of debt forgiveness, the rewarding of unwise behavior. The fear is that countries might incur debt under the assumption that it will be forgiven. To avoid this phenomenon, preparation of an PRSP is a prerequisite to inclusion in this program.

Some of the momentum for this program has come from a group called Jubilee 2000/USA (now called Jubilee+) which has coordinated a “Drop the Debt” movement among religious, environmental, labor and student groups. These representatives of “civil society,” support complete foreign debt cancellation for the world’s poorest countries. The Bank has replied that complete debt relief would “wipe out the World Bank” (Beattie, 2001a).

The Bank has, in fact, said that it cannot afford to do more than has now been programmed to provide debt relief and is shifting responsibility for further steps to donor countries. The “Drop the Debt” movement is based in London, and the British government is particularly interested in this issue. It has expressed concerned that the debt level of many countries is unsustainable and that the debt overhang is absorbing resources better used elsewhere.

HIV/AIDS. More than 90% of the total 18 million HIV infected people live in developing countries, a situation with serious negative implications for their development prospects. Children are orphaned, workers debilitated, medical facilities overextended at great expense to the economy and social
fabric of the countries impacted.

The nature of HIV transmission has complicated international agreement on how to deal with it, as a number of countries cannot accept references to behavior that is illegal or against religious norms. However, a UN conference reached agreement on Jun 26, 2001 to commit money to meet specific timetables and targets for instituting programs. NGOs and international activists have been particularly involved with this issue, campaigning strongly to make expensive, sophisticated medication available to AIDS patients in poor countries.

**Human Capacity** refers to the capacity of people to benefit from opportunities open to them. Indicators of human capacity include primary school enrollment, literacy, infant mortality, and life expectancy. Boosting these indicators entails access to basic social and health services and availability of nutritious food and clean water for disadvantaged groups. The World Bank’s projects in this area include social services such as reproductive and maternal health care, nutrition, early childhood development programs, primary education, and programs that target women, the rural poor and indigenous peoples. The Bank assists client government is to establish social safety nets to help the most needy populations.

People in poverty frequently find health care, nutrition and sanitation to be prohibitively expensive. This is important from the perspective of development because diminished human capacity, in the form of illiteracy and poor health, burdens economic growth and re-enforces poverty. If, as some believe, human capital contributes more to economic expansion than natural and physical capital combined, then investing in human capacity can be highly profitable (Griffin, 2000: 17).

**Institutions/Capacity Building.** Building effective and accountable institutions (capacity building) is central to the World’s Bank strategy to make recipient governments active participants in development. Effectiveness and accountability are integral to ownership. The best designed aid project will be wasted if the institutional capacity does not exist to maintain and run it. Institutional capacity building is closely related to human capacity building, and therefore to literacy, numeracy and education, both for children and on a continuing basis.

Capacity building is more than making or enforcing rules. Rather, it implies a cultural change, a grasp of consequences that had been lacking — otherwise capacity would already exist. This can apply across an entire country or can refer to sectors, sub-sectors or particular activities. There are projects, for
example, to build risk management capacity, evaluation capacity, public service capacity, planning and execution capacity and others.

Poor communities, like all communities, encompass a range of organizations, formal and informal, traditional and modern, grassroots and borrowed, through which community life is coordinated. Particular attention is being paid to capacity building to establish or strengthen organizations within impoverished local communities. This is further to the effort to encourage participation by the poor in efforts to move them out of poverty.

**Knowledge/Information Technology** has the potential to allow new routes out of poverty. “A deficiency of knowledge is a more pervasive handicap to development than is the scarcity of any other factor” (Meier, 2001: 4). In addition, knowledge transfer is form of non-lending assistance that can be made available to clients who lack the governance and policies necessary for lending assistance. The World Bank has a number of programs aimed at exploiting information technology to reduce poverty.

One of the first programs was put forth in 1996. Its goal was to make the World Bank into a “Knowledge Bank” acting as a “global catalyst for creating, sharing and applying the cutting-edge knowledge necessary for poverty reduction and economic development” (World Bank web site; www.worldbank.org). This was largely the concept of Joseph Stiglitz while he was part of Bank management. Since his departure, The Knowledge Bank seems to have been transformed, first into “knowledge management,” then into “knowledge sharing,” and additional related initiatives have been launched.

The Development Gateway (DG\(^{159}\)) was recently unveiled. It is an interactive portal website on development issues, particularly sustainable development and poverty reduction. The goal is to be a resource so comprehensive that users will be able to access and share information, resources, and tools related to the development experience. It is intended to serve as an easy to use, one-stop forum for poverty reduction dialogue and problem solving. The DG was severely criticized when the concept was first launched in October 2000 out of concern that development information would be concentrated and controlled by the World Bank. Aid experts, academics and NGOs accused the Bank of an overly ambitious exercise that threatened to disrupt existing websites. Although it is managed by a newly established organization, the Development Gateway Foundation, it is operated by the World Bank (Beattie, 2000a).

The Information for Development Program (InfoDev) is a program to bring the benefits of information technology to developing countries. Essentially

\(^{159}\) http://www.developmentgateway.org/
the World Bank will provide assistance in the form of technical support and policy advice. InfoDev provides grants and organizes workshops, seminars and pilot projects.

**Participation**, refer to the explanation in Chapter IV.

**Private Investment/Private Sector Development** is specifically mentioned in the Articles of Agreement as an activity which the Bank is mandated to “promote” as a guarantor or participant (Article I, Paragraph (ii). This remains a stated goal. However, private investment rarely finances the social development that the Bank currently stresses.

Even so, the need for healthy market forces is well accepted. A healthy private sector is the key to long-term growth. The attainment of a productive private sector requires a hospitable environment, including suitable macroeconomic policy, removal of regulatory obstacles, and creation of a supportive public sector. Entrepreneurs and investors require enforceable contractual obligations, adequate physical and technological infrastructure, and financial architecture that is both local and modern.

The World Bank Group has two affiliates working specifically to support private investment and private sector development; the Multilateral Investment Guarantee Agency (MIGA) which provides guarantees to foreign investors against loss due to noncommercial risks; and the International Finance Corporation (IFC) which provides loan and equity finance for private sector investment as well as technical assistance.
Appendix 3

World Bank (IBRD) Bonds

The International Bank for Reconstruction and Development (IBRD) constituted the original World Bank organization\textsuperscript{160}. Over the years, other units with other mandates and other financing arrangements have joined the IBRD, creating what is known officially today as the World Bank Group. Meanwhile, the IBRD has continued to function as a bank and raise funds through the sale of bonds competitively on the international market as other banks do. The funds raised in this way are provided as loans to developing countries for reconstruction and development of poorer countries.

Because the IBRD must return to investors the funds raised by the sale of bonds plus interest, its loans must be low risk and yield returns above and beyond cost. This applies to all loans whether they are for reconstruction or development of the recipient country. For this reason, IBRD loans are extended only to creditworthy countries for projects demonstrating reliable repayment capacity. Concessional loans to less creditworthy countries are extended by the IDA and are officially termed “credits.”

The Bank has procured funds from international capital markets for more than 50 years. The first IBRD bonds were issued in the US in 1947. These 10-year and 25-year bonds raised a total of 250 million dollars. Commercial banks purchased 46%; insurance companies, 21%; individual investors, 15%; savings banks, 8%; and others, 10% (Honma, Masami 1991: p.329). The year 1998 stands out in that 31.8 billion dollars was raised from 213 issues, apparently in response to the global financial crisis that began with the Thailand’s currency crisis in July of 1997. This was more than double the 2000 amount of 15.1 billion dollars. In FY2001, the Bank issued medium- and long-term bonds worth 17 billion dollars in markets around the world.

New financial products are developed continuously. The Bank deals with 47 financial institutions throughout the world (FY2000) and structures its instruments to attract international investors. World Bank bonds offer various combinations of denominated currency, maturity, yield, timing and par value\textsuperscript{161}. In 2001, 60% of Bank bonds were denominated in US dollars, followed by

\textsuperscript{160} Initially the term “World Bank” was a nickname.

\textsuperscript{161}
19% in Japanese yen and 15% in German marks. They are offered either through private or through public subscription. The main issuance program is the Global Debt Issuance Facility (GDIF).

The World Bank has an exceptionally high international credit rating. Moody rates it as Aaa and Standard & Poor has rated it at AAA since upgrading it from AA in 1959. These ratings enable the Bank to sell bonds easily and on favorable terms and maintaining these ratings is extremely important. For this reason IBRD loans are extended only to creditworthy countries. The Bank states that “[t]he financial strength of IBRD must be ensured by the support from its shareholders and through strict enforcement of its financial policies” (World Bank Annual Report 2001).

\[\text{161 The Bank has also introduced electronic bonds which are issued and traded entirely on the Internet. These e-bonds offer investors price transparency in financing and trading markets, accurate and timely information on new bonds, and the opportunity for individuals to purchase new issues directly (World Bank Tokyo Office, www.worldbank.or.jp/debtsecurities/)}\]
Appendix 4

Millennium Development Goals, Targets and Indicators

(UNDP website)

Millennium Development Goals (MDGs)
The goals and targets are based on the UN Millennium Declaration, and the UN General Assembly has approved them as part of the Secretary General’s road map towards implementing the declaration. UNDP worked with other UN departments, funds and programmes, the World Bank, the International Monetary Fund and the Organization for Economic Cooperation and Development to identify over 40 quantifiable indicators to assess progress.

Goals and Targets

Goal 1: Eradicate extreme poverty and hunger

Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day

Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger

Indicators

1. Proportion of population below $1 per day (PPP-values)
2. Poverty gap ratio [incidence x depth of poverty]
3. Share of poorest quintile in national consumption
4. Prevalence of underweight children (under-five years of age)
5. Proportion of population below minimum level of dietary energy consumption

Goal 2: Achieve universal primary education

Target 3: Ensure that, by 2015 children everywhere, boys and girls alike, will be able to complete a full course

Target 4: 6. Net enrolment ratio in primary education
7. Proportion of pupils starting grade 1 who reach grade 5
primary schooling 8. Literacy rate of 15-24 year olds

Goal 3: Promote gender equality and empower women

Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015

9. Net enrolment ratio in primary education tertiary education
10. Ratio of literate females to males of 15-24 year olds
11. Share of women in wage employment in the non-agricultural sector
12. Proportion of seats held by women in national parliament

Goal 4: Reduce child mortality

Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

13. Under-five mortality rate
14. Infant mortality rate
15. Proportion of 1 year old children immunised against measles

Goal 5: Improve maternal health

Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

16. Maternal mortality ratio
17. Proportion of births attended by skilled health personnel

Goal 6: Combat HIV/AIDS, malaria and other diseases

Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS

18. HIV prevalence among 15-24 year old pregnant women
19. Contraceptive prevalence rates
20. Number of children orphaned by HIV/AIDS

Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases

21. Prevalence and death rates associated with malaria
22. Proportion of population in malaria risk areas using effective malaria prevention and treatment measures
23. Prevalence an death rates associated with Tuberculosis
24. Proportion of TB cases detected and cured under DOTS (Directly Observed Treatment Short Course)

**Goal 7: Ensure environmental sustainability***

**Target 9:** Integrate the principle of sustainable development into country policies and programmes and reverse the loss of environmental resources

25. Proportion of land area covered by forest
26. Land area protected to maintain biological diversity
27. GDP per unit of energy use (as proxy for energy efficiency)
28. Carbon dioxide emissions (per capita) [Plus two figures of global atmospheric pollution: ozone depletion and the accumulation of global warming gases]

**Target 10:** Halve, by 2015, the proportion of people without sustainable access to safe drinking water

29. Proportion of population with sustainable access to an improved water source

**Target 11:** By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers

30. Proportion of people with access to improved sanitation
31. Proportion of people with access to secure tenure [Urban/rural disaggregation of several of the above indicators may be relevant for monitoring improvement in the lives of slum dwellers]

**Goal 8: Develop a Global Partnership for Development***

**Target 12:** Develop further an open, rule-based, predictable, non-discriminatory trading and financial system

*Some of the indicators listed below will be monitored separately for the Least Developed Countries (LDCs), Africa, landlocked countries and small island developing states.*
Includes a commitment to good governance, development, and poverty reduction — both nationally and internationally.

32. **Net ODA as percentage of DAC donors’ GNI**
   [targets of 0.7% in total and 0.15% for LDCs]

33. **Proportion of ODA to basic social services**
   (basic education, primary health care, nutrition, safe water and sanitation)

34. **Proportion of ODA that is untied**

35. **Proportion of ODA for environment in small island developing states**

36. **Proportion of ODA for transport sector in land-locked countries**

**Target 13:** Address the Special Needs of the Least Developed Countries

Includes: tariff and quota free access for LDC exports; enhanced programme of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction.

**Market Access**

37. **Proportion of exports (by value and excluding arms) admitted free of duties and quotas**

38. **Average tariffs and quotas on agricultural products and textiles and clothing**

39. **Domestic and export agricultural subsidies in OECD countries**

**Debt Sustainability**

40. **Proportion of ODA provided to help build trade capacity**

41. **Proportion of official bilateral HIPC debt cancelled**

42. **Debt service as a percentage of exports of goods and services**

43. **Proportion of ODA provided as debt relief**
Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term

Target 16: In co-operation with developing countries, develop and implement strategies for decent and productive work for youth

Target 17: In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries

Target 18: In co-operation with the private sector, make available the benefits of new technologies, especially information and communications

44. Number of countries reaching HIPC decision and completion points

45. Unemployment rate of 15-24 year olds

46. Proportion of population with access to affordable essential drugs on a sustains basis

47. Telephone lines per 1000 people

48. Personal computers per 1000 people

Other Indicators TBD

* The selection of indicators for Goals 7 and 8 is subject to further refinement
Appendix 5

Lending Instruments

Current World Bank lending instruments include the following:

APL  Adaptable Program Loan, approved in 1998, provides phased but sustained support for the implementation of long-term development programs.

**Example**: India Power Sector Restructuring Program Loan

- **Loan Amount**: IBRD US$210 million
- **Approval Date**: February 19, 1999
- **Project Description**: This project, first in a series, is a part of an adaptable program that, over the next eight years, will help transform Andra Pradesh’s power sector—now a major drain on the state’s budget—into a contributor of resources for priority sectors.

DRL  Debt Reduction Loans help eligible, but highly indebted, countries reduce debt and debt servicing to manageable levels.

**Example**: Panama Debt and Debt Service Reduction Project

- **Loan Amount**: IBRD US$20 million
- **Approval Date**: March 28, 1996
- **Project Description**: This operation aimed to facilitate development by helping the country re-establish creditworthiness. It assisted the government in implementing debt and debt service reduction, consolidating fiscal balance and structural reforms, and normalizing relations with commercial creditors.

ERL  Emergency Recovery Loans support the recovery of assets and productions levels affected by some extraordinary event such as war, civil disturbance or natural disaster.

**Example**: Bangladesh Emergency Flood Recovery Project

- **Loan Amount**: IDA US $200 million equivalent
- **Approval Date**: November 24, 1998
- **Project Description**: This project is the first part of a three-part strategy to help Bangladesh recover from the 1998 floods. It aims to (1) help restore and sustain macroeconomic stability and contain pressure on the balance of payments; (2) maintain and augment food grain stocks, contain inflation, and ensure food security; and (3) help revive the agricultural, industrial, and economic activities disrupted by the floods.

* Source: World Bank (2000c)
Financial Intermediary Loans (FIL) provide long-term resources to local financial institutions to finance real sector investment needs, for which the local institutions assume the credit risk.

**Example*: Lithuania Enterprise and Financial Sector Project
- **Loan Amount:** IBRD US$25 million
- **Approval Date:** April 13, 1995
- **Project Description:** This project supports reform in the financial sector, and the delivery of finance to support the development of private and privatized enterprises. It provides financial resources and technical assistance to improve (1) the capacity of the banking system to deliver financial resources, and (2) the ability of enterprises to prepare financing plans.

Learning and Innovation Loans (LIL), introduced in 1998, are designed to support small, time-sensitive programs to build capacity and to pilot promising initiatives or to experiment and develop locally based models prior to large-scale interventions.

**Example*: Gabon Pilot Community Infrastructure Works
- **Loan Amount:** IBRD $5 million
- **Approval Date:** August 24, 1998
- **Project Description:** This project assists the government in designing and testing methods and procedures to facilitate the involvement of private local firms in small-scale slum upgrading works. It also supports the dissemination of information on such methods, with the aim of strengthening private construction companies and increasing employment among the poor.

Rehabilitation Loan (RIL) is designed to support policy reform that will create an environment attractive to private sector investment.

**Example*: Tajikistan Post-Conflict Rehabilitation Credit
- **Credit Amount:** IDA US$10 million equivalent
- **Approval Date:** December 16, 1997
- **Project Description:** The project provides noninflationary budget financing in the country’s post-conflict economy, enabling the government to purchase critical imports to support the social safety net and restore production, employment, and consumption. The counterpart funds generated by this credit will help meet near-term costs associated with the peace accord, while maintaining progress toward financial stabilization.

* Source: World Bank (2000c)
PCF  Post-Conflict Fund, established in 1997, enables rapid response to early reconstruction situations in post-conflict societies where alternative Bank instruments are unavailable. The PCF supports planning, piloting and analysis of reconstruction activities by funding governments and partner organizations in the forefront of this work. The emphasis is on speed and flexibility. Consideration is being given to application to conflict prevention situations, as well.

**Example**: Assistance to Albania in Response to Kosovo Crisis:
- Grant Amount: US$2 million
- Date Announced: April 14, 1999
- Project Description: Two grants from the PCF: The first (US$1 million) is to expand schools, supply health centers, improve water supply and sanitation, finance transport, provide food for children, and collect waste in four cities; The second grant (US$1 million) is to undertake more intensive refugee support activities and assist the development of NGO structures, which can administer this and other inflows of aid funds.

PRSC  Poverty Reduction Support Credit, introduced in 2000, is a credit extended specifically to enable implementation by a country of its poverty reduction strategy as described in its Poverty Reduction Strategy Paper.

**Example**: Vietnam
- Credit Amount: SDR 197.2 million
- Date Recommended: April 23, 2001
- Project Description: The Project, to be disbursed in two tranches, will build on the recent reforms undertaken by the Government, and support implementation of Vietnam’s poverty reduction strategy as summarized in the Interim Poverty Reduction Strategy Paper (I-PRSP). The project will promote faster growth, and poverty reduction by improving private sector development, thereby generating jobs, and higher wages. Additionally, social safety nets will be expanded for state-owned enterprises workers displaced by reform.

* Source: World Bank (2000c)
PSAL

Programmatic Structural Adjustment Loans, approved in 1998, support longer-term reform to address systemic social, structural and institutional issues. It is extended within the framework of a multi-year, phased program of policy reform and institution building.

Example*: Thailand Public Sector Reform Project
Loan Amount: IBRD US$400 million
Approval Date: October 14, 1999
Project Description: This project focuses on improvements in revenue and expenditure management, human resource management decentralization, participation, transparency, and accountability. It aims to (1) improve performance and effectiveness in the management of financial and human resources; (2) create incentives for budget and civil agencies to focus on outcomes; (3) improve service delivery and client orientation through outsourcing, restructuring, decentralizing government activities, and enhancing public sector responsiveness to communities; (4) improve transparency in budgeting; and (5) establish effective mechanisms to promote accountability and transparency.

SAL

Structural Adjustment Loan is intended to support structural reform over the medium and long term.

Example*: Malaysia Economic Recovery and Social Sector Loan
Loan Amount: IRD US$300 million
Approval Date: June 18, 1998
Project Description: This project supports the government’s program of preemptive measures to (1) minimize the downturn in economic activity in the wake of the 1997-98 regional crisis; (2) expand social safety nets to protect the poor and near-poor from the adverse effects of the crisis; and (3) protect investments in the human resource base. It also supports policy reforms aimed at promoting robust and sustainable growth.

SSAL

Special Structural Adjustment Loans, approved in 1998, are reserved for IBRD borrowers (non-concessionary) who are in exceptional crisis situations with major social and poverty consequences. They target structural and social reform in a potential or actual crisis situation.

Example*: Brazil Social Protection Special Sector Adjustment Loan
Loan Amount: IBRD US$252.5 million
Approval Date: January 7, 1999
Project Description: The loan supports the government’s efforts to protect social expenditures targeted to the poor and those particularly vulnerable to economic hardship—children in poor families, retired and disabled people in poor families, families needing regular access to free or low-cost basic health services, children attending primary school, and adults who may lose their jobs during periods of economic uncertainly.

* Source: World Bank (2000c)
SAD  Sector Adjustment Loans support policy and institutional reform in a specific sector. (Formerly known as SECAL)

**Example**: Morocco Contractual Savings Development Loan

- **Loan Amount**: IBRD US$150 million
- **Approval Date**: June 9, 1998
- **Project Description**: This operation aims to improve the accumulation of long-term savings, encourage their allocation to private productive investment, and guarantee the long-term sustainability of the country’s pension system. Its focus is the reform of contractual savings institutions, including insurance companies, savings banks, and the pension system.

SIL  Specific Investment Loans support the creation, rehabilitation, and maintenance of economic, social and institutional infrastructure and may include consultant service and management and training programs.

**Example**: Sri Lanka Mahaweli Restructuring and Rehabilitation Project

- **Credit Amount**: IDA US$57 million equivalent
- **Approval Date**: April 14, 1998
- **Project Description**: This project aims to shift the focus of the Mahaweli Authority from project implementation to river basin management, to help ensure that natural resources in the Mahaweli River basin and watershed are managed more efficiently, productively, and sustainably. The project also aims to increase agricultural productivity through the rehabilitation, upgrading, and improved operation and maintenance of irrigation facilities.

SIM  Sector Investment and Maintenance Loans are designed for public expenditure programs in particular sectors. They are in support of sectoral policy reform and maintenance of that reform.

**Example**: Indonesia Sumatra Region Roads Project

- **Loan Amount**: IBRD US$234 million
- **Approval Date**: March 31, 1998
- **Project Description**: The project supports the government’s effort to promote efficient, equitable, and environmentally sustainable regional development. It aims to improve transport efficiency and accessibility within the eight provinces of Sumatra, by integrating and strengthening the planning and management of transport infrastructure.

* Source: World Bank (2000c)
Appendix

Technical Assistance Loan (TAL) is used in the client country to build institutional capacity for the promotion of economic and social development.

Example*: Peru Urban Property Right Project

| Loan Amount: | IBRD US$38 million |
| Approval Date: | August 6, 1998 |

Project Description: This project is designed to formalize rights to real property in predominantly poor urban settlements. The loan finances the registration of nearly 960,000 properties, of which 800,000 are to be individually titled. The formalization process is expected to cover the four million people—one quarter of the total population—who typically live near the poverty line.

* Source: World Bank (2000c)
## Appendix 6

### World Bank Regional Lending by Sector

#### World Bank: Regional Lending by Sector, FYs 1991-2000

**Latin America and the Caribbean**

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**World Bank: Regional Lending by Sector, FYs 1991-2000**

**Africa**

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Appendix 7

Strategic Compact

The Strategic Compact:
Renewing the Bank’s Effectiveness to Fight Poverty. (1997-2000)

The compact offered a transformation of the World Bank so that it could more effectively focus of poverty reduction. The objective was to “position it as the premier global development institution going forward into the next century” (Wolfensohn, 1997).

There were four key elements:

- **Refueling** current business activity; that is, maintaining or increasing what had become a diminishing level and quality of client services.
- **Refocusing** the development agenda by increasing attention to social and environmental issues, developing better products and services, and strengthening staff in critical areas.
- **Retooling** the Bank’s knowledge base by collecting, synthesizing and disseminating information to staff and clients by building a world-class knowledge management system.
- **Revamping** institutional capabilities by realigning its resources to support the new work environment. This would include a better integrated internal information system; partial decentralization of staff to regional offices; enhanced human resource strategy to assure the necessary competences; and reform of internal financial management.

The plan was expensive, involving separation payments, recruitment and training costs, inefficiencies during transition, resettlement of staff and families to regions as well expenses entailed by internal reorganization. As first proposed, the total cost was estimated to be $450 million, half to come from savings and redeployment, the rest to come from the administrative budget. The compact was accepted by the shareholders and the necessary funding was approved.

At the conclusion of the compact, when the extraordinary infusion had ended, spending had increased in such a way that a 7% ($90 million) additional was requested in the annual meeting of April 2001.
## Appendix 8

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* Loans extended through Japan Development Bank

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Source: Development Co-operation (various issues), DAC.
### Appendix 10

## Net Disbursements of Concessional and Non-concessional Flows by Multilateral Organizations

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* IMF Trust Fund, SAF and ESAF.

Source: Development Co-operation (various issues), DAC.
## Selected Events in World Bank History

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<td>1945</td>
<td>December</td>
<td>Articles of Agreement of IBRD become effective after its signature by twenty-eight governments.</td>
</tr>
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<td>1946</td>
<td>June</td>
<td>The World Bank formally begins operations. Bank’s initial authorized capital is $12 billion.</td>
</tr>
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<td>1947</td>
<td>May</td>
<td>Executive directors approve the Bank’s first loan, to France in the amount of $250 million for reconstruction purposes.</td>
</tr>
<tr>
<td>1948</td>
<td>March</td>
<td>Executive directors approve the Bank’s first loan to a developing country, to Chile in the amount of $13.5 million for hydroelectric development.</td>
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<td>1952</td>
<td>August</td>
<td>Japan becomes a member of the Bank, bringing the Bank’s membership to fifty-three.</td>
</tr>
<tr>
<td>1953</td>
<td>October</td>
<td>The first of three loans to Japan, totaling $40.2 billion, is approved for power development.</td>
</tr>
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<td>1956</td>
<td>July</td>
<td>The International Finance Corporation (IFC) is established as an affiliate of the Bank, with an authorized</td>
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capital of $100 million.

1959
September
On the occasion of the annual general meetings, the United States proposes establishment of the International Development Association (IDA) as an affiliate of the Bank.

1960
September
IDA is established with initial subscriptions of $912.7 million.

1961
May
IDA extends its first development credit, totaling $9 million, to Honduras, for highway development and maintenance.

1963
March - November
Eighteen newly independent African countries become members of the Bank.

1968
April
Robert S. McNamara becomes the fifth president of the Bank.

1972
June
Robert McNamara in a speech to the United Nations Conference on the Human Environment in Stockholm declares poverty to be “the leading edge of action.”

1979
May
President McNamara proposes “structural adjustment” lending in an address to the United Nations Conference on Trade and Development in Manila, Philippines.

1992
November
The report of the Task Force on Portfolio Management (the “Wapenhans Report”) is transmitted to the executive
directors.

1993

September

An independent inspection panel is established, with the mandate to receive and investigate complaints if the Bank has not followed its own policies and procedures with respect to the design, appraisal, or the implementation of a development project that its supports.

*The East Asian Miracle* is published, compiling the Bank’s research works on the economic development of East Asian countries.

1994

June

For the first time the Bank’s net disbursements turn negative.

1995

June

James D. Wolfensohn becomes the ninth president of the Bank.

1996

June

Fiftieth anniversary of the Bank’s opening for business.

October

Member countries endorse the Highly Indebted Poor Countries (HIPC) Initiative, a program of action, proposed by the Bank and IMF, for reducing the debt burden of eligible heavily indebted countries.

November

The Bank establishes the HIPC Trust Fund and allocated $500 million to it.

1997

April

Uganda becomes the first country to receive debt relief under the HIPC Initiative.

September

President Wolfensohn announces the Strategic Compact, a plan to make the Bank more effective in delivering its regional programs and in achieving its basic mission of reducing poverty.
1998
November *Assessing Aid* is published, compiling Bank’s research works on aid effectiveness.

1999
January President Wolfensohn calls for the adoption of Comprehensive Developmental Framework (CDF) by donor countries.
June The CDF is launched in Bolivia.

2000
March *Meltzer Report*, proposing that the Bank and IMF be significantly scaled back and that the Bank shift from loans to grants, is published.

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