Lending Credibility: New Mandates and Partnerships for the World Bank
Lending Credibility:
New Mandates and Partnerships for the World Bank

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Carlos Heredia
David Hunter
Frances Seymour

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Overview

Frances Seymour

I. Introduction

The occasion of the World Bank's fiftieth anniversary in 1994 sparked a lively popular and scholarly debate about the continuing relevance of the Bank in a world that has changed dramatically since the founding of the Bretton Woods Institutions. In the early 1990s, private capital flows were rapidly overtaking official development assistance to developing countries. To the traditional recipients of assistance had been added a whole new set of post-transition economies. And the professional development community's understanding of the means and ends of the development process itself had been challenged and refined by decades of experience.

On one side of the anniversary debates were those affiliated with the 50 Years Is Enough Campaign, who called for an end to support for the Bank and the International Monetary Fund (IMF) "until these institutions turn away from their current policies that uproot and further impoverish the poor, plunder the environment and block true, sustainable economic growth." On the other side, inter alios, were members of the Bretton Woods Commission chaired by Paul Volcker, which achieved consensus "that the work of the IMF and the World Bank is essential and would be needed for the foreseeable future," and whose 1994 report was "intended as an endorsement of the continuing work and basic direction of the Bank." James Wolfensohn stepped into the middle of the "50 Years" debates when he was appointed president of the Bank in mid-1995. He encountered a lack of consensus both inside and outside the Bank regarding the appropriate role of the institution in a post-Cold War world. In the United States, the stakes of finding such a consensus had been raised by a new Congress skeptical of multilateralism, and unwilling to appropriate even half the funds necessary to meet the U.S. obligation to the Bank's soft-loan window in 1996 (see Box 1, "IDA in Crisis"). Internally, Mr. Wolfensohn faces the daunting management challenge of effecting change in a large and entrenched bureaucracy governed by a full-time Board of Executive Directors representing 178 member countries.

The "50 Years" debates raised many issues regarding the future of the Bank which remain unresolved in early 1996. The papers in this volume address four broad themes for discussion. The first three papers question the appropriate role and effectiveness of the Bank as an instrument for achieving three sets of "sustainable development" objectives:

- poverty reduction and social equity;
- environmental sustainability at national and global levels; and
- good governance, strong civil society,
The central message of the theme papers is that the Bank continues to treat objectives of poverty reduction, environmental sustainability, and good governance as "add ons" subordinate to the Bank's principal objective of promoting economic growth.

The fourth theme paper assesses the extent to which the Bank's role in privatization and private sector development promotes those sustainable development objectives.

The purpose of this overview is to provide a brief statement of the critical challenges facing the World Bank in its fifty-second year. The overview begins with a summary of the cross-cutting findings and conclusions presented in the four theme papers, followed by background on the Bank's significance, identity, and reform agenda. Summaries of the arguments of each of the theme papers are presented in turn, prior to an analysis of internal management challenges faced by the Bank. The overview concludes with suggested criteria and illustrative examples of collaboration between the Bank and other organizations.

II. Summary

The central message of the theme papers is that the Bank continues to treat objectives of poverty reduction, environmental sustainability, and good governance as "add ons" subordinate to the Bank's principal objective of promoting economic growth. The papers recognize significant attempts on the part of the Bank to address these sustainable development objectives through new policies, programs, and structures. However, the papers conclude that there is still progress to be made in assuring that Bank operations and policies do not actively undermine these objectives, due to a persistent gap between the Bank's rhetorical commitments and the reality of its actions.

The papers argue that in order to serve the public interest, the Bank must make a fundamental shift in its development approach to one that recognizes economic growth as a means to achieving sustainable development objectives rather than as an end in itself. The paper on privatization and private sector development highlights the failure of the Bank to orient its activities toward development impact as opposed to economic growth and efficiency. The papers cite the Bank's own "Wealth of Nations" study as a promising conceptual framework that incorporates indicators of human, social, and natural capital into measures of development.

BOX 1: IDA IN CRISIS

The International Development Association (IDA) was created in 1960 to provide concessional assistance to the world's poorest countries. IDA is managed by the World Bank as a soft-loan window for those countries unable to qualify for regular World Bank loans, most with per capita incomes of less than $696.

Some 34 donor countries replenish IDA funds on a three-year cycle according to a burden-sharing formula. Donors have used replenishment negotiations to set the policy framework for IDA assistance. NGOs, particularly in the United States, have used the Congressional appropriations process for IDA funds to leverage World Bank reform. Recent reforms related to environmental policies, information disclosure, and creation of an independent inspection panel have their origins in IDA replenishment negotiations and the appropriations process.

Negotiations for the eleventh replenishment of IDA, or IDA 11, were ongoing throughout calendar 1995, but were stalled due to the unwillingness of the new U.S. Congress to meet IDA 10 commitments or support new commitments for IDA 11. Unfulfilled U.S. commitments to IDA total $934.5 million. In the meantime, Japan has quietly surpassed the United States as IDA's largest contributor. At the final negotiating session, discussion focused on the possibility of other donors establishing a one-year "emergency fund." Without U.S. participation, to continue IDA operations in the absence of a replenishment agreement while the United States resolves its budgetary difficulties.
The papers identify three sets of challenges that must be addressed to achieve further progress in improving the Bank's performance in promoting sustainable development objectives. The first challenge is to determine and reach consensus—inside and outside the institution—about the extent to which the Bank should actively promote such objectives as social equity, global environmental sustainability, and protection of human rights. While the Bank can exercise leadership on these issues, it cannot range far beyond the boundaries set by member governments. Where there is consensus on objectives—such as the Bank's mandate to reduce poverty—the Bank must seek consensus on the appropriate tools to employ.

The second challenge faced by the Bank is to establish appropriate relationships with shareholder and borrower governments, other multilateral organizations, the for-profit private sector, and elements of civil society down to the community level. The Bank must improve its transparency and accountability in order to establish effective partnerships that recognize the Bank's strengths and weaknesses. All the papers raise questions about the relationship of the Bank to various United Nations agencies and instruments, and about the need for increased public participation in Bank planning and policy formulation.

The third challenge is to overcome bureaucratic obstacles to operationalizing new goals and partnerships. The Bank's culture and internal incentive structures hinder implementation of existing policies and attempts to make the institution more transparent and accountable. The current emphasis of Bank staff on internal procedures and economic analysis must be replaced by more externally-oriented collaborative planning and implementation, and increased sensitivity to political dimensions of the development process.

III. Background

THE SIGNIFICANCE OF THE BANK AS A BROKER OF RESOURCES, POLICY, INFORMATION, AND IDEAS

Compared to private transactions, the dollar amounts controlled by the Bretton Woods Institutions are minuscule. However, the Bank and the Fund have a central role. They determine what is "legitimate" in development theory, provide the policy prescriptions that must precede bilateral aid and private investment lending, and offer their "seal of approval" on borrower credit-worthiness. They are thus the principal instrumentalities for implementing what the major shareholding countries determine is the orthodoxy of the moment.¹

Despite dramatic increases in the magnitude and velocity of private investment flows to developing countries, the Bank continues to be a significant broker of financial resources for many sectors and regions. The rise of private investment itself has served to highlight the Bank's continuing role as a broker of policy, information, and ideas. According to the Bank's 1995 Annual Report, "in many countries the Bank's role is beginning to shift from primary purveyor of capital to a source of related services—investment guarantees, aid coordination, technical assistance, and sectoral and macroeconomic advice."

1
Despite dramatic increases in the magnitude and velocity of private investment flows to developing countries, the Bank continues to be a significant broker of financial resources for many sectors and regions.

**Resources**

Over the last five years, the Bank's annual new lending commitments have averaged a little more than $22.3 billion, with no strong upward or downward trend (see Box 2, "The World Bank at a Glance"). Lending to Africa has declined over the last three years, while lending to East Asia and the Pacific, Latin America and the Caribbean, and Europe and Central Asia has increased. Social sector lending and private sector development lending are increasing, while lending for infrastructure is decreasing.

As described in the paper on private sector lending, the volume of Bank lending (and official development assistance overall) has been overtaken by private investment flows to the developing world. Such aggregate statistics conceal significant variations in the geographic and sectoral distribution of Bank lending and private investment, as well as the Bank's own role in facilitating those investment flows.

From 1989-93, only one percent of all private capital flows to developing countries went to Sub-Saharan Africa, where the Bank not only is the single most important source of development finance, but accounts for a significant portion of the region's debt service as well. During the same period, three of the five countries that absorbed more than half of foreign direct investments to developing countries—Argentina, China, and Mexico—were also among the Bank's largest borrowers (and recipients of the policy advice that accompanies lending—see below). Sectorally, private sector funds have been attracted to the profits to be found in selected infrastructure and services investments, while the Bank faces little competition in the social sectors and other pro-poor, pro-environment lending.

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**BOX 2: THE WORLD BANK AT A GLANCE**

Number of Members: 178 countries
Major Shareholders: United States, Japan, Germany, France, United Kingdom
Major Borrowers (FY94): China, Mexico, Russia, Indonesia, Brazil, India
Average Annual Lending Volume (FY91-95):
- $15.9 billion, IBRD: $6.4 billion, IDA

Regional Portfolio Composition (FY93-95):

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<tr>
<th>Region</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Africa</td>
<td>11.8%</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>25.8</td>
</tr>
<tr>
<td>South Asia</td>
<td>13.2</td>
</tr>
<tr>
<td>Europe &amp; Central Asia</td>
<td>18.0</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>25.3</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>6.0</td>
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Sectoral Portfolio Composition (FY93-95):

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<tr>
<th>Sector</th>
<th>Percentage</th>
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<tr>
<td>Agriculture</td>
<td>14.7%</td>
</tr>
<tr>
<td>Transport</td>
<td>13.8</td>
</tr>
<tr>
<td>Energy</td>
<td>13.7</td>
</tr>
<tr>
<td>Multisector</td>
<td>12.2</td>
</tr>
<tr>
<td>Education</td>
<td>9.3</td>
</tr>
<tr>
<td>Financial</td>
<td>7.5</td>
</tr>
<tr>
<td>Urban development</td>
<td>6.0</td>
</tr>
<tr>
<td>Pop/health/nutrition</td>
<td>5.8</td>
</tr>
<tr>
<td>Water supply/sewerage</td>
<td>4.7</td>
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Percentage of Lending Targeted to the Poor (FY95): 24%
Percentage of Lending for Structural Adjustment (FY95): 24%
Private Sector Lending:
International Finance Corporation (IFC): $2.9 billion/year supporting $18 billion in investments
Multilateral Investment Guarantee Agency (MIGA): $600 million/year supporting $2.5 billion in investments

The Bank's role as a broker of financial resources is not limited to its loan portfolio. The Bank also administers several trust funds financed by bilateral donors, and projects and project components financed by grants from the Global Environment Facility (GEF). In addition, the Bank makes grants out of its own profits, providing financial support to such institutions as the Consultative Group on International Agricultural Research (CGIAR), the new Consultative Group to Assist the Poorest (CGAP), and a recently established integrated pest management facility.

Policy

The influence of the Bank's financial resources is magnified by the policy advice—indeed, conditionality—that often accompanies Bank lending. The Bank's policy leverage increases with the concessional content of its loans, and decreases with the borrower's ability to turn elsewhere for needed funds, and so varies tremendously across countries and sectors. In addition, the Bank has not proven to be rigorous in enforcing the conditions of its lending. Nevertheless, the power of the Bank and the IMF to grant borrowers an economic "seal of approval" buys significant potential influence.

In the realm of macroeconomic management, the Bank has promoted a model of export-led growth and has encouraged deregulation and privatization as conditions for more than a hundred structural and sectoral adjustment loans around the world. Currently, Bank efforts focus on developing financial markets to mobilize domestic savings for private investment. Thus, in addition to its direct engagement in private sector lending described in the accompanying paper on that subject, the Bank has played an important indirect role in creating an enabling environment for increased private sector activity in developing and transitional economies.

The Bank's policy influence is also extended through its leadership in the donor community, including the regional development banks (see Box 3, "The World Bank and the Regional Development Banks"). As the convener of many country-level "consultative groups" that bring together bilateral and multilateral donors on an annual basis, the Bank is literally in a position to set the agenda for development investment in borrower countries.

Information and Ideas

In addition to its role as a source of financial capital and policy advice, the Bank also generates, legitimizes, and disseminates new information, ideas and approaches to development. As a global, resource-rich institution, the Bank has unparalleled access to data and analytical capacity to address a wide range of issues. The Bank's research program, and in particular the annual World Development Report, play an important role in defining the conventional wisdom of the development field on such issues as the linkage between economic growth and poverty reduction, the environmental dimensions of development, and the appropriate role of the private sector in development.

Training is also an important com-
Many of the controversies that have embroiled the Bank in recent years stem from its dual identity as a financial institution accountable to its shareholders and financial markets and a development agency accountable to the citizens of its client countries.

**BOX 3: THE WORLD BANK AND THE REGIONAL DEVELOPMENT BANKS**

In addition to the World Bank, the community of multilateral development banks includes:

- **The Inter-American Development Bank (IDB).** The IDB, now loans approximately the same volume as the World Bank in the Latin American region. The IDB has recently taken over responsibility from the Bank for coordinating some of the country-level consultative groups in the region. The IDB is now committed to devoting some 40 percent of its portfolio to pro-poor social sector and environment lending.

- **The Asian Development Bank (ADB).** The ADB has followed the Bank's lead in developing new policies related to indigenous peoples, information disclosure, and an independent inspection function. It has also recently approved a policy paper on governance. The ADB tends to defer to the Bank on macroeconomic policy issues, and focuses its operations at the sector level.

- **The European Bank for Reconstruction and Development (EBRD).** The EBRD, established in 1991 to promote transition to market economies in central Europe and the former Soviet Union, is unique in that its charter explicitly promotes democracy, the rule of law, and respect for human rights. Its charter specifies that a minimum of 60 percent of the Bank's lending be to private sector entities.

  - The North American Development Bank (NADBank). The NADBank, created in conjunction with the North American Free Trade Agreement, has a narrowly-focused mandate to finance high-priority environmental infrastructure projects along the U.S.-Mexican border.

  - Negotiations to establish a Middle Eastern Development Bank were successfully concluded in November 1995.

The World Bank and the regional banks do not always coordinate their activities. Indeed, it is reported that some borrowers "shop" among institutions for less onerous requirements, and sometimes regional banks have picked up projects that the World Bank has rejected. A Development Committee Task Force on Multilateral Development Banks—headed by Willi Wapenhans—has explored principles for cooperation and coordination among the MDBs. The Task Force's report, which is due in April 1996, is expected to recommend a greater role for the World Bank/IMF Development Committee in MDB coordination.

Financial Institution or Development Agency?

Many of the controversies that have embroiled the Bank in recent years stem from its dual identity as a financial institution accountable to its shareholders and financial markets and a development agency accountable to the citizens of its client countries. The Bank's Articles of Agreement make clear that as a financial institution, the Bank's role is to facilitate and supplement private investment for "productive purposes," but provide strikingly little guidance regarding its role as an agent of development (see Box 4, "Articles of Agreement"). As detailed in the third theme paper, the Articles' condition that Bank loans and guarantees be extended "without regard to political or other noneconomic influences or considerations" has been cited by the Bank's management and Board as precluding a more broadly construed mission for the institution.

For much of its history, the Bank has interpreted its mandate as the pro-
motion of economic growth, with growth measured as physical increases in production and consumption. The Bank's principal mode of operation has been lending to national governments, with minimal direct engagement with civil society or the for-profit private sector. Career incentives faced by Bank staff—dominated by economists—have rewarded lending volume and mastery of internal procedures rather than quality of implementation or relationships with external partners.

Over the last ten years, this narrow conceptual and operational framework has proven inadequate to deal with the ever-broadening array of development challenges the Bank has been asked to address. The spectrum of "Third World" economies has stretched out to include rapidly growing countries such as Thailand at one extreme and "failed state" situations in Sub-Saharan Africa at the other. Added to these are the new or newly liberalized economies of the former Soviet Union and Central and Eastern Europe, as well as those countries emerging from dramatic political transitions in South Africa, Cambodia, and the West Bank.

This daunting diversity of country-level development challenges is compounded by an overlay of global issues. The increased volume in international private investment flows has proven a boon to some countries, while others, such as Mexico, have experienced the downside of increased velocity. Global environmental threats such as climate change and biodiversity loss have become the new focus of North-South polemics. Rising grain prices have recently put global food security back on the international development agenda. Attention to international health issues, such as AIDS, have begun to figure prominently in the Bank's portfolio.

Despite ever-increasing evidence that "economic growth" is not synonymous with "sustainable development" at national or global levels, the Bank's development paradigm continues to focus on the former as its principal objective.

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**BOX 4: ARTICLES OF AGREEMENT**

From Article 1:

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 encouragement of the development of productive facilities and resources in the less developed countries.

(ii) To promote private foreign investment by means of guarantees or participation 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 finance for productive purposes...

(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...

From Article III, Section 5 (b):

The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other noneconomic influences or considerations.
Bank reform advocates charged that Bank-supported projects and policies often served to exacerbate extreme poverty and inequality, accelerate environmental degradation, and strengthen corrupt and repressive governments while weakening civil societies.

THE “DO NO HARM” AGENDA

During the decade preceding the Bank’s fiftieth anniversary, criticism of the Bank—and the Bank’s response to that criticism—focused on the negative consequences of the Bank’s single-minded emphasis on growth. Bank reform advocates charged that Bank-supported projects and policies often served to exacerbate extreme poverty and inequality, accelerate environmental degradation, and strengthen corrupt and repressive governments while weakening civil societies. Further, Bank critics cited the Bank’s own lack of transparency and accountability as impediments to reform.

The Bank reform movement was born in the early 1980s amidst allegations that Bank lending for transmigration in Indonesia and road building into the Amazon were accelerating tropical deforestation and impoverishing indigenous peoples. The movement gathered steam as human rights violations were associated with involuntary resettlement caused by Bank-financed infrastructure projects. In the early 1990s, the advocacy community focused its attention on the impacts of Bank-supported structural adjustment programs which adversely impacted the poor in many countries, especially Sub-Saharan Africa, while failing to resolve the debt crisis.

Many of the Bank’s most controversial projects have involved the construction of large dams. Two of those projects—Kedung Ombo and Sardar Sarovar—are described in Box 5, “The Big Dam Controversies.” These cases illustrate the social and environmental costs associated with such projects, the difficulties the Bank has encountered in securing staff and borrower compliance with Bank policies, and the importance of international NGO advocacy to force appropriate Bank action.

The Bank’s often grudging response to this decade of advocacy has been the elaboration of policies and procedures designed to keep the Bank from harming the environment or the interests of vulnerable groups. Some of these policies are substantive, such as the forestry policy prohibition on Bank lending for logging in primary tropical forests. Others are procedural, such as required environmental assessments of projects, and poverty assessments associated with country-level strategy development. The most recently enacted policies on information disclosure and creation of an independent inspection panel provide avenues for citizens to learn about and challenge the Bank’s operations.

The impact of these policies on the Bank’s performance has been mixed. In 1992, the report of the Morse Commission—an independent investigation into the Narmada dam controversy—documented repeated failures of Bank staff and management to abide by and enforce borrower compliance with Bank policies on environmental assessment and resettlement. While their incidence may be decreasing, projects likely to cause significant adverse environmental or social impacts continue to make it through the pipeline.

Current debates center around the extent to which these policies can and should be applied to the Bank’s ever-expanding private sector operations, as
BOX 5: THE BIG DAM
CONTROVERSIES

**Kedung Ombo.** Between 1985 and 1993, construction of the Bank-supported Kedung Ombo dam and reservoir on the island of Java, Indonesia, displaced more than 30,000 people. Almost from the beginning, the resettlement process was crippled by unrealistic assumptions, poor planning, and the government's general lack of commitment to fair and full compensation.

Because of Java's high population density, the resettlement plan anticipated that the majority of displaced persons would join the government's transmigration program and be moved to newly opened areas in the outer islands. When this assumption proved to be unfounded, many residents of soon-to-be-inundated villages refused to abandon their homes and accept grossly inadequate compensation for their land, even in the face of official coercion. Opponents to resettlement faced harassment and intimidation, including death threats and false criminal charges.

Although the Bank had acknowledged the importance of resettlement to the success of the project as early as the 1985 Staff Appraisal Report, Bank staff failed to monitor or supervise the Indonesian government's implementation. The Bank did not take any significant steps to address intensifying problems until 1989, after Indonesian NGOs had organized an international campaign to publicize the extensive human rights abuses associated with the project. The Bank's 1994 Project Completion Report concluded that 72 percent of displaced families were worse off than before the resettlement, a particularly troubling statistic in light of the fact that more than half of those families already lived below the poverty line before they were resettled.

**Sardar Sarovar.** The Sardar Sarovar dam is part of a massive and complex system of dams and canals planned for India's Narmada River. When completed, the system is expected to irrigate 1.8 million hectares and provide drinking water to 40 million people. The World Bank provided $450 million in loans and credits for the Sardar Sarovar dam and has in the past considered $540 million in additional financing for associated projects.

The Sardar Sarovar dam and the accompanying canals involve the resettlement of an estimated 240,000 people. Major environmental issues also exist with respect to the dam and the diversion of over 9.5 million acre-feet of water. The magnitude of the project and the large number of displaced people led to widespread resistance within the Narmada valley, including huge protests, hunger strikes, and lawsuits.

Opposition to the project was also taken up by international environmental and human rights NGOs. Urged on by these NGOs, the U.S. Congress held hearings on Sardar Sarovar, the European Parliament passed a resolution asking the Bank to withdraw, and Parliamentarians from Sweden, Finland, Japan and other countries wrote letters to the Bank.

Under increasing pressure, the Bank took the unprecedented step in June 1991 of inviting an independent review of the Sardar Sarovar project by what came to be known as the Morse Commission after its chairman, Bradford Morse. After nearly a year-long investigation, the Commission released a scathing report detailing the Bank's failure to provide adequate supervision to the project. Among other things, the report concluded that the Bank failed to ensure adequate resettlement for most of the oustees and had not even included plans for the 140,000 people expected to be displaced by the canal system.

In addition, the report faulted the Bank for failing to conduct any meaningful environmental impact study or to secure timely environmental clearances from Indian officials. The report concluded: "[The history of environmental aspects of Sardar Sarovar is a history of non-compliance."

Faced with such a compelling litany of problems, the Bank placed a number of substantial conditions on further support to the project. India, unable to meet those conditions, subsequently withdrew its request for Bank support and has continued the project on its own.

The question of the Bank's mandate to promote sustainable development objectives cannot be separated from the Bank's effectiveness in pursuing those objectives.

THE POSITIVE AGENDA

There is far less consensus inside and outside the Bank regarding the degree to which the Bank can and should move beyond a "do no harm" stance and pro-actively promote such objectives as poverty reduction and social equity, environmental sustainability at the national and global levels, and good governance, strong civil societies, and protection of human rights. Figure 1 suggests the differing degrees of consensus regarding the appropriate role of the Bank with respect to these objectives.

There is general agreement that the Bank should pro-actively promote poverty reduction, but there is less agreement on the appropriate tools with which to assist the poor, and whether or not the Bank should also promote social equity. With respect to the environment, there is an emerging consensus that the Bank should promote environmental sustainability at the national level, but less consensus on the appropriate tools and far less regarding the Bank's role in addressing global environmental issues. There is least consensus regarding the Bank's responsibility to promote good governance, strengthen civil society, and promote the protection of human rights.

All of these issues raise the fundamental question of the Bank's identity as a financial institution or a development agency, and its appropriate role within the global framework of multilateral institutions. What is the appropriate relationship between the Bank and the specialized agencies of the United Nations? What is the role of the Bank in supporting the objectives of the conventions on climate
change and biological diversity? United Nations' human rights instruments?

The question of the Bank's mandate to promote sustainable development objectives cannot be separated from the Bank's effectiveness in pursuing those objectives. The Plan afloro project in Rondonia, Brazil, provides a case study in the political and managerial constraints faced by the Bank in attempting to promote such objectives as environmental sustainability and indigenous peoples' rights. The project, which was recently the subject of an inspection panel claim, is described in Box 6, "The Plan afloro Project."

Sections IV through VI provide brief summaries of the issues and challenges facing the Bank in promoting three sets of sustainable development objectives: poverty reduction and social equity, environmental sustainability at local and global levels, and good governance, strong civil society,

BOX 6: THE PLAN A FLORO PROJECT

The Rondonia Natural Resource Management Project (known by its Portuguese acronym PLAN A FLORO) was conceived in 1992 (at the time of UNCED) to showcase Brazil's commitment to the environment and to reverse the environmental devastation wrought by the Bank-financed POLONOROESTE project. POLONOROESTE was the infamous road project that opened much of Brazil's Amazon to logging and unsustainable agriculture in the 1980s.

The Plan afloro project was designed to promote large-scale social and economic zoning, in order to intensify logging and agricultural activities in developed areas and to demarcate and protect other areas, including indigenous territories and ecological reserves. The proposed project received widespread support among environmentalists, rubber tappers, and indigenous peoples in the region. After more than two years of implementation, however, none of the benefits intended for these groups had materialized.

The project loan agreement had been explicitly conditioned on sweeping changes in policies, regulations, and investment programs needed to provide positive incentives necessary to support the zoning plan. After the loan agreement was signed, however, government commitment to these institutional reforms dissolved, and little was done to demarcate or protect indigenous lands or ecological reserves.

Loan disbursements continued to flow into the region, only to fuel unsustainable forestry and agricultural practices.

In the face of mounting criticism, the Bank pointed to external factors in explaining how it was powerless to improve implementation. Factors cited by the Bank included delays in the release of counterpart funding by the state and federal government agencies, deficiencies in the institutional capacities of executing agencies, and political instability during election periods. The real problem, according to Bank crit-
Sensitive to shareholder criticism that its lending program—and particularly concessional IDA lending—was not sufficiently targeted to poverty reduction, the Bank has recently taken additional steps to improve its performance.

and protection of human rights. Section VII summarizes issues and challenges related to the Bank's increasing involvement in private sector development and lending. Each of these sections is distilled from the theme papers included in this volume. Section VIII provides a brief discussion of the management challenges that have hindered Bank reform.

IV. Poverty Reduction and Social Equity
(summarized in Box 7)

THE ISSUE

According to UNDP's 1995 Human Development Report, about 1.3 billion people in developing countries live in poverty, and nearly 800 million do not get enough food. The same report indicates that disparity has grown among countries, within countries and between men and women. Thus, after decades of development assistance, absolute poverty and increasing inequity continue to pose the most significant challenges to development efforts at local and global levels.

Some have argued that the World Bank has been an active cause of impoverishment and increasing inequity within and between countries. Infrastructure projects financed by the Bank have displaced some two million people in recent years, and the Bank's own analyses indicate that few can be shown to have regained or exceeded their pre-move income levels. At the level of national policy, the Bank has promoted structural adjustment programs that, at least in the short term, have immiserated the most vulnerable segments of society.

Across many countries of the South, debt continues to be a major obstacle to eradicating poverty. In 1995, the debt burden of developing countries stood at $1.9 trillion, of which $304 billion (roughly 17 per cent) is owed to the World Bank and the IMF.

THE BANK'S RESPONSE TO DATE

Since the McNamara era, Bank presidents have committed the Bank to poverty reduction as the institution's main goal, and the 1990 World Development Report articulated a two-part strategy for that purpose: "The first part involves promoting broad-based growth that makes efficient use of the poor's most abundant asset: labor. The second part involves providing the poor with access to basic social services." To effect the former, the Bank has promoted economic liberalization and deregulation. To effect the latter, the Bank has increased the proportion of its lending portfolio devoted to the so-called "social sectors," including education and health.

The Bank has supplemented this two-pronged strategy with the recommendation that safety nets be established to protect the most vulnerable members of society from economic dislocations such as those occasioned by structural adjustment programs. In many countries, Bank-supported safety nets have included Social Investment Funds (SIFs), which provide funds to NGOs to assist those populations least likely to benefit from economic growth.

Sensitive to shareholder criticism that its lending program—particularly
BOX 7: POVERTY REDUCTION AND SOCIAL EQUITY

THE ISSUE

• More than a billion people in developing countries are living in absolute poverty.

• UNDP’s 1995 Human Development Report indicates that despite progress in economic development, disparity has grown among countries, within countries, and between men and women.

• The Bank has supported the creation of the Consultative Group to Assist the Poorest (CGAP), which will focus on promoting microenterprise lending initiatives.

• The debt burden of developing countries stands at almost $2 trillion, of which some $300 billion is owed to the World Bank and the International Monetary Fund.

• Critics have argued that the Bank has been an active cause of poverty and inequity through support for misguided projects and policies, including structural adjustment, and has failed to address adequately the structural roots of poverty, distributional issues, and market failures in its approach to development.

THE BANK’S RESPONSE TO DATE

• The Bank has articulated a two-pronged poverty reduction strategy: promoting broad-based, labor-intensive growth, and providing the poor with access to basic social services.

• The Bank has launched the Program of Targeted Interventions (PTI), through which 24 percent of Bank lending is now identified as pro-poor; has undertaken Participatory Poverty Assessments to feed into Country Assistance Strategies; and has promoted the establishment of “social safety nets” in borrower countries, often through investment in Social Investment Funds (SIFs).

• The Bank is preparing a proposal for a Multilateral Debt Reduction Facility.

• The Bank must ensure that its operations do not exacerbate poverty and inequality. In particular, structural adjustment and privatization programs must be designed to ensure that efficiency gains are not at the expense of the poorest and most vulnerable segments of society.

• The Bank must move beyond a poverty reduction strategy focused on compensatory measures to one that addresses the structural roots of poverty and inequity, including the distribution of income and assets.

• The Bank must condition its assistance to governments based on their commitment to poverty reduction.

• The Bank must foster the active participation of the poor, women, indigenous peoples, and other vulnerable groups in project, program, and strategy-level decision making.

QUESTIONS

• What is the appropriate role of the Bank in promoting more equitable distribution of income and assets?

• How can structural adjustment programs and privatization efforts be redesigned to promote poverty reduction and social equity? What should be the criteria for successes?

• What kinds of partnerships are most promising for incorporating perspectives of the poor into Bank analysis and decision making?

concessional IDA lending—was not sufficiently targeted to poverty reduction, the Bank has recently taken additional steps to improve its performance. The Program of Targeted Interventions (PTI) is a label applied to those projects that either include a specific mechanism for identifying and reaching the poor, and/or the proportion of beneficiaries that are poor significantly exceeds that in the population as a whole. According to the Bank, some 24 percent of total Bank investment now meet these criteria. The Bank’s efforts to incorporate a gender perspective into its development approach are described in Box 8, “The World Bank and Gender.”

The Bank also now undertakes Participatory Poverty Assessments (PPAs) in borrower countries, although their findings are not yet systematically integrated into Country Assistance Strategies (CASs). Most recently, the Bank has spearheaded the creation of the Consultative Group to Aid the Poorest (CGAP), a
BOX 8: THE WORLD BANK AND GENDER

The 1994 International Conference on Population and Development in Cairo and the 1995 Fourth World Conference on Women in Beijing focused the attention of the development community on the gender dimensions of development. Historically, the Bank's attention to gender focused on women in the context of population control or stand-alone "women in development" (WID) initiatives, but significant changes are underway.

The Beijing conference, which was attended by Mr. Wolfensohn, provided an opportunity for women to voice their criticisms of the Bank's insensitivity to gender issues. They argued that the Bank's failure to incorporate an explicit gender perspective into its analysis, policy prescriptions, and operations has had negative consequences for women. For example, agricultural development projects have failed to reach women farmers, while structural adjustment programs have had an adverse impact on the poor, who are disproportionately female.

The Bank has responded to this critique in several ways. In 1993, a Gender Analysis and Policy (GAP) team replaced the Bank's WID unit, which had been established in 1987. The eleven-member GAP team provides training and technical assistance in gender impact analysis to Bank staff with the objective of mainstreaming gender concerns throughout the Bank's policies and operations. Mr. Wolfensohn has estimated that less than 25 percent of Bank lending now includes measures to strengthen the role of women.

Following the Beijing conference, the Bank hosted a two-week series of events on "Beyond Beijing: Acting on Commitments to the World's Women," capped with a speech by Hillary Rodham Clinton. Each regional vice president is now preparing a Gender Action Plan, and Mr. Wolfensohn has instructed staff to incorporate a gender perspective into country assistance strategies and poverty assessments.

Progress on these initiatives will be monitored by a "Women's Eyes on the World Bank" campaign, which was organized in Beijing to hold the Bank accountable to the objectives articulated in the Platform for Action.

In the area of population, the Bank has vigorously embraced the Cairo agenda, moving away from a focus on fertility—that in the past had been associated with the coercive practices of certain borrower governments—and recognizing women's productive as well as reproductive roles in development. The Bank has assumed a leadership role in promoting girls' education, and Mr. Wolfensohn has committed to increasing such lending to $900 million annually.

While lauding the Bank's progressive attention to the broader agenda of women's reproductive health issues—including maternal mortality and sexually-transmitted disease—some NGOs in the population field are concerned that it may come at the expense of sustained attention to the provision of family planning services; the Bank's adoption of a broader definition of population and reproductive health assistance has made it difficult to track trends in lending. They point out that the Bank's role in financing family-planning programs will assume increasing importance in light of the dramatic decline in population assistance available from the U.S. bilateral aid program.

Critics have challenged the Bank to move beyond a poverty reduction strategy focused on compensatory measures to one that addresses the structural roots of poverty and inequity.

$30 million fund that will initially focus on strengthening, learning from, and replicating promising microenterprise credit initiatives.

Finally, the Bank is developing a proposal for a Multilateral Debt Reduction Facility to address the issue of highly indebted poor countries with significant obligations to the Bank and other multilateral institutions. A document leaked to the Financial Times in September 1995 revealed that an internal Bank task force was for the first time acknowledging the severity of the multilateral debt problem, and was proposing to finance the facility from both bilateral donor and internal multilateral sources.

CHALLENGES

The first challenge faced by the Bank is to ensure that its operations do not exacerbate poverty and inequality. This will require that structural adjustment and privatization programs are designed to ensure that efficiency gains do not come at the expense of the poorest and most marginalized segments of society. At the project level, resettlement should not be undertaken unless compliance with the Bank's own policy—that
relocated persons attain a standard of living at least a high as prior to the move—can be assured.

Critics have challenged the Bank to move beyond a poverty reduction strategy focused on compensatory measures to one that addresses the structural roots of poverty and inequity. The degree to which the Bank should actively promote the more equitable distribution of assets and income within and between societies is controversial. The Bank’s role with respect to the commitments made by the signatory countries at the 1995 World Summit for Social Development convened by the United Nations in Copenhagen is unclear. An implicit corollary to these challenges is that the Bank should condition its assistance to governments based on their commitment to poverty eradication.

Finally, an effective anti-poverty strategy must involve the poor themselves. The Bank must follow through on its commitment to foster the active participation of the poor, women, indigenous peoples, and other vulnerable groups in the project and program-level decision making that affects their lives.

V. Environmental Sustainability
(summarized in Box 9)

THE ISSUE

As human numbers and demands on natural systems increase at historically unprecedented rates, signs are emerging that individual societies and the world community as a whole are dangerously close to exceeding critical ecological thresholds. Rural landscapes across the developing world are being depleted of the vegetative cover, genetic diversity, topsoil, and water resources necessary to sustain and increase food production. Rapidly increasing urban populations are already choked by air and water pollution and congestion. Climate change and sea-level rise attributable to global warming—being predicted with increasing certainty—threaten to narrow the options for dealing with these challenges.

Few of the World Bank’s operations are neutral with respect to environmental sustainability at the national level, and many have profound implications for the environment at regional and global levels as well. In the past, the Bank was held responsible for direct destruction of natural habitats through support for such large-scale development schemes as roads, dams, monoculture plantations, and colonization. More recently, similar impacts have been attributed to policies promoted by the Bank, including pressures on governments to privatize natural resources, generate foreign exchange through increased exports of primary products, and cuts to funding of administrative and regulatory agencies.

There is a growing consensus that the Bank’s current approach to adverse environmental impacts of development—which focuses on mitigating negative impacts and developing an environment-specific portfolio of projects—is inadequate to ensure that environmental sustainability is achieved at local, regional, or global levels.
THE ISSUE

- Throughout the developing world, the mining of natural capital in the form of forests, soils, fisheries, and genetic diversity threatens local and global food security for a rapidly growing population, while increasing competition for water supplies is emerging as significant source of conflict within and between societies.

- Increasing pollution of air and water is a significant threat to public health at the local level in developing and transition economies, while buildup of greenhouse gas emissions and toxic substances threatens to disrupt ecosystems at the global level.

- Critics charge that the World Bank continues to support projects and policies inconsistent with the objective of environmental sustainability, and is missing opportunities to assist countries to shift toward more sustainable development paths.

THE BANK'S RESPONSE TO DATE

- The Bank has attempted to mitigate the negative environmental impacts of its lending through development of policies on environmental assessment, agricultural pest management, forestry, natural habitats, energy, and water resources management.

- The Bank has developed a $10 billion portfolio of "environmental" projects and project components in addition to its regular lending program, and implements projects funded by the Global Environment Facility (GEF).

- The Bank has increased its environmental staff, established central and regional environmental units, and invested in developing a conceptual and applied research program on environmental issues.

QUESTIONS

- What shifts in the composition of Bank investment portfolios and policy prescriptions are foreseen if sustainability—as defined in the "Wealth of Nations" study—is adopted as a central objective of Bank operations?

- What are the roles and responsibilities of the Bank in addressing global environmental threats, above and beyond implementing GEF-financed activities? To what extent can and should the Bank exercise a leadership role in national and supranational decision-making fora, and what should be its relationship to U.N. and other international agencies?

- What can be done to accelerate the change within the Bank that is necessary to shift environmental sustainability from an "add-on" to an integral objective of the Bank's country assistance strategies, lending operations, and policy prescriptions? What can be done to enhance the independence and influence of pro-environment elements within the Bank?

THE BANK'S RESPONSE TO DATE

The Bank established mandatory environmental assessment procedures in the 1980's, and has developed policies related to agricultural pest management, forestry, natural habitats, energy, and water resources management. The effectiveness of these policies in improving the Bank's environmental performance has been uneven, and implementation has tended to emphasize mitigation of environmental problems rather than treatment of underlying causes.

The Bank has also sought to demonstrate its commitment to the environment through a steady increase in lending for "environmental" projects and project components in addition to its regular...
lending program. The Bank currently boasts an active portfolio of 137 environmental projects totalling $10 billion, covering a broad range of initiatives under the rubrics of urban environmental management and pollution control, natural resources management, and environmental institution building.

To manage its environmental policies and projects, the Bank has established central and regional environmental units, including a new vice president for Environmentally Sustainable Development (ESDVP), and claims to have increased its technical environmental staff fivefold since the late 1980s. The new units have had only limited success in mainstreaming environmental concerns into the Bank's regular operations, but have produced some very important conceptual and applied analyses. These include the recent "Wealth of Nations" study, which incorporates the concepts of natural and social capital into the measurement of societal wealth, and the Global Overlays Program, which is attempting to measure the cost of incorporating global externalities into domestic policy decisions.

CHALLENGES

The Bank faces a threefold challenge in shifting its approach to the environment from one based on mitigation to one based on sustainability. First, the Bank must close the gap between the rhetoric and the reality of its commitment to the environment. There is significant progress to be made in enforcing existing policies, and capturing environmental benefits that are consistent with economic efficiency and growth.

The second challenge is to alter the Bank's development paradigm to include environmental sustainability as an objective, and disseminate the new paradigm throughout the conceptual framework and operations of the institution. Under the current paradigm, the Bank's efforts to incorporate environmental concerns into its operations focus primarily on the detection and mitigation of adverse environmental impacts at the project level, and the development of a large portfolio of environment-specific projects. Under a sustainability paradigm, all Bank lending and policy advice would be explicitly conditioned on its compatibility with the long-term protection of ecosystem integrity at local, regional, and global levels.

The third challenge is to establish appropriate relationships with borrower and shareholder governments, multilateral environmental fora, and elements of civil society at the national and international levels to advance the new paradigm of environmental sustainability. It is these and other political actors, rather than the Bank, that ultimately must make choices about how to attain environmental sustainability, including resolution of conflicting North-South interests in addressing global environmental threats. The Bank must be selective in its involvements, recognize its strengths and weaknesses, and be more willing to enter into partnerships with a variety of institutions in planning and implementation.

First, the Bank must close the gap between the rhetoric and the reality of its commitment to the environment.
In practice, the Bank is involved in a diverse range of governance issues, rarely reflecting broad political consensus within the affected society.

BOX 10: GOOD GOVERNANCE, CIVIL SOCIETY, HUMAN RIGHTS

THE ISSUE

- The World Bank's approach to development, informed by its Articles of Agreement and the desires of its shareholders, has excluded consideration of governance, civil society, and human rights issues not directly related to economic policy or project implementation.

- Critics charge that the Bank's biased approach and lack of transparency has had the effect of selectively strengthening certain government agencies and functions while weakening others, strengthening business interests at the expense of civil society, and obscuring human rights violations perpetrated in the context of Bank-supported projects.

- Although the Bank has made a spurious distinction between "constructive" and advocacy-oriented nongovernmental organizations (NGOs), the Bank has supported NGOs to participate in project implementation, established a central NGO Liaison Office and an official Bank-NGO Committee, and is recruiting NGO liaison officers for resident missions in Latin America and Africa.

- Through the Participation Initiative, the Bank is developing policies, plans, and internal capacity to support public participation in policy analysis and project design and implementation.

- The Bank's management and Board continue to maintain that its Articles of Agreement prohibit the consideration of political issues in carrying out Bank activities, and that its consideration of human rights is limited to promoting economic and social rights.

CHALLENGES

- As the linkages between governance issues and sustainable development become increasingly clear, the Bank must grapple with the arbitrariness of the line between "economic" and "political" issues.

- In the same way that the Bank promotes regulatory reform to facilitate for-profit private development and investment, the Bank must find ways to promote "enabling environments" for the emergence of strong and independent civil society organizations.

- The Bank must follow through on its commitment to increase public participation in Bank operations and policy development, and invest in systematic monitoring and evaluation of the impact of the participation initiative.

- Through increased sensitivity to political conditions and intensified monitoring and supervision, the Bank must ensure that its projects and policies do not foster human rights violations.

QUESTIONS

- What is the Bank's strategy to address governance concerns, and how will it translate into policy and operational changes?

- What is the appropriate role of the Bank in creating a strong enabling environment for civil society, including tolerance of a diverse spectrum of NGOs and respect for civil and political rights?

- How can organizations outside the Bank best ensure the success of the Bank's new participation initiative?

VI. Good Governance, Civil Society, and Human Rights

(summarized in Box 10)

THE ISSUE

The Bank's traditional view of development has excluded any consideration of governance, civil society, or human rights not directly related to economic policy or project implementation. Recently, the Bank's attention to these issues has emphasized improving the climate for private sector development and investment. The resulting biased approach to the development process pervades the culture of the Bank and is enshrined in the Bank's Articles of Agreement, which forbid the Bank from considering noneconomic factors in its lending operations.

In practice, the Bank is involved in a diverse range of governance issues,
rarely reflecting broad political consensus within the affected society. The Bank's involvement in governance reforms emphasizes downsizing government bureaucracies, reducing the number of civil servants, and privatizing public enterprises and natural resources, often shifting the institutional dynamics within the government toward finance and productive sector ministries, at the expense of social sector and environment agencies. Similarly, the Bank's embrace of "constructive" NGOs and harsh criticism of those that take a more confrontational stance sends an important signal to borrower governments all too eager to repress dissent.

The Bank's refusal to consider political rights has prevented it from anticipating or responding to human rights violations associated with Bank-financed projects. Not only has the Bank's policy dialogue and consultation with borrower governments rarely reflected any leadership in the human rights field, but Bank projects are often associated with major human rights violations.

As the conceptual linkages between civil society, human rights and governance issues and the goal of sustainable development have become clearer, the Bank's distinction between "economic" and "political" factors has become arbitrary and difficult to defend. More important, the approach has prevented the Bank from acting strategically toward these issues, and the Bank's refusal to consider "political" factors has been identified as one of the reasons for the low quality of Bank-financed projects.

THE BANK'S RESPONSE TO DATE

The Bank's restrictive approach to some governance, civil society, and human rights issues is beginning to change. Support for reform and strengthening of judicial systems is an example of investment in good governance that can contribute to an enabling environment for both private sector and public-interest oriented institutions. The Bank is slowly accepting the strengthening of civil society generally as a necessary precondition for successful economic development. Some in the Bank have begun to refer to the importance of building "social capital," which may legitimize further Bank investment in the institutional, structural and procedural fabric of governance and civil society.

The Bank has invested substantially in several efforts to build bridges with the NGO community. These efforts include the NGO-Bank Committee, the Bank's NGO Liaison Office, the addition of NGO liaison staff to resident missions, and NGO sector studies underway in several countries. The Bank has recently launched a major initiative to "mainstream" public participation into all Bank operations. If successful, this effort will be a significant improvement to the Bank's current approach, which has required participation only in projects that have substantial environmental impacts or impacts on indigenous peoples.

While the Bank has established policies and procedures intended to protect the interests of displaced persons and indigenous cultures affected
Bank critics have expressed concern that while privatizations and private sector lending can increase efficiency and foster economic growth, they will not automatically contribute to, and can in fact undermine, social equity, environmental sustainability, and civil society.

by lending, the Bank continues to construe its Articles of Agreement as allowing it to respect only economic and social human rights, but not political rights.

CHALLENGES

As the linkages between governance issues and sustainable development become clear in the elaboration of the concept of social capital, the Bank must grapple with the increasingly arbitrary line between “economic” and “political” issues. In the same way that the Bank promotes regulatory reform to facilitate for-profit private development and investment, the Bank must find ways to promote “enabling environments” for the emergence of strong and independent civil society organizations.

The Bank must follow through on its commitment to increase public participation in Bank operations and policy development, and invest in systematic monitoring and evaluation of the impact of the participation initiative. Success will require altering the incentives faced by Bank staff, and changing the Bank’s relationship to borrower governments and other stakeholders.

Through increased sensitivity to political conditions and intensified monitoring and supervision, the Bank must ensure that its projects do not result in human rights violations. Among other things, the Bank will need to improve its implementation of existing policies, move ahead on proposed social assessment guidelines, and require its staff to investigate and consider the human rights records of each country as part of a broadly conceived strategy development and project approval process.

VII. Privatization and Private Sector Lending
( Summarized in Box 11)

THE ISSUE

By the end of the 1980s, most Southern governments could no longer afford to subsidize unprofitable state enterprises, and came under pressure from international financial institutions to privatize as part of a more general move toward economic deregulation. In the early 1990s, private financial flows, including commercial loans and portfolio investment, overtook official development assistance as the primary source of foreign exchange in developing countries. The Bank has supported privatization and facilitation of foreign private investment through more than a hundred adjustment loans to borrower countries.

The Bank Group has also played a direct role in increased private sector investment in developing and transition countries. The International Finance Corporation (IFC), which extends loans and minority equity investments to private companies, and the Multilateral Investment Guarantee Agency (MIGA), which issues political risk insurance to private investors, are the fastest-growing members of the World Bank Group. In 1994, the Executive Board encouraged the IBRD itself to expand the use of guarantees for private investments and loans as a normal part of its opera-
Mr. Wolfensohn has also recognized that the Bank Group's multiple and growing private sector activities are neither coordinated at the country level nor consistent at the policy level.

**BOX 11: PRIVATIZATION AND PRIVATE SECTOR LENDING**

**THE ISSUE**

- Private financial flows have overtaken official development assistance as the primary source of foreign exchange in developing countries, and the International Finance Corporation—which finances private sector projects—and the Multilateral Investment Guarantee Agency—which provides political risk insurance for private foreign investments—are the fastest growing members of the World Bank Group.

- The Bank has excluded IFC and MIGA from the inspection panel's authority.

- Mr. Wolfensohn has recognized the need for a comprehensive approach to private sector development within the World Bank Group, and has promised to deliver an action plan to the Board within the coming months.

- The Bank has supported privatization of state enterprises through more than a hundred IBRD and IDA adjustment loans, and is currently seeking to expand its private sector role. The Board has approved expanded guarantees for private loans backed by IBRD funds, and Bank management has advanced a similar proposal for IDA.

- Critics have expressed concern that while privatizations and private sector lending can increase efficiency and foster economic growth, they will not automatically contribute to, and can in fact undermine, social equity, environmental sustainability, and civil society.

- The Bank's private sector lending is biased away from the poorest countries and from small and medium-sized enterprises and the informal sector, and allows for far less public participation than regular lending.

- The IFC and MIGA must be made more transparent and accountable through upward harmonization of policies related to disclosure of information and inspection panel jurisdiction.

- The IFC and MIGA must strengthen their policy framework and institutional capacity to prevent negative social and environmental impacts from their private sector lending operations.

**QUESTIONS**

- How can the Bank select and evaluate its private sector lender operations based on development impact (in terms of enhanced social equity, environmental sustainability, or civil society) rather than in terms of efficiency gains alone?

- Why should a double standard persist between regular IBRD and IDA lending and the Bank’s private sector lending in terms of environmental assessment, information disclosure, and accountability to the inspection panel?

- Do IFC and MIGA have sufficient institutional capacities to ensure the implementation of existing, and potentially strengthened, social and environmental standards?

- The Bank has maintained different standards for the IFC and MIGA with respect to environmental assessment and information disclosure, although new or revised guidelines are currently under preparation.

**THE BANK'S RESPONSE TO DATE**

- The Bank has excluded IFC and MIGA from the inspection panel’s authority.

- Mr. Wolfensohn has recognized the need for a comprehensive approach to private sector development within the World Bank Group, and has promised to deliver an action plan to the Board within the coming months.

- The World Bank Group must be more selective in its private sector operations, supporting only those projects that have a positive development impact in terms of social equity, environmental sustainability, or governance.

- The IFC and MIGA must be made more transparent and accountable through upward harmonization of policies related to disclosure of information and inspection panel jurisdiction.

- The IFC and MIGA must strengthen their policy framework and institutional capacity to prevent negative social and environmental impacts from their private sector lending operations.

Bank critics have expressed concern that, while privatizations and private sector lending can increase efficiency and foster economic growth, they do not automatically contribute to, and can in fact undermine, social equity, environmental sustainability, and civil society. There is also concern that private sector lending is not directed to the poorest countries, that the average loan size is too large to assist small and medium-sized enterprises, and that rapid privatizations often result in the further concentration of wealth in society. There is also the question of the extent to which private sector lending is exempt from the policies and procedures—such as information disclosure and environmental assessment—to which regular Bank loans are subject.

**THE BANK'S RESPONSE TO DATE**

Although the Bank continues to maintain that the private sector engagement of the IFC and MIGA
require different (and weaker) standards with respect to environmental assessment and information disclosure, new policies are currently under preparation. The Bank has also excluded these agencies from the inspection panel's authority. However, Mr. Wolfensohn has promised a review of a controversial IFC project in Chile, which could provide an opening toward expanding the inspection panel's mandate.

Mr. Wolfensohn has also recognized that the Bank Group's multiple and growing private sector activities are neither coordinated at the country level nor consistent at the policy level. He has directed his staff to develop a comprehensive approach to private sector development within the Bank Group, and has promised to deliver an action plan to the Board.

The Bank has also tipped its hat to the importance of small-scale enterprises in the informal sector through the creation of the Consultative Group to Assist the Poorest. The Bank has contributed an initial $30 million to support CGAP's program to cultivate and replicate promising microenterprise finance approaches to informal sector employment creation.

CHALLENGES

The principal challenge faced by the Bank is to grapple with the trade-offs between economic efficiency and accelerated economic growth promised by privatization and private sector lending, and the objectives of social equity, environmental sustainability, and a strong civil society—objectives which cannot be left to the private sector. The "right" balance will vary by country and sector, and must be determined through the active participation of all legitimate stakeholders.

The Bank must become more selective in its private sector operations, supporting only those projects that have a positive development impact in terms of poverty reduction, promotion of social equity, enhancement of environmental sustainability, or strengthening of good governance and civil society. In addition, the Bank must internalize attention to social, environmental, and accountability aspects of privatization and private sector development in its engagement with policies and institutions at the sectoral and national levels.

Internally, the IFC and MIGA must strengthen their policy framework and institutional capacity to prevent negative social and environmental impacts from their private sector lending operations. These institutions must also be made more transparent and accountable through upward harmonization of policies related to disclosure of information and inspection panel jurisdiction consistent with the standards that currently apply to regular IBRD and IDA lending.

VIII. Internal Management

THE ISSUE

The World Bank is a large, centralized organization. With more than 9,000 staff, the vast majority of which
The World Bank is a large, highly centralized institution with more than 9,000 staff members concentrated in Washington, D.C. and offices in more than 70 countries, and is governed by an Executive Board representing some 178 member countries.

Critics charge that the Bank's institutional values and bureaucratic culture—characterized by an inward-looking focus on producing documents and processing loans—are at odds with its development mission. In 1992, the report of the Portfolio Management Task Force (the "Wapenhans Report") found that the Bank's "approval culture" was responsible for declining portfolio performance.

Critics assert that despite an array of preventive policies and procedures, the Bank's lack of transparency and accountability mechanisms has allowed misguided projects to proceed unchecked and responsible individuals to avoid repercussions, and that the Bank has failed to incorporate lessons learned from evaluation of past experience into current operations.

In the late 1980s, the Bank undertook a major (and traumatic) reorganization that consolidated Bank operations into country departments at the expense of functional divisions and a large number of technical staff.

In 1993, in response to the Wapenhans Report, the Bank outlined a program of "Next Steps" to improve portfolio performance through improving the quality of projects at entry, increased review and reporting on country portfolios, and increased attention to evaluation.

Over the last 18 months, the Bank has implemented a budget-driven "Redundancy Program" to reduce staff, and a Business Process Innovation (BPI) initiative to improve the efficiency and effectiveness of internal systems such as human resources, procurement, and information management through reconceptualizing internal Bank units and borrower governments as "customers."

Mr. Wolfensohn has announced a new system of Managing Directors to improve the accountability of regional and functional vice presidencies. He has expressed concern about the Bank's personnel evaluation system, and interest in increased decentralization of Bank staff.

The Bank must alter the incentives faced by Bank staff to reward contributions toward development impact rather than lending volume.

The Bank must find ways to alter institutional values rather than relying on enforcement of an ever-increasing number of policies and directives.

The Bank must determine and achieve the appropriate composition and deployment of staff in its headquarters and resident missions.

How can the Bank accelerate the process of culture change within the institution from undue emphasis on lending volume to a focus on development impact?

How can the Bank facilitate institutional learning through the evaluation process while preserving the independence of that process?

are based in Washington, D.C., the Bank is the city's third largest employer after the federal and district governments. Because of the Bank's public, multilateral character and its dual identity as a financial entity and development agency, the Bank faces a unique set of management challenges above and beyond those encountered by a multinational corporation of similar size. Not the least of these challenges is working within the constraints of a Board of Executive Directors representing the Bank's 178 member countries. (IDA, IFC, and MIGA each have somewhat fewer members than the IBRD, but the resulting difference in Board composition is not significant).

One strand of the external criticism leveled at the Bank over the last ten years has been that the Bank's bureaucratic culture has been at odds with its development mission. Targets of criticism have included the Bank's centralization, its highly paid and perked staff composed mostly of economists, and its high level of secrecy and dif-
fuse accountability. Shareholder governments has pressured the Bank to cut administrative costs to counter the external perception of bloated bureaucracy.

In 1992, a high-profile Portfolio Management Task Force issued its devastating report, which came to be known as the "Wapenhans Report" after its chairman, former Bank vice president Willi Wapenhans. The report found that the overall quality of the Bank's project portfolio was poor and declining, and attributed poor performance to the Bank's "culture of approval," in which Bank staff are rewarded for moving money rather than for ensuring quality implementation. One of the conclusions of the report was that the Bank should invest more money in project supervision, which would result in higher administrative costs.

THE BANK'S RESPONSE TO DATE

The Bank's management has made various attempts to address some of these issues in recent years. In the late 1980s, President Barber Conable presided over a major top-down reorganization that consolidated Bank operations into country departments at the expense of functional divisions and a large number of staff. The realignment favored economists, who had often entered the Bank as "Young Professionals" without significant field experience, at the expense of technical staff. More recently, several hundred Bank staff have been "declared redundant" over the last year in a slimming exercise driven by budget-cutting pressures.

The Bank itself has recognized the limitations of this approach. An internal Bank memo observes:

"Historically, in its periodic searches for improved organizational performance, the Bank focused on structural change. But structural change by itself did not address other factors that somehow prevented it from achieving its own expectations or those of its critics. Accountability remained diffused; processes remained cumbersome and bureaucratic; staff were rewarded for the quality of their writing rather than for their capacity to help the Bank's clients achieve sustainable development; and analysis continued to be valued over implementation.

Similarly, the Bank's response to the Wapenhans Report, entitled "Next Steps," was initially deemed inadequate by the Board. The "Next Steps" strategy focused on improving management of country portfolios, conditioning further lending on borrower performance, and increasing Bank-wide reporting requirements on portfolio performance.

There have also been pockets of innovation within the Bank that have sought to overcome the weaknesses of the institution's management style. In the early 1990s, the Director of the Bank's Southern Africa Department led a "Managing for Quality Initiative," which emphasized systematic client consultation, integrated sector approaches, and donor coordination rather than lending volume. The responsible Director was subsequently promoted within the Africa region, sending a positive signal of management support for his approach.

In early 1994, the Bank launched the "Business Process Innovation" initiative, a multi-million dollar effort to improve Bank performance and reduce costs through participatory
redesign of internal Bank systems such as management of human resources, procurement, and information. The initiative, assisted by internal and external consultants, sought to harvest relevant experience from the private sector, and promoted reconceptualizing borrowers and organizational units within the Bank as "customers." The initiative's pilot efforts are reported to have had mixed success, depending largely on leadership and commitment to change at the management level.

Having spent much of his first six months in office out of the office travelling to some 26 member countries, James Wolfensohn turned his attention to internal management issues in early 1996. He has appointed various task forces and held several meetings with staff to discuss these issues. As of January 1996, the only firm decision known is his announcement of a new Managing Director system, in which each of five Managing Directors will be accountable for specific regional or functional vice-presidencies.

Mr. Wolfensohn has also announced a program to send bright young Bank staff to business schools or private firms for one to two-year sabbaticals. (NGOs, foundations, and other development institutions were conspicuously absent from the list of potential hosts.) Mr. Wolfensohn has expressed his concern about the Bank's personnel evaluation system, the "class system" that separates professional, support, and host-country national staff, and has talked about the possibility of decentralizing of Bank staff to resident missions, but no final decisions have yet been announced.

**CHALLENGES**

The management challenges faced by the Bank are enormous. First and foremost is the need to change the incentive systems faced by staff to increase rewards for achieving development impact rather than for generating documents and obtaining approval for loans. This will require development of new indicators to measure development impact itself, and systems for holding individual staff accountable for their actions.

Many inside and outside the Bank have recognized the limitations of new policies in inducing desired behavioral change. Some Bank staff feel their work is unduly burdened and constrained by compliance with proliferating policies and have developed a cynical, or even hostile, attitude toward their implementation and Bank units that promote them. There is also some evidence that ambitious policies have led the Bank staff to shy away from any involvement, even at the policy level, in certain sensitive activities—such as those related to production-oriented forestry or indigenous peoples—to avoid NGO scrutiny.

Creation of the inspection panel has prompted the Bank to reformat what were once Operational Directives into Operational Policy, Bank Procedure, and Good Practice. Only the first two of these are "legally" binding, providing an opportunity to move more onerous requirements into the non-binding Good Practice category. Clearly, while refinement and enforcement of the Bank's policies and procedures are necessary for holding the
Independent organizations have much to offer the Bank in this period of transition in terms of the richness of their own development experience, the intellectual capacity of their staff, their worldwide networks, and the independence of their analysis.

Bank accountable for its performance, the policies alone are not sufficient to leverage needed change in the Bank's culture.

Another challenge is to determine and achieve the appropriate composition and deployment of staff within the limits of nationality quotas and budget constraints. Many would agree that the Bank needs to shift its "skills mix" away from theoretical economists and more toward other social sciences and experienced development practitioners and managers. A shift of staff resources from Washington to resident missions in borrower countries is more controversial, and in any case would be expensive.

IX. Opportunities for Collaboration

During the first six months of his presidency, James Wolfensohn repeatedly committed himself to the objectives and principles espoused by external Bank reform advocates. He has demonstrated an openness to engagement with nontraditional Bank partners, and has invested a significant proportion of his time in visiting borrower countries to see Bank operations and talk with Bank clients. His enthusiasm for consultation and collaboration with private foundations and NGOs is a concrete expression of his willingness to enter into constructive dialogue with outsiders in the interest of making the Bank a more effective institution.

The theme papers in this volume describe the challenges faced by the Bank in promoting sustainable development objectives. As described at greater length in the final paper in this volume, independent organizations have much to offer the Bank in this period of transition in terms of the richness of their own development experience, the intellectual capacity of their staff, their worldwide networks, and the independence of their analysis. It is assumed that the Bank is interested primarily in gaining access to these resources rather than to the funds controlled by private organizations.

OBJECTIVES

Among the objectives of collaboration between the Bank and other organizations, including private foundations, think tanks, and advocacy groups, could be:

- to develop consensus inside and outside the Bank, among shareholder and borrower governments, and between government and civil society actors, regarding the appropriate role of the Bank in promoting sustainable development objectives, and the appropriate tools with which to pursue those objectives;

- to develop human and institutional capacity outside the Bank particularly in borrower countries to empower individuals and organizations to engage the Bank as full partners in analyzing and formulating development strategies while preserving their independence, and to develop human and institutional capacity within the Bank to encourage such partnerships; and

- to facilitate exchange of perspec-
tives and expertise, particularly where the strengths and experience of the Bank and external organizations are complementary.

CRITERIA

In order to husband scarce resources and avoid the fact or perception of the Bank leveraging external funds (rather than the other way around), discussions of potential collaborative activities should focus on those which:

- do not require additional funding from the outside groups; or
- require financial support independent of the Bank (i.e., that the Bank cannot, should not, or will not fund); and
- cannot achieve their objectives through the independent actions of the Bank and/or outside organizations.

Whatever collaborative initiatives are explored, they should not come at the expense of funding for independent analysis and critique of the Bank, which has in large measure been responsible for the reforms that have been achieved to date.

ILLUSTRATIVE EXAMPLES

Support to civil society organizations to enable them to take advantage of the political space opened by the Bank’s new commitment to “participation” without losing their independent character is perhaps the single most important prospective opportunity for collaboration. At the international level, such collaboration could take the form of independent support for NGOs and academics to engage the Bank in joint analysis and debate regarding the mandate and tools for the Bank to promote sustainable development objectives. For example, the Bank is currently developing strategies to:

- deal with multilateral debt in highly indebted borrower countries;
- coordinate and harmonize its private sector lending operations across various members of the World Bank Group; and
- reestablish its leadership in the agriculture and rural development field.

Independent support for external actors to participate in these processes would likely improve the quality of the resulting strategies as well as build consensus around the proposed Bank roles.

At the national level in borrower countries, the Bank’s new commitment to participation could lead to increased public involvement in the formulation of country assistance strategies, as well as in their so-called “building blocks”: poverty assessments, public expenditure reviews, and national environmental action plans. However, the quality and independence of that involvement will depend on independent, capacity-building support to NGOs and other civil society organizations, as well as changed attitudes and incentives on the part of Bank staff. The participation of private funders could play an important role in influencing both.

CONCLUSION

Mr. Wolfensohn has assumed leadership of the Bank at a critical
moment in the institution's history. The global political and economic context for the enterprise of development has changed dramatically, and continues to change at a rapid rate. While the Bank continues to be an important broker of resources, policy, information, and ideas, it has been surpassed by the private sector as a provider of development finance, and continues to be troubled by its dual identity as a bank and a development agency.

Over the last decade, and acutely during its fiftieth anniversary, the Bank has been criticized for harming the poor, the environment, and the interests of civil society through its operations and policy advice. The Bank has responded to this critique by putting into place a "do no harm" policy framework, but a large gap remains between rhetoric and reality. Internal management constraints have hindered the realization of stated commitments.

Inside and outside the Bank, there is not yet a consensus on the extent to which the Bank can and should promote sustainable development objectives: poverty reduction and social equity, environmental sustainability at local and global levels, and good governance, strong civil society, and protection of human rights. The Bank's recent promotion of privatization and private sector lending highlights the challenges in reorienting the Bank away from an exclusive focus on promoting economic growth and efficiency. These issues are treated in greater depth in the four theme papers that follow.

Mr. Wolfensohn's overtures to independent organizations provide an important opportunity to communicate concerns and raise questions about the role of the Bank in a post-Cold War world. Many opportunities—described in the final paper in this volume—for collaboration to achieve common objectives among the Bank and independent organizations are ripe for discussion.

ENDNOTES

1 This paper was written by Frances Seymour drawing on the thematic papers prepared by Peter Boshard, Carlos Heredia, David Hunter, and Frances Seymour. Valuable guidance was provided by Colin Campbell, Michael Northrop, and Peter Riggs of the Rockefeller Brothers Fund, Charles Moore of the W. Alton Jones Foundation, Carlos Staavedra of the C.S. Mott Foundation, Amy Shannon of the MacArthur Foundation, and Jack Vandervyn of the Moriah Fund. Many individuals from the World Bank, the U.S. Treasury Department, the World Bank History Project, and the Washington-based community of nongovernmental organizations provided useful information and insights. Special thanks are due to David Hunter for preparing material for the boxes on big dams and Panafloro. Responsibility for errors of fact or interpretation remains that of the author. Special thanks are due to Lynne Taylor, Deborah Boyd, Angie Grandizio and LaJuan Simms of the World Wildlife Fund for assisting in the production of this and other papers in this volume.

2 The World Bank Group consists of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes. Unless otherwise noted, references to "the Bank" refer to the IBRD and IDA.


ADDITIONAL REFERENCES

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I. Background

According to UNDP's 1995 Human Development Report, some 1.3 billion people in developing countries live in poverty, and nearly 800 million do not get enough food. The same report indicates that disparity has grown among countries, within countries, and between men and women. East Asia and the Pacific seem to be the only regions where both the absolute number of poor and their relative share of the population have declined, while elsewhere in the South both absolute and relative poverty have increased. World Bank figures show that income per head in Latin America and the Caribbean is significantly lower than it was in 1975, and that of Sub-Saharan Africa is back to where it was in 1960.

Some have argued that the World Bank has been an active cause of impoverishment and increasing inequity within and between countries, or at best has failed to incorporate poverty reduction objectives into its lending programs and policy prescriptions. The purpose of this paper is to provide a summary of recent debates and developments related to the Bank's performance in poverty reduction. Particular emphasis is given to macroeconomic issues, with many examples drawn from the Mexican, and broader Latin American, experience. The paper begins with a summary of various critiques of the Bank, followed by a description of the Bank's poverty strategy and recent pro-poor initiatives. The paper concludes with a discussion of challenges faced by the Bank in becoming a more effective agent of poverty reduction.

II. Critique of the Bank's Role

Criticism of the World Bank's approach to poverty has several strands. At the project level, the Bank's own analyses indicate that many Bank-supported projects, especially those involving involuntary resettlement, may have led to the impoverishment of perhaps millions of people in borrower countries over the years. The Bank has also been sharply criticized for failing to incorporate a gender perspective into its operations, despite the reality that the poor are disproportionately female (see box on "The World Bank and Gender" in the Overview paper in this volume). At the portfolio level, poverty reduction does not appear to be the driving force behind project selection. Only in recent years have investments in "human capital development" attracted a significant portion of Bank lending, and in 1995 only 24 percent of new lending commitments could be classified as targeted to the poor.

More generally, the Bank has been faulted for adopting a compensatory approach to poverty reduction as an add-on to economic growth rather than incorporating poverty eradication
The Bank has been faulted for adopting a compensatory approach to poverty reduction as an add-on to economic growth rather than incorporating poverty eradication as a central objective of all operations. While critics acknowledge that economic expansion may be a necessary condition to reduce poverty, it is not necessarily sufficient. They argue that many of the Bank's recent poverty initiatives address the symptoms of poverty rather than its structural roots. Some of these roots are listed in Box 13, "The Structural Roots of Poverty."

Recent critique of the Bank has focused at the level of macroeconomic policy prescriptions, which, even when coupled with compensatory programs for the poor, have sometimes exacerbated poverty and inequality—at least in the short term—within and between nations. In the same fashion that the world is undergoing a process of economic globalization, it can also be said that there is a globalization of poverty. One-fifth of the world population produces and enjoys 85 percent of the world's income. Some have argued that the restructuring of the world economy under the guidance of the World Bank and the International Monetary Fund (IMF) has denied individual developing countries the opportunity to build sound national economies and reduce global poverty and inequality.

The Bank's promotion of structural adjustment programs (SAPs) and failure to address the issue of debt have provided the context for much recent debate on the Bank's poverty reduction mandate. SAPs, now applied in more than one-hundred countries, are seen by many as transforming developing countries into reserves of cheap labor and natural resources to be exploited by the international economy. Meanwhile, servicing accumulated debt amounts to a financial hemorrhage that drastically diminishes resources available to fight poverty. A relatively new issue is how the Bank's promotion of market liberalization and privatization has affected poverty and inequality in the transition countries of Central and Eastern Europe and the former Soviet Union. Finally, there is concern that the Bank's willingness to serve elite economic and political interests compromises its effectiveness as an agent of poverty-
reducing development. These four issues are treated briefly below.

STRUCTURAL ADJUSTMENT

The World Bank first began adjustment lending in the late 1970s and early 1980s in response to the second oil shock and emerging debt crisis that produced budgetary and balance-of-payments deficits in many borrower countries. Structural adjustment loans are rapidly disbursing and tied to policy reform rather than to specific project investments. The purpose of adjustment lending, according to Corbo and Fischer (1992), is "to achieve both a long-term macroeconomic stabilization and structural transformation of the economy by addressing the fundamental causes of the country's economic crisis" (emphasis in original). Over the last ten years, adjustment lending has accounted for about a quarter of Bank lending, and a much higher proportion of lending to certain countries.

The Bank and external critics have disagreed over the relationship between structural adjustment and poverty. The Bank has argued that structural adjustment is necessary to get countries back on a growth trajectory that at least in the long run will raise income and employment. Because many of these policy reforms have an immediate, disproportionate impact on the poorest sectors of society, the Bank's SAPs have been heavily criticized for exacerbating poverty even as it is supposed to be alleviating it. In 1987, UNICEF published a report showing how structural adjustment policies could adversely affect the health, nutrition, and education status of the poor in borrower countries. Subsequent studies have further documented how structural adjustment reforms have exacerbated poverty, reduced the health or education of the poor, undermined labor interests, or harmed the environment.

Box 14, "Structural Adjustment," lists the standard elements of structural adjustment programs, and their linkages to poverty and equity.

In Mexico, policy reforms aimed at deregulating the rural sector recommended privatizing communal agricultural lands, eliminating rural credit at concessional rates, and doing away with price supports for food staples. According to independent peasant organizations, the result of these policies has been quite the opposite of what was originally intended: deregulation.

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**BOX 14: STRUCTURAL ADJUSTMENT**

What are structural adjustment programs (SAPs) and how are they related to poverty? SAPs are a standard policy package prescribed by the international financial institutions to virtually every country in the South. Elements of the standard package, and potential negative impacts on the poor, include:

- reduction in public expenditure, which can include cuts in spending for social services;
- elimination of subsidies, including those benefiting the poor;
- restriction of credit availability, including credit for farmers;
- privatization of state-owned enterprises, which can lead to concentration of assets;
- trade liberalization, which can devastate domestic productive capacity and employment;
- reorientation of the economy towards export markets, which can provide incentives for "mining" natural resources;
- removal of barriers, that is, "national treatment" of foreign investment, to the disadvantage of the domestic private sector; and
- deregulation of labor markets, which can depress minimum wages.

The Bank's promotion of structural adjustment programs and failure to address the issue of debt have provided the context for much recent debate on the Bank's poverty reduction mandate.
By diverting domestic and donor funds from productive investment, debt is still a major obstacle to eradicating poverty in countries of the South.

Debt

Interlinked with structural adjustment in the debate over the World Bank and poverty is the issue of foreign debt. According to the Organization for Economic Cooperation and Development (OECD), from 1982 through 1990 total resource flows from the developed to the developing countries (new loans, grants, trade credits, etc.) was $927 billion, while developing countries remitted in debt service alone a total of $1,345 billion. In 1995, the debt burden of developing countries stood at $1.9 trillion, of which $304 billion (roughly 17 percent) is owed to the World Bank and the IMF.

By diverting domestic and donor funds from productive investment, debt is still a major obstacle to eradicating poverty in countries of the South. There is a political dimension as well: crushing debt renders governments more accountable to external donors than to their own citizens. NGOs have argued that it does not make sense to continue to channel scarce concessional finance to highly indebted countries when the funds are only recycled as debt-service payments, and provide little scope for policy leverage. They assert that only serious up-front debt reduction or outright cancellation, along with a commitment to maintain aid levels, will solve the problem. Less comprehensive attempts to address this issue in the past have failed: for every dollar of debt forgiven since 1989, three more have been added.

Poverty and Equity in Transition Economies

Treated in greater depth in the accompanying paper by Peter Bosshard on private sector lending is the issue of how privatization affects poverty and equity, particularly in the newly liberalizing economies of Central and Eastern Europe and the former Soviet Union. "Transition" is the focus of the Bank’s 1996 World Development Report now circulating in draft form. The draft text includes a comprehensive, and for the most part thoughtful, discussion of the impacts of transition on poverty and equity.

The draft also contains the following passage: "Economic development usually aims to increase growth and reduce inequality. Transition is different. Because of the move to market-determined earnings, an increase in inequality is often a necessary first part of the reform process, regardless of growth outcomes." An important area for further discussion is how the Bank can do more to redesign privatization and other elements of the transition process and secure borrower commitment to minimize adverse impacts on poverty and inequality.

Serving Elite Commercial and Political Interests

Critics have also charged that the macroeconomic policy advice and lending offered by the World Bank
and the IMF have been biased toward international commercial and political interests at the expense of domestic capital markets and political stability. They argue that in the case of middle-income countries, the Bretton Woods Institutions are increasingly serving as police to make sure individual countries adopt and implement policies that respond to the needs of financial centers that control and manage international private capital.

Such a bias is evident in the case of Mexico. In Mexico, the Bank has been pushing to end credit subsidies and conduct credit operations at market rates, which has resulted in the dismantling of domestic development banks and a consequent erosion of credit available for small producers. At the same time, the Bank has pumped $1 billion into the Mexican economy to salvage commercial banks in the aftermath of the December 1994 peso devaluation, and is in the process of discussing an additional $500 million to $1 billion in loans. The unwillingness of the Bank to sanction market intervention in the interest of poverty reduction while making its largest loans ever to bail out private banks and investors and stabilize international financial markets does not appear to be consistent.

It is also disturbing to many observers that the Bank has held up countries such as Chile (under Pinochet) and Indonesia as models of successful economic management. They argue that accountable and democratic governments are preconditions for sustainable poverty reduction, and that the Bank should take these factors into account in its lending decisions (see accompanying paper by David Hunter on governance, civil society, and human rights).

III. The Bank's Poverty Strategy

Since the McNamara era, Bank leaders have articulated poverty reduction as the main goal of the institution. In 1993, Lewis Preston stated: "Sustainable poverty reduction is the World Bank's fundamental objective. It is the benchmark by which our performance as a development institution should be judged." Mr. Wolfensohn has made a personal commitment to strengthen the Bank's work on poverty.

The Bank's 1990 World Development Report laid out a two-pronged poverty reduction strategy. The first part involves "promoting broad-based growth that makes efficient use of the poor's most abundant asset: labor. The second part involves providing the poor with access to basic social services," including health and education. The Bank has supplemented the two-pronged strategy with a third prong, the recommendation that safety nets and other compensatory measures be established to protect the most vulnerable members of society.

Over the last five years, the Bank's analytical work and lending have become much more poverty oriented. To apply its poverty reduction strategy in its operations, the Bank prepared the policy paper, "Assistance Strategies to Reduce Poverty" (1991). To guide staff in implementing this
Bank reports say little about how the Bank has promoted labor-intensive rather than capital-intensive growth, and in the case of the energy sector, for example, the opposite appears to be the case.

According to the Bank's 1995 Annual Report, lending for human resources development has tripled from an average of five percent of the total in the 1980s to 15 percent in the last three years.

strategy, the Bank issued an operational directive and the "Poverty Reduction Handbook" (1992). The Bank's efforts to operationalize this strategy are described briefly below.

LABOR-INTENSIVE GROWTH

The Bank's progress report, "Implementing the World Bank's Strategy to Reduce Poverty" (1993) concludes that there has been significant progress in reducing poverty in those countries that have both implemented efficient policies to stimulate growth and provided basic social services to the poor. Also, the report points out that the pattern of growth is a very important factor in determining the extent to which the income of the poor grows. At the country level, removing distortions against agricultural producers, relaxing regulatory constraints that limit labor demand, and investing in physical infrastructure, agricultural extension, and human resources are likely to reduce poverty faster than other policies, according to the Bank.

However, as in the case of Mexico, deregulation designed to stimulate labor-intensive growth has sometimes had perverse consequences. In addition, structural adjustment policies have not been applied evenly across the board, indicating selective political will on the part of the Bank and borrowers. For example, a 1994 Bank report on structural adjustment in Africa indicated that despite some progress, most countries were still taxing farmers heavily through marketing boards and overvalued exchange rates.6

Bank reports say little about how the Bank has promoted labor-intensive rather than capital-intensive growth, and in the case of the energy sector (treated in the accompanying paper by Frances Seymour on environmental sustainability), for example, the opposite appears to be the case. There is also the question of the quality of employment generated by Bank-supported growth: removal of "constraints that limit labor demand" can translate into undermining minimum wages and health and safety standards. And as mentioned in the accompanying paper on private sector lending by Peter Bosshard, privatization promoted by the Bank can have profound impacts on employment.

SOCIAL SECTOR LENDING

The second prong of the Bank's strategy is increased investment in the so-called "social sectors," including family planning, health, and education. According to the Bank's 1995 Annual Report, lending for human resources development has tripled from an average of five percent of the total in the 1980s to 15 percent in the last three years. At the 1995 World Summit on Social Development, the Bank committed to increase social sector spending by another 50 percent over the next three years.

NGOs have expressed concern about possible downsides to the recent "explosion" of the Bank's social sector lending. Some have questioned the appropriateness of using external loan funds rather than domestic resources to finance investments in health and education, the economic returns of which, while tremendously signifi-
cant, are difficult to capture. Others have noted that since the fiscal austerity imposed by structural adjustment has had the effect of dismantling government capacity to administer social programs, subsequent social sector lending has positioned the Bank to impose its own blueprint for social policy.

POVERTY-FOCUSED ADJUSTMENT

The Bank has also attempted to incorporate poverty reduction objectives more explicitly in structural adjustment lending. So-called "poverty-focused" structural and sectoral adjustment loans are policy-based operations that aim to eliminate distortions affecting the poor and/or support public expenditure programs that focus on poverty reduction. They may also support the provision of safety nets or targeted transfers to specific poverty groups, and include provisions for poverty monitoring.

The Bank reports that the share of adjustment lending that addresses social issues climbed from 5 percent in fiscal 1984-86 to 50 percent in fiscal 1990-92. In fiscal 1992, 18 out of 32 adjustment loans included an explicit poverty focus, and fourteen of these adjustment loans had related tranche-release conditions. However, a review of country assistance strategies reveals that important "triggers" continue to be based on progress toward privatization and other liberalization criteria rather than the borrower's demonstrated commitment to poverty reduction.

PROGRAM OF TARGETED INTERVENTIONS

The Program of Targeted Interventions (PTI) is a category of Bank lending that includes projects that meet one or both of two criteria: the project includes a specific mechanism for identifying and reaching the poor, or the participation of the poor in the project significantly exceeds the proportion of the poor in the population as a whole. The PTI contains a significant number of projects that explicitly target women, both in income generating and in social sectors.

In 1992, the total value of PTI projects amounted to about 14 percent of new lending; by 1995, the Bank stated that 24 percent of all lending fell into this category. However, skeptics point out that such figures are meaningless, given that the total value of a project is counted toward the total PTI even if only a small component of the project is targeted to the poor.

SOCIAL INVESTMENT FUNDS

Social Investment Funds (SIFs) are representative of the "third prong", or compensatory element, of the Bank's response to poverty. SIFs, which are semiautonomous grant-making institutions, are intended to provide for those among the population who are least likely to benefit from economic growth. NGOs often say SIFs only alleviate the symptoms of poverty, without addressing structural poverty at the roots. The fact that the Zapatista rebellion started in the state of Chiapas, where the Mexican gov-
The Bank's most recent initiative to promote poverty reduction is the establishment of the Consultative Group to Assist the Poorest (CGAP) in June 1995. The Bank faces many challenges in realizing its goal of promoting sustainable poverty reduction. The overarching challenge—in addition to ensuring that Bank operations do no harm to the poor—is to reorient the Bank's poverty strategy away from reliance on compensatory strategies to one that addresses the structural roots of poverty.

The Consultative Group to Assist the Poorest (CGAP) was launched in June 1995 to stimulate more lending and support for microcredit to the very poor. By the end of 1995, sixteen donors had joined CGAP, which has a secretariat located at the Bank. CGAP is chaired by Mohammed Yunus of the Grameen Bank. Most of the members are bilateral or multilateral development agencies, although foundations and individuals are also reportedly able to join if they provide $250,000 to the secretariat and make at least $2,000,000 available in microfinancing. A Policy Advisory Group (including a disproportionate number of representatives from the North) is intended to provide advice to the CGAP and the secretariat.

The CGAP was created with an initial $30 million from the World Bank and the hope that another $200 million could be leveraged by other donors. The initial priority of the CGAP will be to support existing microfinance institutions, that could use additional funds to become commercially viable. The CGAP also hopes that it can facilitate "start-up" efforts by other institutions and be a catalyst for innovative programs in other lenders and in other parts of the World Bank.

The CGAP is scheduled to begin operations in February 1996; it is too early to predict how successful the effort will be. Modeled after the Grameen Bank's success in Bangladesh, the general approach of targeting microcredit to the poorest is widely supported. To that extent the Bank's recognition and support for this type of "bottom-up" development is noteworthy. On the other hand, some observers are skeptical that CGAP will always be a high-profile, but ultimately small, effort by the Bank that will not significantly affect its predominant approach to poverty in development.

reliance on compensatory strategies to one that addresses the structural roots of poverty. This challenge has several dimensions.

A first challenge is to muster political will at the international level and within individual borrower countries to put and keep poverty eradication at the top of the political agenda. A second challenge is to incorporate the issue of the Bank’s impact on distributional equity into assessments of its performance. Third, the Bank must overcome the polarized debate about the relationship between poverty and structural adjustment and debt. A fourth challenge is to develop improved concepts, methods, and data for measuring the multiple dimensions of poverty and inequity. Finally, in the context of its commitment to participation, the Bank must develop the capacity to involve poor people in the decision making that affects them. These challenges are discussed below.

PUTTING POVERTY ON THE INTERNATIONAL AND NATIONAL AGENDAS

Governments, development agencies, the United Nations, and NGOs are increasingly shifting their language from overall poverty reduction to absolute poverty eradication. This shift is reflected in the commitments made by the signatory countries at the World Summit for Social Development convened by the United Nations in Copenhagen in March 1995 to strengthen the rights of the poor (see Box 16, “Social Summit Commitments”). However, turning these commitments into reality will require significant political will on the part of governments and multilateral institutions.

The United Nations has proclaimed 1996 as the International Year of the Eradication of Poverty, and member countries are supposed to have developed their long-term National Poverty Eradication Plans by the end of this year. The World Bank could play a very constructive role in this regard, first, by signalling willingness to cooperate with the United Nations, and second, by employing the many tools at its disposal to encourage borrowers to focus on poverty. It is important to note, however, the tension between bor-

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<th>BOX 16: SOCIAL SUMMIT COMMITMENTS</th>
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<td>Many important commitments were made by signatory countries at the World Summit for Social Development in Copenhagen in 1995. Commitment 2 includes the goal of “substantially reducing overall poverty...and eradicating absolute poverty,” with national policies to reduce poverty and inequality, by addressing “the root causes of poverty and providing for the basic needs of all.” It also commits governments to orient their national budgets to “meeting basic needs, reducing inequalities and targeting poverty as strategic objectives.” Furthermore, it includes measures to ensure that the poor have access to productive resources such as land and credit and to public services such as education and information, to participation in decision making on policies and regulations, and to “adequate economic and social protection during periods of vulnerability such as unemployment, ill health, maternity, child rearing and old age.” Commitment 8 says structural adjustment programs “should include social development goals, in particular, of eradicating poverty, promoting full and productive employment and enhancing social integration”. As for implementation, the Summit agreed on “a substantive dialogue between the United Nations, the World Bank and the IMF” including consideration of joint meetings of the Economic and Social Council—ECOSOC—and the Development Committee of the World Bank and the IMF.</td>
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Some have argued that in the same way that Bank project and policy lending increasingly incorporate poverty conditions, they should include "equity conditions" as well.

rower "ownership" and the use of loan funds to pursue poverty reduction objectives to which the borrower is not fully committed.

These tools include decisions about the volume, composition, and trancheing of lending, and making those decisions contingent upon a government's commitment to poverty reduction. As a first step, the Bank must do a much better job of incorporating poverty reduction objectives into its country assistance strategies (described below under Participation), and involving all stakeholders in the strategy development process. A successful NGO-led effort to raise the profile of the poverty issue in Brazil is described in Box 17, "Changing Public Perceptions About Poverty."

EQUITY

A second challenge for the Bank is to incorporate social equity as an objective in its approach to sustainable development, if only due to the instrumental value of improved equity to promoting stability and reducing poverty. The draft World Development Report cited above states that "cross country analysis suggests that very unequal societies tend to be politically and socially unstable, and that this is reflected in lower rates of investment and growth."

In many countries of the South, the gap between the rich and the poor is wider than in countries of the North. The comparative experiences of Latin America and Southeast Asia indicate that countries with a less-skewed income distribution are more likely to be successful in the fight against poverty. While Brazil and Mexico have created significant industrial bases, over half of their populations remain alienated. In contrast, South Korea has pushed agrarian reform, literacy campaigns, and manpower training as means to help people help themselves and participate in the benefits of economic growth.

Some have argued that in the same way that Bank project and policy lending increasingly incorporate poverty conditions, they should include "equity conditions" as well. The redistributive impacts of projects and policies—and particularly privatization initiatives—should be projected and monitored as a matter of routine. The data tables in the Bank's annual World Development Report should be expanded to include measures of equity for every country.

BOX 17: CHANGING PUBLIC PERCEPTIONS ABOUT POVERTY

NGOs can play a very important role in mobilizing the public to join the fight against poverty. One example is the National Campaign Against Hunger and for Life, undertaken by Brazilian NGOs, supported by two dozen Northern donors and more than two million volunteers. The campaign has successfully used the media to invite on board everyone from the federal government to the Banco do Brasil, the favelados (slum dwellers) and even the national police. As Herbert de Souza "Betinho", its coordinator, put it: "Hunger, the product of a society proficient in excluding the many and benefiting the few, invaded prime-time television and showed its ugly face even to those who had refused to look, and put itself in the national agenda. Hunger made citizens and society begin to take responsibility for a problem that up until now had been treated only as a question to be resolved by those who are hungry and by those who govern. This change of perception, the understanding that hunger and misery are items on society's agenda, is a major development in the public life of a country that, when it looks at itself in the mirror, sees itself as apathetic, unethical, indifferent, selfish and cunning".
FORGING CONSENSUS ON STRUCTURAL ADJUSTMENT AND DEBT

As described above under the sections on structural adjustment and debt, the Bank and its critics have been far apart on their analyses of the relationship between structural adjustment and poverty, and on their conclusions about what the Bank must do to resolve the debt problem. Recent developments indicate that constructive dialogue among divergent views has been productive. The Bank has indicated openness to changing the criteria used to evaluate free-market reforms to include poverty reduction objectives. Adjustment programs increasingly incorporate poverty-focused measures, and there is a commitment to giving more emphasis to their implementation.

At the same time, the Bank's NGO critics are beginning to set aside their wholesale rejection of structural adjustment, and are taking a closer look at the particular impacts of individual elements of structural adjustment packages to assess which could be beneficial to the poor. However, they continue to stress that social investment funds and other compensatory programs designed to alleviate poverty are only band-aids which do not address the problem's structural roots.

With respect to the debt issue, the Bank has begun to show some willingness to consider the possibility of debt reduction using multilateral resources. In a July 25, 1995 internal document leaked to the Financial Times, the Bank outlined a program to reduce the multilateral debt obligations—i.e., debt owed to the Bank, the IMF, and regional development banks—of the highly indebted poor countries. Proposals for a Multilateral Debt Reduction Facility are to be presented to Bank and Fund members at the April 1996 Development Committee meeting.

Further dialogue on both of these issues is necessary to develop consensus among shareholder and borrower governments and elements of civil society regarding the redesign of structural adjustment and the appropriate response of the Bank to resolving the debt problem.

MEASUREMENT

The definition and measurement of poverty pose another challenge for the Bank. In developing countries, statistics on poverty are not always available, and those that are available may not be reliable: in Mexico, it has recently been revealed that the Salinas Administration systematically distorted statistics to conceal poverty. These shortcomings are compounded by the fact that, even where statistics are available, conventional indicators may not suit the needs of different social contexts. Moving towards the use of the Human Development Index (HDI), and especially the Gender-related Development Index (GDI), which do account for nonmarket costs and benefits, will be of help in measuring poverty.

The most blatant example of the shortcomings of conventional indica-
The necessary ownership of and commitment to the Bank's poverty reduction strategy cannot be assured when the poor are not at all a part of the development of that strategy.

Factors is the use of per capita Gross Domestic Product (GDP) to identify the poor. Brazil and Mexico are in general considered to be better off than almost any African country, and yet in some regions in those countries, the average income is similar to that of Sub-Saharan Africa. Others have pointed out that the GDP, unlike the Gross National Product (GNP), makes developing countries look artificially good by including earnings of foreign investments that are returned to other countries.

Macroeconomic figures can sometimes hide a stark reality of poverty when financial indicators are prioritized over indicators that illuminate how the productive economy and households are faring. For example, throughout the Salinas Administration in Mexico (1988-94), the stock exchange was booming, public finances showed a surplus, foreign investment was abundant, and the exchange rate was stable. And yet, the economic model was fostering a dismantling of domestic productive capacity, greater poverty, and sharper social inequality.

The "Wealth of Nations" analysis undertaken by the Bank's vice presidency for Environmentally Sustainable Development (described in the accompanying paper on environmental sustainability) is a first step toward a conceptual framework to measure sustainable development more accurately. The framework incorporates measures of human, natural, and social capital into measures of wealth, but does not deal with distributional issues.

Another positive development is that the Bank has increased its use of country-specific income and social indicators. Among the former are unskilled wage rates (urban and rural), and rural terms of trade; the latter include net primary school enrollment, under-five mortality, immunization, child malnutrition, public expenditures on basic social services, female and male life expectancy, total fertility rate, and maternal mortality.

**Participation**

A final challenge is the imperative to include the views of the poor in decision making about the opportunities and constraints facing them. The fact that the Bank operates through national governments creates obstacles to seeking such input directly. However, the necessary ownership of and commitment to the Bank's poverty reduction strategy cannot be assured when the poor are not at all a part of the development of that strategy.

While the importance of including NGO input into the design of SIFs and other pro-poor interventions has been noted above, it is crucial that the Bank's efforts to promote participation not be limited to a "ghetto" of poverty-targeted projects and those that involve NGOs as contractors. Instead, the Bank should foster a more general "enabling environment" for broader participation of the poor and others in the decisions that affect them.

At the policy level, high-quality input of NGOs and other elements of civil society is needed in putting together several country-level Bank documents that are essential to the policy-making process. These include:
Participants Poverty Assessment (PPA).

PPAs, using household data, quantify the extent and nature of poverty and identify the policy, public expenditure, and institutional issues that constrain effective poverty reduction. PPAs also develop recommendations for government action aimed at reducing poverty. The Bank boasts that the pace at which assessments are being prepared has been accelerating: PPAs for 80 countries were to have been completed by the end of 1995. NGOs, though, are much more concerned about the quality of the PPA regarding data collection and input from the alleged beneficiaries of projects.

Country Assistance Strategy (CAS).

CASs outline the priorities for Bank lending in a borrower country over a three- to five-year period. Poverty reduction strategies have not generally been featured in the CAS, although the document is now supposed to incorporate the results of the PPA, which in turn is supposed to contain a specific action plan for addressing poverty reduction. NGOs have made a strong case for the Bank and the borrowing government to take responsibility for engaging the public in formulation of the CAS, and have stressed the centrality of poverty reduction goals and benchmarks in the CAS. It is critical that participatory monitoring determine the costs and benefits of poverty reduction strategies for poor, indigenous peoples, and women.

Public Expenditure Review (PER).

PERs examine the government's expenditure patterns across sectors. A country PER provides information on how the government collects and spends money, spelling out how the borrower sets budgetary priorities. PERs identify trends in expenditure choices and how these trends have affected education, health, and other social programs. As in all poverty-related issues, it is important to analyze how changes in the pattern of government spending affect the poor, indigenous peoples, and women.

These documents are still largely considered by the Bank to be confidential, and the degree to which nongovernmental actors can get involved in their preparation varies from country to country.

V. Conclusion

In conclusion, the Bank faces numerous challenges in translating its rhetorical commitment to poverty reduction into results on the ground. Reorienting its approach to the roots of poverty, incorporating equity as an objective, and achieving consensus on structural adjustment and debt will require support from stakeholders in major shareholder and borrower countries alike. Achieving systematic participation of the poor in the design of the Bank's projects and policy prescriptions is perhaps the most difficult challenge faced by the Bank today.
This paper is based on a draft written by Carlos Heredia. Frances Seymour prepared the final version of the paper, with assistance and contributions from Nancy Alexander of Bread for the World Institute and David Hunter.


The World Bank and Environmental Sustainability

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World Wildlife Fund

I. Introduction

More than a decade ago, the seeds of the current World Bank reform movement were sown when U.S.-based environmental advocates protested the ecological destruction resulting from Bank-supported projects in Indonesia and Brazil. It was in response to this external criticism, leveraged through the U.S. Congress and aided by critics inside the institution, that the Bank in the late 1980s acknowledged the need to anticipate and mitigate the adverse ecological impacts of its lending. Since then, the Bank has taken many small steps toward improving its environmental performance, but shifting its orientation from an overriding emphasis on economic growth to one consistent with environmental sustainability still requires a giant leap.

Since the 1992 U.N. Conference on Environment and Development, the Bank has adopted the rhetoric of "environmentally sustainable development," and that year's World Development Report on "Development and the Environment" laid out the Bank's approach to environmental issues. The report focused on the need to exploit "win-win" opportunities, in which policies that promote efficient economic growth—such as removal of natural resource subsidies—also promote environmental objectives. Emphasis was given to the need for careful assessment of "trade-offs" between income and environmental quality. The report makes a clear statement that rich countries must assume primary responsibility for addressing global environmental problems such as climate change and ozone depletion.

In recent years, the Bank has elaborated a set of environmental policies and procedures, and has stepped up lending for "environmental" initiatives—principally pollution management—in addition to its regular project portfolio. While the Bank's environmental performance has improved, implementation of environmental procedures on a project-by-project basis has been uneven, and has often failed to achieve the positive objectives stated in Bank policies. There is a growing consensus that the Bank's "mitigation approach" to adverse environmental impacts of development is inadequate to ensure that environmental sustainability is achieved at local, regional, or global levels.

The Bank as an institution has not yet questioned the fundamental compatibility of environmental sustainability with the prevailing development paradigm, which subordinates other development objectives to economic growth and efficiency. Indeed, the Bank can be criticized for failing to promote with sufficient vigor environmental reforms that are consistent with the current paradigm, such as the removal of subsidies that encour-

The Bank as an institution has not yet questioned the fundamental compatibility of environmental sustainability with the prevailing development paradigm, which subordinates other development objectives to economic growth and efficiency.
The challenge is not only to "mainstream" environmental concerns into all Bank operations, but also to move "upstream" and include environmental sustainability as an objective of sector- and country-level assistance strategies.

The thesis of this paper is that the Bank must move beyond its current approach to one that brings environmental sustainability to the center of all Bank operations and policy advice. The challenge is not only to "mainstream" environmental concerns into all Bank operations, but also to move "upstream" and include environmental sustainability as an objective of sector- and country-level assistance strategies. Promising analytical work underway within the Bank provides a starting point for addressing the daunting methodological challenges that a "sustainability approach" would entail. And although the political constraints imposed by both shareholder and borrower governments are formidable, the Bank is in a unique position to play a leadership role in assisting individual countries and the world community to accelerate the shift to a more environmentally sustainable development path.

The paper begins with a summary of the external critique of the Bank's environmental performance. The paper then describes and assesses the Bank's response to that critique through the elaboration of policies, projects, structures, planning instruments, and analytical work. The paper concludes with a discussion of the challenges of shifting the Bank from a mitigation approach to a sustainability approach to environmental issues: overcoming management constraints that prevent the Bank from realizing existing commitments, shifting the Bank's development paradigm away from an overriding emphasis on economic growth, and developing appropriate partnerships and support among government and nongovernment actors in member countries.

II. The Environmental Critique of the Bank

Criticism of the Bank's environmental performance has been the leading edge of the movement to reform the World Bank since the early 1980s. Bank reform advocacy has broadened to provide increasing emphasis to social equity and governance concerns, but continues to be associated with the environmental movement. Indeed, the Bank's own attention to the social impacts of its lending through involuntary resettlement and impact on indigenous peoples has been incorporated under the umbrella of environmental policy.

Over the years, Northern and Southern environmental NGOs have communicated their concerns directly to the Bank and to member governments, and have increasingly coordinated their advocacy efforts. In the United States, critique of the Bank's environmental record has been amplified through the U.S. Congress and successive administrations via the appropriations process and instructions to the U.S. Executive Director. Similar advocacy efforts in Europe and Japan have broadened support for reform among legislative and executive bodies in other major shareholder countries. The Bank has become
The power and transport sectors together represent more than a quarter of the Bank's lending portfolio, and have been targeted by critics as evidence of the Bank's lack of commitment to environmental sustainability. In the power sector, the Bank has focused almost exclusively on supply-side investments, supporting large-scale hydropower, geothermal, and fossil-fuel-based projects.

In 1992, the Bank's Board approved a new energy policy covering the Bank's role in energy efficiency and the electric power sector. Key features of the policy include:

- promotion of integrated Resource Planning, a methodology that includes demand-side analysis to identify least-cost investment options; and
- investment in institutional capacity and regulatory frameworks to promote energy efficiency.

In 1994, the Environmental Defense Fund and the Natural Resources Defense Council reviewed all Bank projects in the pipeline covered by the new policy. Out of 46 power sector loans, they found that only two were in compliance with all aspects of the new policy.

The implications of the Bank's failure to shift to a more balanced approach to energy sector development are huge. It is estimated that the developing world's demand for electricity will double in the next 15 years, with much of the increase in countries such as China and India where the Bank is a significant actor even while private investment booms. In the transition countries of central Europe and the former Soviet Union, the Bank is missing enormous opportunities to use the privatization process to reorient some of the world's most inefficient energy sectors toward integrated Resource Planning. Failure to temper the steep upward trajectory of conventional supply-side investments will result in significant economic costs and environmental costs at both local and global levels.

In response to this critique, the Bank has pointed to the efficiency-inducing impacts of energy price liberalization included as a standard component of Bank-supported structural adjustment programs. In addition, the Bank has made small gestures toward investments in efficiency and renewables, often financed by bilateral donors or the GEF. In 1991, bilateral funds supported the creation of an alternative energy unit in the Asia Technical Department (ASTAE) to promote small-scale alternative energy projects and project components. The unit's experience has demonstrated the difficulty faced by the Bank in financing small projects. The unit is now being folded into a Bank-wide Solar Initiative with the possibility of increased influence over the Bank's mainstream lending. A new Operational Policy on energy efficiency strengthens somewhat the 1992 policy.

Critics cite several constraints to improving the Bank's performance and suggestions for overcoming those constraints:

- Scale. The Bank's high overhead and large average project size do not match the requirements of small-scale alternative energy investments with high technical assistance needs. The Bank could do much more in the way of bundling and providing guarantees to small investments. In addition, support for intermediary institutions to on-lend Bank funds and provide information and assistance could help close the gap between good investment opportunities and sources of capital.

In the transport sector, the bulk of Bank lending has focused on road building and rehabilitation designed for personal vehicles. Particularly in transition economies, the Bank has promoted privatization of transport systems—tending to favor road-based systems at the expense of railways—and thereby missing opportunities to create or maintain more environmentally sustainable systems. Critics argue that the Bank could give much more attention to dedicated lanes for bicycles and buses in its road-based investments, and more overall attention to other mass transit alternatives.

The summary of concerns about the Bank's operations initially focused on the adverse impacts of particular projects or programs. For example, environmentalists charged that Bank lending for the Government of Indonesia's Transmigration program and for road building into the Brazilian Amazon accelerated tropical deforestation in those countries. A series of large dam projects with...
found environmental and social impacts further fueled the Bank reform movement (see Box 5, "The Big Dam Controversies" in the Overview section).

Individual projects supported by the World Bank Group continue to provide a vivid rallying point for the Bank's environmental critics. Recently, the focus has shifted to projects supported by the Group's private sector lending and insurance arms, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). For example, MIGA support for Freeport-McMoRan's mining operations in Irian Jaya, Indonesia, is currently under scrutiny: MIGA recently reported to its Board of Directors that it failed to review the environmental impacts of a threefold expansion of mining activities, which now deposit some 100,000 tons of tailings into local rivers every day.

ENVIRONMENTALLY UNSUSTAINABLE SECTOR STRATEGIES

Moving upstream from the impacts of individual projects, environmental advocates have also criticized the Bank for failing to promote environmentally sustainable sectoral development strategies. For example, prior to the 1991 forest policy, Bank lending in the forestry sector tended to emphasize timber production at the expense of conservation and rural development objectives. In the agriculture sector, Bank support for “Green Revolution” technologies has been criticized for decreasing the biological diversity of agronomic systems and increasing pollution and threats to human health attributable to the promotion of pesticide use.

In the power sector, Bank lending has been heavily biased toward large, fossil fuel-based energy plants at the expense of alternative small-scale investments in energy efficiency and renewables. Most recently, the Bank has come under fire for promoting highway-based transportation development at the expense of rail-based systems in the transition economies of Eastern Europe. Boxes 18, 19, and 20 provide additional information on challenges facing the Bank in the energy, forestry, and agriculture sectors, respectively.

ENVIRONMENTALLY BLIND STRUCTURAL ADJUSTMENT AND MACROECONOMIC POLICIES

The Bank has also been criticized for failing to consider the environmental implications of structural adjustment programs and general macroeconomic policy advice. For example, removal of export taxes on agricultural commodities has been linked to deforestation in the absence of clearly defined property rights by providing incentives for producers to clear additional land.

While many aspects of macroeconomic reform can be beneficial toward the environment—for example, by removing subsidies for that encourage overuse of pesticides or energy—those benefits have been achieved as artifacts of the Bank's economic efficiency objectives rather than by design. In addition, realization of such benefits are often contin-
gent upon appropriate institutional capacity and regulatory frameworks, which are themselves crippled by the fiscal austerity imposed by adjustment.

FAILURE TO ADDRESS
GLOBAL ENVIRONMENTAL ISSUES

The Bank has been faulted for failing to exert leadership on global environmental issues, not even incorporating global environmental costs and benefits into its analyses of country-level policies and programs. A particularly controversial issue is the extent to which the Bank’s energy-related investments should take into account their contribution to global climate change. When the Bank finances fossil fuel-based power sector development, it is having a nonneutral

*BOX 19: THE WORLD BANK AND FORESTRY*

Even though forestry lending makes up less than 3 percent of the Bank’s lending portfolio, forestry issues have constituted a far larger share of the environmental controversies that have embroiled the Bank. Critics have charged that:

- Bank lending for timber production and for road building and colonization schemes in forest areas has led to forest destruction and adverse impacts on forest-dwelling peoples; and
- Bank-supported structural adjustment programs and macroeconomic policies have had the indirect effect of encouraging timber exports and weakening government regulatory capacity.

Where the Bank has tried to exert a positive influence on forest management in borrower countries, it has met with limited success due to the power of vested government and private sector interests. The Bank’s experience in Indonesia is instructive: after two Bank forestry projects, the Ministry of Forestry has declined further loans, and a recent attempt to use GEF funds to leverage termination of timber concessions in some of the most biologically important forest in Sumatra proved unsuccessful. A 1994 Operations Evaluation Department review of the Bank’s experience with conditional lending in the forestry sector found a significant degree of partial or non-compliance with loan covenants.

In 1991, the Bank’s Board approved a new Forest Policy. Key features of the policy included:

- a prohibition on Bank support for timber harvesting in primary tropical moist forests;
- conditioning Bank lending for commercial forestry on the borrower’s commitment to “sustainable and conservation-oriented” forestry; and
- adoption of a multisectoral approach in which the new policy would apply to all Bank lending with impacts on forests, not just forestry sector lending.

In 1994, the Bank undertook a review of implementation of the new policy. The review was limited to a desk study and consultation with NGOs. The review found that the composition of the Bank’s forestry sector lending portfolio was shifting away from production-oriented activities and in favor of conservation and watershed management activities. NGOs criticized the review for failing to look at the actual impact of Bank-supported projects in the field, and to look systematically at the way the Bank was implementing the policy throughout its lending program. NGOs have called for a second, field-based review, to measure the impact of the policy on the ground.

Stung by NGO criticism, some Bank staff have concluded that the Bank “can’t win” in the forestry sector, and have begun to avoid involvement. The dissolution of ESDVP’s Central Forestry Team is an indication of this retreat. Others within the Bank are eager to establish a positive track record in the forestry sector, as evidenced by the Bank’s imposing stringent forestry sector conditionality in the structural adjustment program currently underway in Papua New Guinea. They are frustrated that the Bank’s forest policy is preventing the Bank from being constructively engaged in timber production, which will determine the fate of most of the world’s remaining forests, and have urged that the policy be reconsidered.

However, experience indicates that Bank involvement in the forestry sector must be selective—engaging only where there is political will within the Bank and the borrower government to challenge vested interests—and in partnership with communities and organizations that represent the public interest.

Many argue that the Bank should be held especially accountable for sins of commission and omission related to environmental degradation, because poorer countries, and the poor within countries, suffer disproportionately the ill effects of resource scarcity and ecosystem contamination.

The relative decline in Bank lending to address agricultural and other rural environmental challenges translates into a relative decline in pro-poor targeting of investment. Liquidating natural assets such as forests for short-term gain—which the Bank has on occasion promoted—not only has immediate adverse impacts on forest dwellers, but impoverishes society as a whole in the long run. To achieve its principal objective of poverty reduction, the Bank must pursue environmental objectives as well.

GOVERNANCE-ENVIRONMENT LINKAGES

The Bank's 1992 World Development Report acknowledged the need for strong government policies and institutions—supported by public constituencies—to address specific environmental problems. Bank critics argue that through support for structural adjustment and privatization, the Bank has directly and indirectly weakened governmental capacity to protect the environment. At the same time, the Bank has not done enough to foster the emergence of civil institutions that can play a watchdog role, holding public and private agencies accountable to environmental standards. The accompanying paper by David Hunter provides further elaboration of these linkages.

PRIVATE SECTOR-ENVIRONMENT LINKAGES

As discussed at greater length in the accompanying paper by Peter
Bosshard, the Bank's recent rush to embrace private sector development has both positive and negative implications for the environment. Unlike the state-owned enterprises, private firms have incentives to use natural resources and energy more efficiently. On the other hand, in the absence of regulation and enforcement, market forces will encourage them to externalize environmental costs such as pollution.

Environmental criticism of the Bank's emphasis on private sector development has focused on two issues. First, the Bank is accused of promoting accelerated privatization and private investment without timely attention to making sure government regulatory apparatus is in place and functional. Second, critics point out that the Bank's own private sector lending, through the IFC and MIGA, is not subject to the same environmental assessment policies as its regular lending, leading to Bank support for environmentally questionable investments.

**BOX 20: THE WORLD BANK AND AGRICULTURE**

In early 1996, the Bank was in the midst of redefining its role in promoting agricultural—and more broadly, rural—development. Mr. Wolensohn expressed his concern about the Bank's failure to provide leadership in the agriculture sector, and directed his staff to prepare a new "action plan" for implementing the Bank's "Strategic Vision for Rural, Agricultural, and Natural Resource Activities."

The agriculture sector has traditionally made up the largest single component of the Bank's lending portfolio, but its size has recently decreased in absolute and relative terms. The agriculture project portfolio—composed principally of loans for irrigation, extension, and sector adjustment—has been plagued by poor performance, and indeed was singled out by the 1992 Wapenhans report as one of the Bank's most problematic sectors.

With the important exception of the Bank's leadership in and financial support to the Consultative Group on International Agricultural Research (CGIAR), agriculture has assumed a progressively lower profile within the Bank in recent years. In the course of successive budget cuts and reorganizations, which subsumed agriculture under the ESOVP, the Bank has gradually divested itself of technical agricultural expertise. While the Bank continues to recognize the importance of agriculture as an agent of reducing poverty, supporting national economic growth, and ensuring global food security, the institution seems to have lost confidence in its ability to design and implement effective interventions.

Criticism of the Bank's performance in the agriculture sector has focused on:

- **technology choice.** The Bank has promoted input-intensive "Green Revolution" technologies to the exclusion of knowledge-intensive methods of conserving soil, water, and biological diversity. Technology packages have targeted high potential areas and crops rather than marginal lands and farmers, a bias implicit in models dependent on purchased inputs and increasing dependence on the private sector for research and extension services. The Bank's meager progress toward adopting and promoting principles of integrated pest management (IPM) ten years after having made a commitment to do so has been particularly frustrating to advocates of sustainable agriculture.

- **extension approach, institutional partners, and beneficiaries.** The Bank has been slow to adopt field- and community-based participatory approaches that provide farmers with agro-ecological training, despite their proven effectiveness and efficiency in the context of IPM programs. The Bank has worked with government agencies to the exclusion of organizations that are informed about and accountable to the interests of poor farmers, particularly women; bureaucratic obstacles have hindered NGO attempts to collaborate with the Bank in field implementation.

- **policy framework.** In many instances, structural adjustment policies promoted by the Bank have had adverse consequences for agriculture, for example by limiting rural credit and slashing research budgets. And despite the Bank's focus on agriculture sector adjustment in Sub-Saharan Africa, reform of policies biased against rural areas has in many cases been constrained by lack of political will on the part of the Bank and borrower governments. The Committee on Agricultural Sustainability last year urged that the Bank "sharply reduce" lending to countries unwilling to undertake such reform.

In response to these criticisms, the Bank has begun to shift its agricultural lending program into a natural resources management framework. The Bank has developed policies on water resources and agricultural pest management, provided initial financial support to a new IPM facility, and initiated a study of biodiversity and agriculture. Despite rhetorical commitments, however, sustainable agriculture principles are not yet reflected in the Bank's current agricultural models or how they are extended.

The Bank faces two key challenges in becoming an effective agent of promoting sustainable agricultural development, both on its own lending and in internal capacity requirements. First is the need to reestablish among Bank staff and borrowers a recognition of the importance of the agriculture sector in national development, and an understanding of the sector's dependence on conserving the natural resource base. Second is the need to acknowledge that sustainable agricultural development undertaken in partnership with farmers will be smaller in scale, slower in implementation, and more supervision-intensive than traditional Bank lending, and requires partnerships with institutions more effective operating at the "retail" level. The integration of agriculture into the Bank's overall strategies to promote poverty reduction and environmental sustainability remains a significant challenge for the future.

Sources: Robert Blake, Committee on Agricultural Sustainability for Developing Countries; Monica Moore, Pesticide Action Network; Per Pinstrup-Andersen, IFPRI; Montague Judelman, WWF.
III. The Bank's Response to Date

The Bank's response to criticism of its environmental record has taken three principal forms: the elaboration and refinement of a number of environmental policies, an increase in lending for projects specifically targeted toward environmental protection, and an increase in the number of staff and organizational structures dedicated to implementing those policies and projects. For the most part, these changes have been designed to effect an incremental reduction in the adverse environmental impacts of economic growth, and have not posed a fundamental challenge to the Bank's development paradigm.

Very recently, elements within the Bank have begun to promote the mainstreaming of environmental concerns into the Bank's operations in more significant ways. Strategy documents prepared by regional environmental units have begun to focus on the requirements of sustainability at the sectoral level rather than just project-level mitigation of environmental harm. Central environmental units are grappling with conceptual, methodological, and data constraints to internalizing environmental costs and benefits into investment analyses and policy prescriptions. These initiatives could have profound implications for the Bank's work, but significant support from top management and cultural change within the Bank will be needed before they can be integrated into the Bank's regular operations.

IMPACT ASSESSMENT POLICIES

The Bank first established mandatory environmental assessment (EA) procedures in the 1980s which were formalized in an Operational Directive in October 1989. The EA policy was significant not only as an instrument to force the Bank and borrower governments to consider environmental impacts of proposed projects; it was also among the first policies to require public disclosure of project-specific information prior to the project's consideration by the Board. In this way the policy has served as an important "early warning" device to enable the environmental advocacy community and affected peoples to challenge questionable projects while they are still in the pipeline.

The EA policy has been less successful in leveraging more fundamental "upstream" changes in the composition of the project pipeline itself. A recently completed internal review of Bank experience with EA procedures reveals that while the quality of EAs has significantly improved over time, there continues to be insufficient analysis of alternatives. Indeed, a draft revision of the policy circulated in late 1995 concedes that project-specific EAs are not suited to analyzing the "[e]nvironmental implications of broad development options for a sector (e.g., alternative ways of meeting projected electric power demand)" or "[e]nvironmental implications of broad development options for a region (e.g., alternative strategies for improving standards of living in a rural area)."
The Bank's EA review also identified consultation with affected people as an area of weakness in implementation. Overall, the effectiveness of the EA policy in improving the Bank's environmental performance has been mixed, and implementation has tended to emphasize mitigation of environmental problems rather than treatment of underlying causes.

In addition to the environmental assessment policy, among the longest-standing of the Bank's "environmental" policies are those related to indigenous peoples and involuntary resettlement. The categorization of these policies as "environmental" is an artifact of the history of external advocacy on the adverse social impacts of Bank operations, which originated in the environmental NGO community. "Social Assessment" guidelines have been developed by the Bank, but do not yet have the status of mandatory policy.

The Bank's record of compliance with the resettlement policy is especially grim. The requirement that borrower governments have resettlement plans in place prior to moving forward with projects such as big dams has been routinely ignored, and forced resettlement has been associated with human rights violations in several Bank-supported projects. A review of Bank projects involving involuntary resettlement found that in most cases, data was unavailable to determine compliance with a principal objective of the resettlement policy, which is to ensure that the income of displaced persons is restored to levels at least as high as prior to the move.

**SECTOR POLICIES**

In addition to the procedurally oriented EA policy and policies focused on social impact, the Bank has developed sector-specific policies related to agricultural pest management, forests, natural habitats, energy, and water resources management. The sectoral policies contain a mix of general statements concerning the positive objectives of Bank involvement in the issue and specific conditions or prohibitions on lending. For example, the forest policy promotes Bank support for policy reform in the forestry sector, and prohibits lending for logging in primary tropical rainforests.

Various internal and external reviews of the implementation of these policies indicate that progress toward their positive objectives has been disappointing. The Bank's energy policy emphasizes support for efficiency and demand-side management. However, a 1994 assessment of implementation of that policy conducted by the Environmental Defense Fund and the Natural Resources Defense Council found that of 46 power loans under preparation, only two were in compliance with all components of the policy.

One of the most significant aspects of the Bank's forest policy is that it applies to all Bank operations, and not just to forestry sector lending. As forestry projects comprise only a small percentage of the Bank's lending, other Bank-supported projects and policies often have more profound impacts on forests. However, the Bank's own 1994 review of implementation of the policy failed to provide a systematic analysis of the compliance.

Overall, the effectiveness of the EA policy in improving the Bank's environmental performance has been mixed, and implementation has tended to emphasize mitigation of environmental problems rather than treatment of underlying causes.
Clearly, while refinement and enforcement of the Bank's environmental policies is necessary for holding the Bank accountable for its performance, the policies alone are not sufficient to leverage needed change in the Bank's culture and elicit borrower commitment to environmental objectives.

of nonforestry and nonproject (i.e., structural adjustment) lending, indicating little progress toward incorporating the policy's objectives throughout the Bank's portfolio.

UNINTENDED CONSEQUENCES

The environmental advocacy community's focus on strengthening the Bank's policy framework as a strategy for improving its environmental performance has produced some unintended negative consequences. Many Bank staff feel unduly burdened and constrained by proliferating "one-size-fits-all" policies, and evidence hostility toward Bank units and staff that promote them. Similarly, borrower governments chafe under Bank requirements, and those in a position to do so have incentive to seek other sources of finance rather than comply with Bank procedures perceived to be unnecessarily bothersome and time-consuming.

The recent establishment of an independent inspection panel has prompted the Bank to reformat what were once Operational Directives into Operational Policy, Bank Procedure, and Good Practice, only the first two of which are "legally" binding with respect to panel review. There is concern that the Bank will use the reformatting process as an opportunity to move more onerous requirements into the nonbinding Good Practice category. Clearly, while refinement and enforcement of the Bank's environmental policies is necessary for holding the Bank accountable for its performance, the policies alone are not sufficient to leverage needed change in the Bank's culture and elicit borrower commitment to environmental objectives.

ENVIRONMENTAL PROJECTS

Another way that the Bank has sought to demonstrate its commitment to the environment is through a steady increase in lending for "environmental" projects and project components in addition to its regular lending program. The Bank currently boasts an active portfolio of 137 environmental projects totalling $10 billion, covering a broad range of initiatives under the rubrics of urban environmental management and pollution control, natural resources management, and environmental institution building. Added to the Bank's own environmental portfolio is $557 million in projects and project components funded by the Global Environment Facility (see Box 21, "The World Bank and the GEF").

While the Bank's environmental portfolio contains many worthwhile initiatives, it does not necessarily signal a shift from a focus on mitigating harm to an approach based on sustainability. First, the portfolio emphasizes the "brown" environmental agenda of addressing industrial and municipal waste management rather than the "green" agenda of conserving natural resources and ecosystem functions necessary to maintain biological diversity and food security. More than 60 percent of the total environmental investment is focused on pollution management, including many large water and sewerage projects presumably justifiable on public health grounds alone.
Second, there is a classification problem: several of the investments labelled "environmental" stretch the usual definition of this term. For example, the Bank's 1995 environment report lists as a project with "primarily environmental objectives" construction of two new port facilities and an industrial complex in Korea, albeit with "comprehensive support for addressing environmental issues in port and harbor development." Are other port and harbor development projects in the portfolio undertaken without such support?

Third and most importantly, the Bank's emphasis on its long list of environmental projects masks the lack of progress in integrating environmental sustainability into overall country and sector strategies. For example, in the power sector, the Bank has made significant progress in financing innovative projects, but has failed to adopt least-cost planning methodologies in country-level strategy development. Similarly, in the Bank's paper prepared for the recent Conference of the Parties to the Convention on Biological Diversity, there are no examples to support the assertion that the Bank has integrated biodiversity conservation objectives into policy dialogue and country assistance strategies.

ENVIRONMENTAL STAFFING AND STRUCTURES

To manage its environmental policies and projects, the Bank has established central and regional environmental units, and claims to have increased its technical environmental staff fivefold since the late 1980s. The recent EA review indicates that the staff of environmental units are over-stretched, even at a current low level of participation in project supervision. Staff based in regional environmental units have produced regional environmental strategies that begin to address the requirements of sustainability, but enthusiasm for imple-

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**BOX 21: THE WORLD BANK AND THE GEF**

The Global Environment Facility (GEF) is the multilateral fund established to finance the "incremental costs" incurred by developing nations in undertaking environmental initiatives with global benefits, including biodiversity conservation, climate change, and international waters protection. The World Bank, the United Nations Development Programme, and the United Nations Environment Programme are the three implementing agencies of the GEF. After a rocky three-year pilot phase, the GEF was restructured following donor replenishment negotiations in 1994.

Ideally, grant funds from the GEF administered by the World Bank would "top up" loan funds to make "green" investments appear more attractive than cheaper alternatives that do not take global environmental costs into account. At least three factors have prevented the GEF from playing this role effectively. First, GEF funds have not been consistently used to lever larger Bank projects and policies, and have thus failed to assist recipients to shift to more sustainable development paths. Indeed, in important cases the reverse has been the case: GEF funds have been used to finance environmental components of Bank projects that should have been incorporated into the Bank-financed loan package.

Second, the concept of "incremental costs" has proven difficult to operationalize given the difficulty of disentangling local and global benefits, and has in practice been defined through political, rather than economic, calculations. Third, the amount of money that the donor community has been willing to appropriate to the GEF ($2 billion pledged over the current three-year period) is tiny compared to other public and private investment flows to developing countries, and is far less than the amount that would likely be necessary to leverage a significant share of those investments toward environmental sustainability.

Many environmental advocates believe that the large amount of attention focused on the GEF in recent years has been an unfortunate diversion from the real challenge, which is reorienting the regular portfolios of the multilateral development banks toward environmental sustainability.
Unfortunately, ESDVP has been more successful in communicating the Bank's commitment to environmental sustainability to external audiences than in influencing the behavior of the Bank's own operations. Implementing these strategies varies across country departments. It is also an open secret that environment unit staff face considerable disincentives to cause trouble, as they are dependent upon operational units to "buy" significant portions of their time. This lack of institutional independence compromises their effectiveness as enforcers of Bank environmental policies.

In 1993, the Bank established a new vice presidency for Environmentally Sustainable Development (ESDVP), headed by Ismail Serageldin, incorporating central departments for the environment, agriculture and natural resources, and transportation, water, and urban development. (Departments of industry and energy and private sector development are grouped under the vice presidency for Finance and Private Sector Development, while population issues are handled by the vice presidency for Human Capital Development.) ESDVP also provides an institutional home and significant resources for the Consultative Group on International Agricultural Research (CGIAR), the donor club that supports the "Green Revolution" research centers now struggling to reorient their own agenda toward environmental sustainability.

ESDVP has emerged with a high profile in advancing the analytical frontier on environmental issues (discussed below in the Analysis section) and in the Bank's overall external relations. Over the last two years, ESDVP staff have generated numerous publications for popular audiences and endured a heavy schedule of public events, capped most recently by the Third Annual Conference on Environmentally Sustainable Development. The conference, held in Washington, D.C. just prior to the Bank's annual meetings in October 1995, was attended by some 1,300 participants, and featured the Vice President of the United States and the heads of most international financial institutions and U.N. environment and development organizations as speakers.

Unfortunately, ESDVP has so far been more successful in communicating the Bank's commitment to environmental sustainability to external audiences than in influencing the behavior of the Bank's own operations. The Bank's central environment units continue to be dismissed as irrelevant by many Bank staff in regional departments, even though it is the regional staff who are key to incorporating environmental concerns into country operations. Central environment staff are not routinely involved in the formulation stage of country assistance strategies, and so are not in a position to inject an environmental sustainability perspective into those fundamental planning documents and processes.

Most recently, President Wolfensohn has appointed Maurice Strong as a special advisor on the environment. Although Mr. Strong is said to have played a key role in the decision to cancel the controversial Arun dam project in Nepal—a decision the Bank claimed was not driven by environmental considerations—the nature of his role, influence, and relationship to other environmental units within the Bank remain unclear to outside observers.
NATIONAL PLANS AND REGIONAL STRATEGIES

Another tool being used by the Bank to improve its environmental performance and that of its borrowers is environmental planning at the national and regional levels. In the early 1990s, in response to pressure from IDA donor governments, the Bank formalized support for the development of national-level environmental action plans (NEAPs) in borrower countries. NEAP processes are supposed to be borrower-driven, and to bring together key stakeholders at the national level to set environmental priorities. The Bank cites the NEAP as one of several "building blocks" of country assistance strategies that provide the overall framework for Bank lending.

Experience with NEAPs has been mixed. In the early years, under pressure to meet IDA-imposed deadlines, many NEAPs were developed by external Bank-supported consultants, thereby undermining local participation and ownership. An internal Bank review of 33 national environmental action plans found that many NEAPs fail to identify the root causes of environmental problems, and often are perceived as exercises to attract funding for specific projects. There is little evidence that NEAPs are systematically incorporated into country assistance strategies, or indeed that they provide the depth and quality of analysis necessary to influence those strategies.

At the regional level, the Bank has developed regional strategies to achieve environmental sustainability. The strategy recently developed for Sub-Saharan Africa deals explicitly with the challenge of environmental sustainability, and grapples with the difficult issues of increasing food production for a growing population while protecting the natural resource base of soils, forests, and fisheries. The strategy has received a mixed reception from country departments, and the next objective of the regional environmental staff is to incorporate the regional strategy's approach into country assistance strategies.

ANALYSIS

ESDVP has emerged as the focal point of the Bank's investment in further developing the conceptual and analytical underpinnings of the institution's approach to the environment. Despite their relative isolation from much of the Bank's operational work, initiatives underway within ESDVP promise to provide many of the tools necessary to effect a shift to an approach to the environment based on sustainability rather than on mitigation.

ESDVP has launched an ambitious applied research agenda, ranging from an analysis of linkages between macroeconomic policies and the environment to development of indicators of environmental sustainability. A nascent "Global Overlays Program" of research over the next three years will attempt to incorporate a calculation of global environmental costs and benefits into analyses of domestic policy options in a few borrower country economies. ESDVP has also endorsed an "action plan" on greening systems of national accounts. The plan anticipates Bank participation in
an international working group to promote the integration of nature’s resources and services into standard measures of economic progress. The “Wealth of Nations” work is described in Box 22.

All of the environmental reforms described above—new policies, development of a portfolio of environmental projects, increased staffing, planning, and analytical work—are real and significant, and the Bank offers up many project-level anecdotes to demonstrate the positive effect they are having on the Bank’s environmental performance. Nevertheless, although the Bank’s most recent annual environment report is entitled “Mainstreaming the Environment,” the future-tense language of the report itself reveals that much of the reform agenda it describes is prospective rather than complete. Despite promising conceptual work underway in ESDVP and environmental strategy development in regional environmental units, the Bank does not yet incorporate environmental sustainability as a fundamental condition to govern its country and sector strategies, nor are the global environmental impacts of its operations routinely taken into account.

IV. Challenges: Shifting the Focus from Mitigation to Sustainability

The Bank faces a threefold challenge in shifting its approach to the environment from one based on mitigation to one based on sustainability. First, the Bank must close the gap between the rhetoric and the reality of its commitment to the environment. There is significant progress to be made in enforcing existing policies, and capturing the “win-win” environmental benefits that are consistent with economic efficiency and growth. Shifts in the training, incentives, and deployment of Bank staff are all management challenges that will impact the Bank’s environmental performance.

The second challenge is to alter the

BOX 22: THE “WEALTH OF NATIONS” STUDY

The most provocative element of ESDVP’s applied research agenda is the “Wealth of Nations” study, which was presented in preliminary form at the April 1995 meetings of the Commission on Sustainable Development. Diverging from the Bruntland Commission’s need-based definition, the study proposes that sustainability be redefined as “...leav[ing] future generations as many opportunities as, if not more than, we have ourselves,” with opportunity defined as per capita wealth, or capital.

Significantly, the study defines total capital as being composed of natural, human, and social capital in addition to “man-made” capital. The different kinds of capital are conceived as partial substitutes and partial complements, thereby allowing, but limiting, trade-off of one type of capital for another. The framework incorporates many aspects of sustainable development not captured by measures of economic growth, with the important exception of the distribution of wealth.

The “Wealth of Nations” study attempts a crude calculation (and ordering) of per capita wealth and its composition for 192 countries, and uses time-series data to plot measures of “genuine saving” by individual countries over time. The study suggests that gross domestic investment in some countries could actually be negative if depletion of natural resources and environmental degradation are taken into account. If taken seriously, these findings could have a profound impact on how the Bank thinks about the relationship between economic growth and sustainable development.

Bank's development paradigm to incorporate environmental sustainability as a primary rather than a secondary objective, and disseminate the new paradigm throughout the conceptual framework and operations of the institution. Under the current paradigm, the Bank's efforts to address environmental concerns focus primarily on the detection and mitigation of adverse environmental impacts at the project level, and the development of a large portfolio of environment-specific projects. Under a sustainability paradigm, all Bank lending and policy advice would be explicitly conditioned on its compatibility with the long-term protection of ecosystem integrity at local, regional, and global levels (see Box 23, "Insufficiency of the Current Paradigm"). In the same way that the Bank has pushed borrowers to undertake "structural adjustment" as a condition for Bank investment, the Bank should assist in promoting "environmental adjustment" in member countries.

The third challenge is for the Bank to establish appropriate relationships with borrower and shareholder governments, multilateral environmental fora, and elements of civil society at the national and international levels to advance the new paradigm. It is these and other political actors, rather than the Bank, that must ultimately make choices about how to attain environmental sustainability. Financing with sufficient concessional content to address environmental problems depends on the political will of major shareholders, while effective implementation depends on ownership by borrower governments and the societies they represent.

The Bank's role should be to support—and in some cases facilitate or even initiate—national and international political processes with intellectual leadership, data, and analysis essential to informed decision making regarding the risks and uncertainties inherent in alternative development choices. While the Bank is not the only source of these inputs, its global reach, sectoral breadth, access to data, and analytical capacity are unparalleled. The Bank must be selective in its engagements, forging partnerships with appropriate institutions at the appropriate scale in all of its activities.

The implications of the three challenges for the Bank's work at the project, sector, national, and global levels are discussed below.

\section*{AT THE PROJECT LEVEL}

At the project level, the principal challenge faced by the Bank is to realize the intention of the Bank's own environmental assessment policy, which is to ensure that environmental sustainability criteria influence project selection as well as siting and design. In addition, far more could be done to align average Bank practice with "best practice" in the incorporation of environmental costs and benefits into the economic evaluation of projects (see Daly, 1994). Current Bank practice is first to develop a project concept, and then to identify and mitigate adverse environmental impacts of that concept.

Under the new paradigm, the Bank and its borrowers would assess the requirements of sustainability on an ecosystem-by-ecosystem or region-by-
which development trends are likely to prove incompatible with those regions, then investments across all relevant sectors must be conditioned upon their compatibility with the sustainability of those ecosystems. The Bank has already experimented with the use of regional and sectoral environmental assessments; such assessments should be a precondition for development of individual projects.

The Bank's involvement in implementing strategies to achieve environmental sustainability at the project level must also be selective and collaborative, depending on its comparative strengths vis-à-vis other local, national, and international institutions. In addressing the threat of climate change, for example, market imperfections have constrained private sector financing for small-scale...
energy efficiency and renewable energy technologies. The Bank is not well-positioned to manage a large number of small projects. However, the Bank is well-positioned to play a key role in leveraging pricing policy reform and providing alternative financing mechanisms to surmount those constraints, opening opportunities for appropriate private sector investment.

Similarly, the Bank’s efforts to promote biodiversity conservation should reflect its strengths and weaknesses. In conserving valuable terrestrial and marine resources, leveraging external investment is not usually the key constraint, and poorly defined property rights render private sector involvement problematic. In situations that require challenging existing resource rights allocations coupled with a diverse and complex set of community-level interventions, the Bank should only get involved if it is willing to exercise its influence to promote community-based natural resource management strategies at the policy level to national and state-level governments. Direct Bank involvement in field implementation of such strategies should only be undertaken in the context of partnerships with nongovernmental organizations and other institutions better positioned to represent and respond to community-level needs.

AT THE SECTOR LEVEL

At the sector level, the Bank’s first challenge is to live up to its own stated policies with respect to such resources as forests, energy, and water, and become more proactive in assisting borrowers to shift to more environmentally sustainable development paths. An initial step, as mentioned above, would be to increase the use of regional and sectoral environmental assessments to facilitate genuine consideration of alternatives.

Privatization of environmentally significant sectors should proceed only as fast as adequate environmental regulatory frameworks can be put into place. The increasing role of the private sector in project-level infrastructure investments around the world underlines the need for the Bank to move upstream, assisting borrowers to design sustainable sectoral development strategies and policies—and strong institutions to implement them—within which private sector investment would then be directed. Indeed, where market failures constrain environmentally-friendly private investment, the Bank’s judicious use of guarantees and market orchestration would be appropriate interventions.

The Bank’s poor performance in implementing its energy policy should be a first priority for reform in the interest of both national and global sustainability. Bank-supported power sector investments should shift from fossil fuel-based plants to renewables and efficiency, while transport sector investments should shift from roads to rails and other less energy-intensive systems. In particular, the Bank should exercise leadership in transition economies, where the turnover of antiquated and highly polluting capital stock provides a golden opportunity for Privatization of environmentally significant sectors should proceed only as fast as adequate environmental regulatory frameworks can be put into place.
The ultimate environmental sustainability of prescribed development paths is rarely addressed explicitly in Bank documents.

replacement with more sustainable alternatives. The Bank could follow the lead of the Asian Development Bank, which has invested in strengthening intermediary financial institutions to on-lend funds for small-scale energy projects.

The agriculture and forestry sectors pose particular challenges for the Bank. Increasing agricultural production is recognized as a vital component of rural poverty reduction and assuring global food security, but further intensification and extensification of existing agricultural systems often threaten environmental sustainability. The Bank's traditional focus on lending to governments for irrigation infrastructure and extension services has often produced disappointing and sometimes environmentally damaging results, and whether the Bank can shift to the promotion of more sustainable, farmer-based agricultural development is not yet clear.

In the forestry sector, the Bank must overcome skepticism that it tends to be part of the problem rather than part of the solution. Borrower governments in countries where valuable natural forests remain—such as Indonesia and Papua New Guinea—do not need the Bank's money to develop timber production, nor are they necessarily receptive to the Bank's policy advice. To the extent that the Bank becomes involved in the forestry sector in such countries, it risks condoning by its engagement the environmentally and socially unsound practices—particularly with respect to indigenous peoples and biodiversity conservation—currently underway.

AT THE NATIONAL LEVEL

At the national level, the new paradigm would require the Bank to recognize environmental sustainability as a central condition around which country lending strategies and policy advice are built. Such a reorientation will require a shift of focus from "structural adjustment" to what Katrina Brandon has termed "environmental adjustment," and a similar willingness to encourage borrower governments to undertake the necessary reforms. Allocation of scarce concessional funds, including those from IDA and GEF, should increasing be determined by borrower commitments to policies and institutions that promote environmental sustainability.

The ultimate environmental sustainability of prescribed development paths is rarely addressed explicitly in Bank documents. Under the new paradigm, environmental sustainability would be a central focus of country-level economic analyses such as Country Assistance Strategies (CAS) and Public Expenditure Reviews (PER), as well as National Environmental Action Plans (NEAPs). Such a reorientation would alter the composition of project portfolios within and between sectors—perhaps even within the so-called "environment sector" itself—and would reorder the priorities and sequencing of policy reform packages in many borrower countries.

Work underway in ESDVP promises to provide elements of a conceptual framework and specific tools to operationalize the new paradigm in the context of country-level planning.
The "Wealth of Nations" work provides rational economic justification for shifting investment into the creation and protection of natural, human, and social capital. Work on environmental valuation and incorporating environmental costs and benefits into systems of national accounts should be applied as soon as possible in specific borrower contexts.

The Bank must also give increased attention to the role of the public and civil society institutions in holding governments accountable for their environmental performance. Encouraging governments to create political space for advocacy organizations and a free press—analagous to the Bank's role in promoting economic liberalization to open space for for-profit private sector activity—is an important way that the Bank can support environmental sustainability at the national level.

AT THE GLOBAL LEVEL

The new paradigm would also require the Bank to incorporate regional and global ecosystem sustainability into national-level development strategies. At the regional level, GEF funds have already catalyzed a number of ecosystem management initiatives, including those focused on the Black Sea, the Aral Sea, and Lake Victoria. Until very recently, the Bank has pointed to its role as an implementing agency for the GEF as the extent of its responsibility for addressing global environmental issues. Under the new paradigm, all investments, and not just those financed by or associated with GEF grants, would have to take into account their impact on supranational environmental trends. Although current Bank policy requires that global externalities be taken into account in project design and selection, there is no evidence that current practice conforms with the policy or has had a significant impact on portfolio composition.

Incorporating regional and global environmental sustainability into national-level development strategies—above and beyond the small number of initiatives that can be funded by the GEF—will likely prove problematic for the Bank. One of the most profound impacts of the Bank's Global Overlays Program, which is designed to calculate the domestic costs to taking global benefits into account, will likely be to provide a preliminary idea of the magnitude of "incremental cost" financing that would be necessary to avert crossing key environmental thresholds—that would have catastrophic environmental impacts on developing countries—without sacrificing development itself. For example, if the Bank were to adopt a "do no harm" posture with respect to global climate change, major power sector investments in such important borrower countries as India and China could not be financed by the Bank, with major North-South political implications.

Clearly, the Bank's asymmetrical North-South representation renders it uniquely unqualified to broker such global bargains. Some bargains may be struck in the context of highly targeted conventions such as the Montreal Protocol; others, such as food security, may require the creation of a U.N. Economic Security
Clearly, the Bank's Council, as recently proposed by the Commission on Global Governance. While the Bank is not the forum for the world community to decide how to respond to these challenges, the Bank must play an important partnership role in supporting and implementing agreements whether the response be through U.N. agencies, conventions, or other instrumentalities.

V. Conclusion

Few of the Bank's operations are neutral with respect to environmental sustainability at the national level, and many have profound implications for the environment at regional and global levels as well. Environmentalists charge that Bank projects and policy prescriptions often exacerbate negative trends, or at best fail to take positive steps to reverse them. Every Bank investment that fails to help shift economic development trajectories toward more sustainable paths—for example, away from reliance on fossil fuels—represents a lost opportunity to avert higher costs of adjustment to environmental contamination and resource scarcity in the future.

The Bank has taken many steps to mitigate the negative environmental impacts of its lending, has developed a large portfolio of pro-environment projects, and invested significant resources in relevant conceptual and applied research. In order to make its operations consistent with a sustainability paradigm, however, the Bank must incorporate environmental concerns into all country assistance strategies, projects, and policy prescriptions. In addition, the Bank must establish appropriate relationships with government and non-government political actors—from the international to the community level—who must ultimately make the choices about how to achieve environmental sustainability.

ENDNOTES

*Many individuals in the foundation community, the World Bank, the U.S. Treasury Department, the World Bank History Project, and the Washington-based community of nongovernmental organizations provided useful information and insights. Special thanks to Robert Blake of the Committee on Agricultural Sustainability for Developing Countries, Lara Helfer of the International Institute for Energy Conservation, Korinna Horta of the Environmental Defense Fund and Monica Moore of the Pesticide Action Network for commenting on draft text.

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The Role of the World Bank in Strengthening Governance, Civil Society, and Human Rights

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I. Introduction

This paper addresses the role of the World Bank in improving governance, strengthening civil society, and protecting human rights. Historically, the Bank's perspective on these issues has reflected a narrow economic view of development that largely neglects social and political factors. This view of development is deeply entrenched in the Bank, reflecting the collective interests of the member governments as memorialized in the Bank's Articles of Agreement, which prohibit the consideration of noneconomic issues in carrying out Bank activities. The Bank's definition of what is or is not an "economic" factor is evolving in welcome directions, but still lacks clarity and systematic application. There is also no consensus among the Board of Executive Directors to address governance, civil society and human rights issues proactively, nor do many borrowing governments see these issues as priorities for economic development.

The Bank's resulting reluctance to embrace noneconomic factors of development puts Bank management in a particularly difficult position: to maintain its historically narrow view of development the Bank must ignore the mounting evidence that successful development activities require greater attention to governance, civil society and human rights. Even when Bank management addresses related concerns, such as improving public agencies, reforming policies, and strengthening NGOs, it views them only as instrumentalities for achieving specific project goals. The Bank has failed to embrace improvements in governance, a stronger civil society or human rights protection as goals in themselves and a necessary part of its broader development mission. In short, the Bank has failed to develop an overarching strategy that reflects the linkage between these noneconomic factors and sustainable development.

The Bank's perspective on governance, civil society and human rights is necessarily evolving over time. Despite a culture that remains predominantly and narrowly focused on "economic" factors, a growing number of people in the Bank now recognize the conceptual linkage between sustainable development and concerns such as governance, civil society and human rights. This linkage builds pressure inside and outside the Bank to take affirmative steps to further these goals. In one particularly promising development, some in the Bank have begun to describe the Bank's role regarding these issues in terms of investing in social capital (see Box 24).

The transition between the Bank's historical focus on economic factors and the necessity for a broader view of noneconomic factors recurs in each
The Bank readily embraces those governance issues that it deems necessary for a positive and stable investment climate or that can increase institutional capacity to carry out specific loan objectives.

BOX 24: SOCIAL CAPITAL

Recently, senior Bank staff have recognized building social capital as an important strategy for achieving sustainable development. Social capital refers to the social fabric of a community including those features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit. Social scientists from a number of disciplines have demonstrated the importance of social capital for successful economic development. By analogy to physical capital or human capital, the concept of social capital may legitimize further Bank investment in the institutional, structural and procedural aspects of governance and civil society. The term could enable the Bank to conceptualize a greater role for governance and civil society issues in the development process.

of the three issues addressed in this paper: improving governance, strengthening civil society, and protecting human rights. These issues are closely related to each other, with substantial overlap between them. The paper separates the issues, however, because each raise different opportunities and challenges for the Bank, generally, and for the relationship between foundations and the Bank, more specifically.

II. The World Bank and Governance

BACKGROUND

Governance refers to the institutions, legal structures and processes for public administration with respect to the relationship between the government and its citizens. The Bank defines governance as: "the manner in which power is exercised in the management of a country's economic and social resources for development." The key dimensions of good governance (for the most part at least conceptually accepted by the Bank) are increased accountability, predictability through the rule of law, fair and transparent procedures for public administration, and expanded opportunities for public participation.

All components of good governance are not treated equally by the Bank. The Bank's approach to governance issues reflects its recurring division between "economic" and "noneconomic" factors. Noneconomic governance issues are typically not supported or considered by the Bank. On the other hand, the Bank readily embraces those governance issues that it deems necessary for a positive and stable investment climate or that can increase institutional capacity to carry out specific loan objectives. In this regard, the Bank has taken an increasingly active role, particularly as part of structural adjustment lending, in providing technical assistance to strengthen institutions, reform policies or build capacity. The Bank also takes "economic" governance factors into consideration in evaluating loans, and frequently makes "improvement" in governance a condition of further Bank lending.

The Bank's conditionality on loans has expanded from macroeconomic concerns to a broad range of public regulatory issues. As the Lawyer's Committee for Human Rights has observed:

"Disbursements of funds would be made only if the government met conditions set, such as to reduce the number of civil servants, restructure ministries and liquidate public enterprises or restructure or offer..."
them for sale. In many instances, measures have required extensive legislative changes, particularly in the areas of labor regulation, investment, taxation and generally in what has become known as the "enabling business environment." Conditionality has evolved from macro-economic measures to detailed reforms affecting the public administration itself.

The range of law and policy issues in which the Bank now gets involved under the rubric of promoting an "enabling business environment" is thus quite extensive, ranging from financial management reforms to specific reforms in sectoral laws or institutions.

CHALLENGES RELATING TO GOVERNANCE

Ultimately, the distinction between the "economic" and "noneconomic" issues breaks down, and the Bank is left taking an ad hoc approach to when it will get involved with what reforms. Observers inside and outside the Bank are split over how to correct this. On the one hand, the Bank is increasingly involved in governance issues as an inevitable aspect of their development activities. Recognizing this, the Bank needs to adopt clear guidance for its staff. On the other hand, adoption of clear guidelines does not necessarily imply a broader role for the Bank in governance. Some critics believe that, as a top-down bureaucracy dominated by economists, the Bank may be inherently unsuited to promoting desirable improvements in governance.

The Bank's emphasis on traditional economic development models also translates into a fairly clear philosophy towards governance issues. Overall, the Bank emphasizes downsizing public bureaucracies, reducing the number of civil servants, and privatizing public enterprises and natural resources. Many Bank-led governance reforms have profound political, environmental, social and cultural impacts. For example, the Bank's approaches to privatizing water rights and land reform present serious implications for indigenous peoples' ancestral rights and for environmental protection. Even the process used in Bank-financed policy reforms often does not include sufficient participation by subnational governments, NGOs and affected people. The resulting policies and institutions may reflect more the Bank's own interest in structural adjustment or in the need to implement specific sector loans than a broad political consensus that the particular approach is the correct one for that country. In fact, given the lack of transparency in law and policy making in many borrowing countries, the Bank's top-down approach to policy reform can exacerbate undemocratic policy-making procedures.

Mainstreaming Governance Concerns

As noted above, the Bank's current approach to governance issues is determined by the artificial distinction between "economic" and "noneconomic" aspects of governance. The resulting failure to articulate and adopt a coherent policy towards governance hinders those disparate governance reforms with which the Bank does get involved. Given the lack of consensus over the appropriate role of
The Bank's disproportionate support to certain public institutions can distort the overall governing structure in the borrowing country.

The Bank in governance operations, the Bank should spark a broader dialogue about its policy towards governance, perhaps culminating in a governance action plan and strategy, similar to that adopted for participation.

As the link between good governance and sustainable development is elaborated, the Bank should shift more support to capacity building and institutional strengthening in ways that improve governance generally. For example, less direct Bank support should go to technical assistance in reforming natural resource laws and more to strengthening the natural resource agencies and related enforcement mechanisms or to demonstrating participatory policymaking processes. Recognizing the linkage between governance and sustainable development might also lead to greater attention to transparent and open procedures and more support for social agencies such as health, education and environment.

To some extent, the Bank is already broadening its view towards governance and thus exploring the linkages between development and governance provides both a challenge and an opportunity. For example, the Bank has recently tried to strengthen judiciaries in several countries, including Venezuela, Bangladesh and Tanzania. Strong and independent judiciaries are important both for ensuring consistent and fair business investment rules and for protecting individual rights.

Bank-Supported Reforms Have an Inherent Bias

As noted above, the Bank justifies its activities related to governance by linking them to improvements in the climate for business and foreign investment. The Bank's philosophical bias toward spurring private business investment and economic growth often stifles its ability to adjust to unique issues, challenges or values found in different cultures. Rather than fostering innovative and imaginative solutions to difficult problems, the Bank's approach too often attempts to replicate the experience of industrialized countries. As a result, policy reforms advocated by the Bank in many sectors, particularly natural resources, are demonstrably unsuccessful in achieving sustainable development. Bank-supported approaches to the privatization of water rights, forestry laws and land titling, for example, often mirror unsustainable practices in industrialized countries and exacerbate the trend toward unsustainable exploitation in the borrowing country.

In addition, the Bank's disproportionate support to certain public institutions can distort the overall governing structure in the borrowing country. The Bank has historically assisted in building huge and powerful ministries within countries, in part because the Bank needs a strong client for long-term lending. This has been well documented in the case of the energy ministries and utilities in India and Thailand, for example. The Bank reinforces the power wielded by financial, trade and industrial sector ministries, increasingly marginalizing those social-sector agencies addressing issues such as education, environment or health. In part, the Bank can remedy this by considering public admin-
istration across all agencies as a goal of development activities, instead of considering individual ministries and policy reforms as solely instruments of development.

**Governance Capacity and Structural Adjustment**

Researchers within the Bank have identified the vital role that governance capacity plays in achieving successful economic development generally and in implementing structural adjustment more specifically.\(^6\) Ironically, the Bank's structural adjustment policies simultaneously require a reduction in the size of government as they require more effective public administration. Structural adjustment assumes that governance effectiveness will increase as the size of the government decreases. Unfortunately, the reality in most countries has been the opposite: governance effectiveness declines at least initially as the government shrinks. As a result structural adjustment has not been implemented well even by Bank standards. Rather than blame the inefficiencies of the borrower government for failed implementation, the Bank should recognize the inherent impact of the structural adjustment program on governance capacity.

**III. The World Bank's Role in Promoting Civil Society**

**BACKGROUND**

Civil society refers to the complete range of nongovernmental organizations (NGOs) and to the interlocking network of procedures and institutions that allow the organizations to function and interrelate. For our purposes, the Bank's activities toward civil society can be divided into three categories: (1) activities related to strengthening civil society generally; (2) activities aimed at improving the relationship between the Bank and NGOs; and (3) activities specifically designed to improve participation, particularly of affected people, in Bank activities. As discussed further below, these activities are substantially limited by the Bank's failure to adopt a strategic, coherent approach to the strengthening of civil society as an independent goal.

**Bank Activities to Strengthen Civil Society**

In its most recent draft policy on NGO consultations, the Bank recognizes that it has "a role to play in ... encouraging an enabling policy environment for NGOs." Under Mr. Wolfensohn, the Bank has taken some limited steps to promote civil society, generally. For example, the Bank in cooperation with the International Center for Not-for-Profit Law is developing global standards and best practice guidelines for laws governing nonprofits. The Bank is also expanding its general support of legal and judicial reform. For example, a 1992 loan to Venezuela is intended to strengthen the enabling environment of the private sector by improving the efficiency of judicial institutions. Support for legal and judicial institutions is criti-
Support for Bank efforts to strengthen civil society is not universal.

As with the discussion of governance above, support for Bank efforts to strengthen civil society is not universal. Many observers welcome any additional resources for strengthening civil society, particularly since many issues such as the reform of nonprofit laws are often neglected. Supporters argue that, just as the Bank promotes a stronger investment environment, it should also ensure fairness and transparency in laws relating to social associations and organizations, as well as to procedures for policy making. Critics wonder skeptically how the Bank can be expected to promote a strong, vibrant civil society particularly given its historical antipathy towards reform-oriented NGOs. Further dialogue regarding the appropriate role of the Bank in strengthening civil society could alleviate some of the opposition by clearly circumscribing the Bank’s role and clarifying its commitment to a diverse civil society.

Bank-NGO Relations

A wide range of NGOs now regularly engage the Bank in discussions over all sorts of projects and policies. Pressure from NGOs has been one of the primary reasons the Bank has adopted its environmental and social policies, including policies and directives on environmental assessment, NGO consultation, access to information, resettlement, indigenous peoples, and the inspection panel. Support for these NGO activities as effective monitors of the Bank’s progress has been an important initiative of several private foundations.

For its part, the Bank has increased formal and informal mechanisms for consultation and dialogue with NGOs regarding the Bank’s goals, policies, projects and performance. These efforts include the: NGO-Bank Committee, the Bank’s NGO Unit, the NGO sector studies underway in several countries, and the addition of NGO liaisons to Resident Missions in many South American and African countries. The net result has been a marked expansion and improvement in the flow of information and ideas between the Bank and NGOs.

The Bank’s new draft Operational Policy and related guidance for involving NGOs in Bank activities continues the Bank’s explicit categorization of NGOs. The Bank particularly recognizes the importance of those NGOs that provide services or can implement projects. The Bank has increasingly provided direct support to NGOs as low-cost and effective mechanisms for implementing specific projects. The Bank also recognizes the legitimate role of NGOs who engage in constructive dialogue with the Bank or governments, or who represent affected peoples.

Despite real efforts to improve relations and dialogue with NGOs, however, the Bank’s overall approach to NGOs still suffers from a pervasive antipathy towards policy-oriented NGOs, particularly those that criticize Bank policies or projects. The Bank frequently tries to distinguish between NGOs who want to work “constructively” with the Bank (i.e.,
service providers and similar NGOs) or borrowers and those NGOs that are more openly critical. Some observers believe this reflects a deliberate divide-and-conquer strategy supported by Bank management, including Mr. Wolfensohn. In the same vein, Bank management has recently reached out to Southern NGOs for the expressed purpose of countering the influence of Northern NGOs.

Expanding Public Participation in Bank Activities

Until recently, participation in Bank activities has not received formal attention by the Bank. Participation has been required, if at all, only as an element of other Bank policies—most notably, the environmental assessment and indigenous peoples policies. As a result and consistent with the Bank’s “do-no-harm” approach, an explicit right to participate only exists in projects that pose substantial environmental or social impacts.

Missing from the Bank’s approach is the recognition that participation is important for the success of most, if not all, development activities. The need to adopt participatory methodologies is thus independent from the severity or type of expected negative impacts. In practice, the Bank’s failure to take a broader approach to participation has meant that affected parties, subnational governments and NGOs are frequently excluded from many Bank activities, where their participation is warranted both to satisfy minimum concepts of fairness and to provide valuable substantive input.

Because of pressure from the NGO community and the growing recognition of the importance of participation to the success of development, the Bank has launched a major new participation initiative (see Box 25) aimed at “mainstreaming” participation in all Bank operations. As part of this initiative, the Bank is preparing regional participation action plans and revising relevant operational policies to ensure greater participation in Bank activities. The Bank has also identified a large number of “flagship” projects that it believes will be models for demonstrating a new commitment to participatory development. The initiative marks a critical shift in the Bank toward viewing participation as important in itself and not simply as a set of procedures required for socially or environmentally controversial projects. Monitoring and assisting the Bank’s efforts to “mainstream” participation presents both important challenges and opportunities for NGOs and foundations.

Most notably, the Bank is beginning to expand participation in the early planning phases of its country-level operations—for example, in developing the Country Assistance Strategy (CAS) and related background documents. The CAS is the central document for strategic planning at the country level; it is critical because it identifies the major goals and objectives for subsequent Bank lending to the country. Until recently, the CAS has been developed entirely through Bank-led research and negotiations with the borrower government and other donors, but little or no public participation. By the time

The Bank frequently tries to distinguish between NGOs who want to work “constructively” with the Bank or borrowers and those NGOs that are more openly critical.

The Bank has launched a major new participation initiative aimed at “mainstreaming” participation in all Bank operations.
Until recently, the CAS has been developed entirely through Bank-led research and negotiations with the borrower government and other donors, but little or no public participation.

**BOX 25: THE WORLD BANK PARTICIPATION INITIATIVE**

Near the end of 1990, the Bank launched the Learning Group on Participatory Development to examine the issue of participation and identify challenges to the Bank in expanding participation in its operations. After several years of study and investigation, the group proposed a long-term strategy and action plan for the Bank. The group recognized that "significant shifts will be necessary in the Bank's institutional culture and procedures if it is systematically to adopt participation as a regular feature of its work with borrowing countries."

In September 1994, the Board approved the strategy and action plan committing the Bank to facilitating participation by helping governments create an enabling environment, by expanding the opportunity for participation in all stages of project design and lending, and by reviewing internal management procedures and incentives to encourage more participatory processes. The Bank's overall action plan was to be implemented through Regional Participation Action Plans. The Board also directed staff to develop a strategy paper on NGOs and an Operational Policy on participation.

Each region of the Bank has developed draft Regional Participation Action Plans. The regional plans address several categories of activities aimed at: (1) screening projects and other activities at an early stage to identify stakeholders and develop appropriate participation plans; (2) monitoring a range of "flagship" projects or activities to demonstrate and evaluate participatory methodologies; and (3) building Bank and borrower capacity in participation methodologies. The regional plans vary considerably in quality, each with some strengths and some weaknesses. In its ongoing review of the regional plans, the Bank needs to set minimum standards for the plans and adopt a more participatory process for finalizing them. In particular, the regional plans should ensure that in-country stakeholders gain access to information in local languages; integrate participatory approaches equally into priority setting processes (e.g., country assessment strategies), policy-based lending (i.e., structural adjustment lending), and all sectors of project lending; move beyond consultation to active participation particularly in project development; and reflect a greater commitment of financial and human resources to participation, including training of Bank staff.

Mr. Wolfensohn has voiced his support for the participation initiative. Indeed, Mr. Wolfensohn will receive quarterly reports for nineteen of the "flagship" projects directly. In general, however, the Bank has not developed a clear methodology for evaluating the flagship projects or for documenting the effectiveness of participation in improving project quality. Without such documentation, the "mainstreaming" of participatory methodologies throughout all Bank activities must be considered unlikely.

"The World Bank, Operations Policy Department, The World Bank and Participation, (1994), at 1. The group defined participation as a "process through which stakeholders influence and share control over development initiatives, decisions and resources which affect them." Id. at 1.

The public is allowed to participate in the identification stage of specific Bank projects, it is often too late to promote many alternatives or to engage the Bank in a discussion of country priorities.

There are hopeful signs that the Bank may be expanding participation in these early stages. Mr. Wolfensohn has stated that citizens of borrowing countries should be involved in the development of the CAS, and this is beginning to be reflected in Bank operations. The Bank has experimented with expanded public consultation in certain CASs (for example, Bangladesh, Guinea Bissau, Lesotho, Malawi and Vietnam). The issue has also been discussed at several meetings of the NGO-World Bank Committee and the NGO Unit of the World Bank. From these discussions, Bank staff have begun to compile recommendations and methodologies for increasing participation in the CAS and the background economic and social work compiled in preparation of the CAS.

**CHALLENGES RELATING TO CIVIL SOCIETY**

**Thinking Strategically About Civil Society**

The Bank needs to think strategically about strengthening civil society as a separate goal, not simply an
instrument, of development. As discussed above, except for some recent limited steps toward strengthening civil society generally, the Bank's major activities relating to civil society involve (1) strengthening its own rules for participation and dialogue with the public and NGOs and (2) increasing direct support to those NGOs that provide services or implement projects. Taken together, these activities do not reflect a coherent approach to achieving that commitment.

The increasingly clear linkage between a strong and independent civil society and sustainable development, however, necessitates that the Bank develop and implement a coherent strategy. Unfortunately, this is not yet completely accepted or operationalized by the Bank. As a result, the conceptual linkages between civil society, generally, and the Bank's approach to development need to be examined and developed further. Concepts like that of social capital need to be discussed in the context of improving project quality and facilitating sustainable development.

Promoting Diverse Voices in Civil Society

The Bank's categorization of NGOs is understandable for identifying the different ways that the Bank relates to NGOs, but the Bank needs to balance this approach with a clear policy that values a wide diversity of NGOs. The existence of diverse dialogue is a key indicator of a vibrant civil society. At the very least, the Bank must eschew any deliberate efforts to isolate those NGOs who criticize the Bank and borrowing governments. Distinguishing between good and bad NGOs according to whether you agree with their message, for example, is inconsistent with a strong, vibrant civil society and it could fuel the atmosphere of intolerance that emboldens some borrowing governments to oppress NGOs that criticize Bank-financed projects. Mr. Wolfensohn, in particular, could show leadership in fostering a climate of tolerance both within the Bank and within borrower governments for the wide range of legitimate functions served by NGOs, including the role of constructive and open debate.

Implementing Participatory Development

The Bank's current efforts to articulate a strategy and action plan for expanding participation is an important and welcome development. The challenge, however, remains one of implementation.

Historically, the Bank's record at implementing participatory development has not been promising. Compliance with existing Bank policies that include significant participation or consultation requirements—most notably, the policies on access to information, environmental impact assessment, and indigenous peoples—has not been good. To date, except for the beleaguered Inspection Panel (discussed in Box 26), no internal incentive exists to encourage Bank personnel to comply; in fact, the "culture of approval" documented by the "Wapenhans Report" still rewards loan approval, not project quality or
Many borrowing country NGOs leave consultations or participatory processes feeling that their participation was irrelevant.
irrelevant. This partly results from the Bank economic staff’s failure to accept the fundamental importance of public participation to their goals. For example, in a December 1995 meeting regarding the inspection panel a Senior Vice President stated to a small group that included only three U.S. NGOs: “This meeting is important; we want to be able to tell the Board we consulted with NGOs.” As this anecdote illustrates, some Bank staff still see participation as necessary only for placating NGOs and to some extent the Board. Bank attitudes toward participation probably will not change significantly until Bank staff fully understand the connection between participation and project quality. As noted in Box 25, documenting this connection in Bank projects should be one of the primary goals of the participation initiative.

Improving the quality of participation will also require increased capacity within the Bank for participatory development as well as a strong commitment to adopt participatory methods earlier in Bank activities. Although these are in fact key elements of the new participation initiative, the recent reorganization of the Bank raises additional concerns about top level commitment to participation. Most alarming is that participation issues have been placed under the former chief economist for Africa, who does not have a strong track record relating to participation or similar issues.

*Increasing Support to Smaller, Local NGOs*

The propriety of the Bank providing direct support to NGOs is controversial. Some observers are concerned that the Bank and borrower governments exploit NGOs as low-cost service providers, overload their administrative capacity, and distort their accountabilities to members and beneficiaries. Others, including many NGOs, are eager to see a higher proportion of Bank funds diverted from government agencies to NGOs, which are seen (rightly or wrongly) as more effective, more efficient, and less prone to corruption in project implementation.

Assuming that some Bank funds are channeled to NGOs, a strategy for strengthening civil society would recommend diversifying support so that smaller, locally based grassroots groups obtain an increasing share of resources. Currently, much support from the Bank and other official development agencies goes either to donor country NGOs or to NGOs in the largest developing country cities. In both cases, more could be accomplished by putting increased support directly to smaller and rural NGOs or community organizations.

But providing support to smaller NGOs or NGOs located outside of major cities presents a major challenge to the Bank. Although the Bank has considered a small grants window for NGOs, it is generally more comfortable dealing in relatively large sums of money, and the administrative and other transaction costs of small projects are seen as too high. One possible strategy is for the Bank to find and support effective intermediary organizations that can accept large loans or grants and repackage them in sizes more appropriate for smaller, local NGOs or other assis-
Initial efforts by the Bank to establish foundation-like organizations have been mixed, in part because neither the Bank nor the borrower are committed to establishing truly autonomous funding mechanisms.

The need to develop effective strategies for reaching out to smaller NGOs is increasingly important, as the Bank has begun searching for better mechanisms to transfer some benefits of national development projects to the local people who often bear most of the social and environmental costs of projects. Initial efforts by the Bank to establish foundation-like organizations have been mixed, in part because neither the Bank nor the borrower are committed to establishing truly autonomous funding mechanisms. For example, the Pehuen Foundation, established as part of the IFC-financed Pangue Dam on the BioBio River in Chile, was one of the first such projects in Latin America and has recently been cited as a model by Bank staff. Yet, outside critics argue that the foundation's structure is not independent, that it is being used to promote the agenda of Chile's major electrical utility, and that it is not responsive to community needs. Because of this and other criticisms, Mr. Wolfensohn recently agreed to launch an internal evaluation of the Pangue project. The Bank's experience with other funds, for example, in the nature conservation area seems to be better, perhaps because the goals of these funds are less controversial and more clearly supported by the borrower.

To some extent, large foundations and other donors face similar challenges in their efforts to efficiently transfer more resources to local, small NGOs. Sharing experiences—successes and failures—offer an important area of collaboration between NGOs and foundations. For example, the foundations bring a rich experience with the development of community foundations in this country that could be usefully shared with the Bank, as it moves forward in establishing or supporting autonomous grant-making intermediaries. Foundations also have experience with multi-donor, international efforts to support NGOs at the local level. The Environmental Partnership for Central Europe, a project administered by the German Marshall Fund, is a current example that provides valuable lessons for the Bank and other donors (see Box 27). In the case of the Environmental Partnership, the foundations have successfully established autonomous decision-making structures with efficient administration and widespread credibility in the target countries. Similarly, the small grants programs funded by bilateral donors could provide important lessons (for example, the USAID-funded programs administered by the Institute for Soviet American Relations (ISAR) in the Newly Independent States of the Former Soviet Union).

IV. The World Bank's Role in Protecting Human Rights

BACKGROUND

Respect for human rights, particularly the freedoms of association, assembly and expression and the rule of law, is a necessary precondition for good governance and effective participation, as well as for making development sustainable. Yet, the same eco-
BOX 27: THE ENVIRONMENTAL PARTNERSHIP FOR CENTRAL EUROPE

The Environmental Partnership for Central Europe is a joint program of several U.S., European, and Japanese foundations administered by the German Marshall Fund of the United States. It provides small grants (up to $8,000) for technical and organizational assistance to NGOs and local governments in the Czech Republic, Hungary, Poland and the Slovak Republic. The Partnership's mission is to establish an institutional framework in the emerging democracies of Central Europe to enable foundations (and other funders) to address local environmental problems by strengthening and building NGOs and networks, promoting public involvement and participation, and reinforcing local government's environmental decision-making capacity. Behind this environmental mission, however, is the broader goal of the foundations to support civil society and democracy at the local level in this region.

The project began full operations in September 1991. An independent review of the Partnership in 1993 confirmed that the Partnership "approach, based on small grants and support guided by local Advisory Boards and Directors and staff based in each country, is highly effective. The result is fast, flexible, and nonbureaucratic support for actions leading to change in the region." In essence, the Partnership has effectively solved the problem of how to transfer small grants to NGOs outside of capital cities. In so doing, it has built local capacity to administer grants in an objective way and built the seeds for a strong and diverse civil society.

The Partnership model, particularly its ability to build in-country capacity to administer grant-making programs objectively, is one that can be of value to the Bank, particularly as it grapples with the problem of how to return economic benefits from large national projects to the local communities who bear the brunt of the costs of the projects. Indeed, the Partnership has already been an important model for a USAID-financed effort to provide similar small grant support to the Newly Independent States (NIS) of the Former Soviet Union. That program, administered by ISAR, is widely viewed as one of the most successful initiatives of USAID in the NIS.

Indeed, establishing independent and objective mechanisms for small grant making could be an important collaboration of the foundations and the Bank to promote civil society and philanthropy in developing countries and countries in economic transition. The coordination could range from joint research or conferences to a major effort to establish effective independent grant-making bodies in certain countries.


The economic/political distinction that motivates the Bank in governance issues also explains the Bank's approach to human rights. The Bank's position is as follows:

Except in situations where the violation of human rights has created conditions hostile to effective implementation of projects or has other adverse economic consequences, or where there are international obligations relevant to the Bank, such as those mandated by binding decisions of the U.N. Security Council, the World Bank does not take into account the political dimensions of human rights in its lending decisions. The World Bank's Articles of Agreement prohibit the institution from taking political considerations into account, interfering in the political affairs of any country, or being affected by the political form or orientation of a country. Consistent with the Articles, the focus of the Bank's efforts in the area of human rights is on those rights that are economic and social in nature.

Thus, for example, the Bank has recognized the close link between its poverty alleviation goal and the fulfillment of the U.N. International Covenant on Economic, Social and Cultural Rights (1966). This covenant codifies rights to work, to have a minimum standard of living, to be free from hunger, and similar economic-related rights. On the other hand, the Bank has not embraced the U.N. International Covenant on Civil and Political Rights, largely because the Bank maintains that recognition of these rights would constitute interference in the political affairs of member countries and be contrary to the Bank's Articles of Agreement.

The Bank's approach to human
The Bank’s failure to recognize civil and political rights has led it to ignore serious human rights violations associated with projects and activities supported by the Bank. Even with respect to economic and social rights, which the Bank agrees it should respect, the Bank’s record is suspect. For example, the disproportionate impacts of Bank-supported structural adjustment policies on the poorest sectors of society have often been cited as undermining, if not violating, economic and social rights. More visibly, the Bank’s failure to recognize civil and political rights has led it to ignore serious human rights violations associated with projects and activities supported by the Bank—particularly those Bank projects affecting indigenous peoples or causing substantial resettlement. At the least, the Bank has been complicit in massive and well-documented human rights violations, including resettlement activities associated with India’s Narmada Dam and Indonesia’s Kedung Ombo project. (See the discussion of these dams in Box 5 of the Overview.) Partly in response to the dismal human rights records of these and other controversial projects, the Bank adopted policies and procedures intended to improve the treatment of displaced persons and indigenous peoples. Implementation of these policies has been widely criticized, however, and there is little confidence outside the Bank that its record will significantly improve in the future.

CHALLENGES PRESENTED BY THE BANK’S APPROACH TO HUMAN RIGHTS

Considering International Rights Standards

As a specialized agency of the United Nations, the Bank should at least take into account international human rights standards. The Bank has taken the very narrow position that it does not have to follow U.N. General Assembly Resolutions, but will be bound only by U.N. Security Council decisions. Yet, international human rights agreements, including General Assembly Resolutions and International Labor Organization (ILO) conventions, are evidence of widely accepted standards (formally ratified by most of the members of the Bank). These agreements thus set important goals, establish a baseline against which to measure performance, and provide guiding principles for shaping Bank actions while allowing the Bank to continue its political neutrality.

Lack of Leadership

The result of the Bank’s de-linkage of human rights and development is that the Bank has abdicated much of the leadership role it could otherwise play. The Bank believes it adequately addresses economic and social human rights simply by promoting poverty alleviation and development. The Bank should be a forceful advocate that development built on the back of human rights violations is not sustainable and should not be supported. Strengthening the conceptual linkage between human rights and sustainable development could help the Bank fulfill this broader role.

Narrow Interpretation of the Articles

Although the Bank has begun to take some steps toward recognizing and supporting human rights, the mythology that the Bank simply
cannot consider human rights issues continues at the Bank. This mythology in part stems from a narrow “legal” interpretation of the Articles of Agreement’s prohibition against consideration of political issues. This provision does not necessarily apply to civil and political human rights issues; rather, it could be interpreted more generally to prohibit the Bank from favoring or disfavoring countries with certain political systems. The latter interpretation would permit a greater role for the Bank in human rights issues and would remove the legal curtain behind which the Board of Executive Directors and Bank management have effectively hidden their collective preference that the Bank should not consider human rights. To the extent that human rights are viewed as apolitical or universal, or to the extent that civil and political rights can be linked to the economic success of a country, efforts to ignore the relevance of human rights to development will become more difficult.

**Limited Capacity to Address Human Rights**

Even given the Bank’s narrow perspective on human rights, there are some important steps the Bank could take. At the very least, the Bank needs to require its staff to investigate and consider the human rights records of the countries in which they are operating. Bank staff should probably avoid certain types of projects (for example, those causing massive resettlement) in countries where there is strong reason to believe that project implementation will only be achieved with human rights violations. Where the potential for human rights violations has been raised with respect to specific projects, the Bank should strengthen its supervisory and consultative role. Most of these activities require a concerted effort to sensitize Bank staff to human rights violations and to build their capacity to recognize and avoid them.

**V. Conclusion**

In conclusion, the Bank must grapple with the increasingly arbitrary line between “economic” and “political” issues as the linkages between governance and sustainable development become clear. The Bank must also do more to promote “enabling environments” for the emergence of strong and independent civil society organizations, and follow through on its commitment to increase public participation in Bank operations and policy development. Finally, the Bank must increase its sensitivity to the political contexts in which it works, and ensure that its projects and policies do not undermine the human rights of its intended beneficiaries.

**ENDNOTES**

1. The author thanks the following people for reviewing prior drafts of this paper or
for providing comments on specific sections: Nancy Alexander, Patricia Armstrong, Peter Bosshard, Carlos Heredia, and Frances Seymour.


5 Some of these issues relate closely to the trend in privatization. See P. Bosshard, "The Private Sector Lending of the World Bank Group: Issues and Challenges" (included as another paper in this volume).


8 The Bank makes grants to NGOs through the Consultative Group to Assist the Poorest, the Institutional Development Fund, the Small Grants Program, and the Special Grants Program. In addition, the Bank has identified the following additional sources of funding for enabling NGO involvement in Bank operations: the Project Preparation Facility, the Institutional Development Fund, the Global Environment Facility and administrative or supervision budgets. See Draft G.P. 14.70, Par. 18.


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The Private Sector Lending of the World Bank Group: Issues and Challenges

Peter Bosshard

I. Introduction

The support of privatizations and other private sector projects is an important trend of current operations and policies of the World Bank Group. This paper takes stock and identifies challenges. It first attempts to summarize the major trends of the private sector lending policies and operations of the World Bank, the IFC and MIGA. It goes on to analyze institutional, environmental, social and economic problems that the shift towards private sector lending has created. The paper argues that the support of private sector operations tends to increase efficiency and to foster economic growth, but that it will not normally contribute to, or can even undermine, social equity and environmental sustainability. It recommends that the World Bank Group should try to achieve a positive development impact—in terms of social equity, environmental sustainability and strengthened civil society—with every single project it supports. The Bank Group should also strengthen the institutional capacities and policy guidelines relating to its private sector operations in order to prevent potential negative development impacts.

The Boards and the management of the World Bank Group are now searching for a comprehensive approach towards private sector lending, and are grappling with the question of development impact. Different institutions of the Bank Group currently are preparing new or revised guidelines on private sector operations. All of this provides an opportunity for input from the NGO community, and civil society at large. The present paper contains background information and puts forward recommendations that should help to identify critical issues, and shape NGO positions.

II. Background

THE ERA OF PRIVATIZATION

The 1980s saw several important developments that radically altered the roles of the state and the private sector in economic development. Rising debt and declining commodity prices eroded the bargaining power of Southern governments. They ended all calls for a New International Economic Order, a topic which had sparked intensive debates in the 1970s. The advent of the Reagan administration in the United States initiated a worldwide ideological shift, in that the preponderance of free markets was stressed at the cost of government interventions. The dissolution of the Communist block after 1989 further delegitimized strategies which implied an active role of the state in economic development.
Economic trends contributed to this change of ideological paradigms. Technological innovations led to a complete globalization of most markets, which made efficiency, competitiveness and a free-market orientation all the more important. Under a rising debt burden, most Southern governments could not afford to subsidize unprofitable state enterprises any longer. In many cases, the conditionality of international financial institutions enforced privatizations and general deregulation, processes which had already been initiated by financial pressures. By the end of the 1980s, two global megatrends evolved from these different ideological, political and economic developments: State enterprises in different areas such as infrastructure, economic production and distribution, and social services were being privatized at a rapid pace. “The dimensions of the privatization revolution have been huge,” the IFC was able to remark in a September 1995 report. Secondly, private financial flows—commercial loans and direct or portfolio investments—overtook official flows as the primary source of foreign exchange for Southern countries.

Over the period 1980-93, 2,735 state enterprises were privatized in developing countries. (100,000s of voucher-based, usually medium- and small-scale divestitures in countries such as Russia, Ukraine, and the Czech Republic are not included in this account.) 1,099 enterprises were privatized in Eastern Europe, 697 in Latin America, 475 in Asia, and 464 in Africa. 1,128 privatizations occurred in the industrial sector, 518 in primary production, 318 in infrastructure, 181 in the financial and 590 in other sectors.

Privatizations in 1980-93 netted a total of 96 billion dollars, of which 57 percent accrued to Latin America. Middle-income countries accounted for most of the value of privatizations. In 1988-93, Argentina, Brazil, Hungary, Mexico, and Poland were responsible for 60 percent of the value of all privatizations. In 1988-93, foreign investors were involved in 29 percent of all transactions, increasing their share from 9 percent in 1988 to 44 percent in 1993. In Latin America, they often acquired state-owned enterprises through debt-to-equity swaps. In spite of the sizable foreign involvement, privatizations accounted for a large share of all foreign direct investment (43 percent in 1988-93) only in Eastern Europe. In a sample of 40 developing countries, the share of state enterprises in GDP fell from a peak of 11.7 percent in 1985 to still 10.2 percent in 1991. (In low-income countries, the respective share was still 13.0 percent, and in African countries, 17.3 percent.)

For many years, governments divested mainly of small- and medium-sized enterprises. Yet by the early 1990s, large public utilities and state-owned banks or airlines were no longer exempt from privatizations. Examples were the telecommunication corporations of Mexico, Venezuela, Argentina, and Malaysia, the Bancomer and Banamex banks of Mexico, and the electric power utility of South Korea. Even public forests and beaches are currently put up for sale. As far as infrastructure is concerned, the World Bank in its 1994 World Development Report ranked
telecommunications, gas production and transmission, waste collection, thermal power generation, railway transport, and port and airport services as top priorities for privatization. Telecommunications and power alone accounted for 86.5 percent of all infrastructure privatizations in 1988-92.

Deregulated markets and privatizations made private capital flows to developing countries soar in the 1980s and early 1990s. In 1991, private loans, bonds and investments for the first time surpassed official development flows. In 1994, they reached a staggering 172.9 billion dollars, as compared to official flows of 54.5 billion dollars. Attracted by exploding stock values in the so-called emerging markets, portfolio investments swelled from almost nil in the 1980s to 46.9 billion and 39.5 billion dollars in 1993 and 1994.

THE ROLE OF THE WORLD BANK GROUP: OVERVIEW

Support of privatizations and private sector lending are overlapping but not identical terms. To a large extent, supporting privatizations is part of the World Bank Group’s private sector lending, but comprises non-lending activities such as policy advice and conditionality as well. Private sector lending on the other hand not only includes privatizations, but many other projects that were never divested from the state.

The role of the World Bank Group in privatization and private sector lending comprises a variety of sometimes overlapping instruments. The Bank’s research department plays an important role in framing overall concepts of privatization. Its operational departments often encourage deregulation and privatizations through their so-called policy dialogue with borrowing governments. Frequently the Bank enforces specific actions through the conditionality of program loans. Other members of the World Bank Group offer loans, equity investments and guarantees to the private sector, and policy advice to governments. In 1956, the Bank created the International Finance Corporation (IFC), which extends loans and minority equity investments to private companies. In 1995, the IFC had a committed portfolio of 9.5 billion dollars. In 1985, the Multilateral Investment Guarantee Agency (MIGA) was founded. By 1995, MIGA had extended 155 guarantees totalling 1.6 billion dollars for private sector investments in developing countries. In 1994, the Executive Board decided that the IBRD should start extending guarantees for private investments and loans as a normal part of its operations also. A similar proposal is being prepared for IDA.

The Articles of Agreement had envisaged the World Bank to become active primarily in the guarantees business. Yet for a variety of reasons, the Bank only recently started to play a continuous role in this. At the same time, IFC and MIGA have become the fastest-growing members of the World Bank Group. In 1995, their commitments experienced growth rates of 28 and 80 percent respectively. And at the World Bank Annual Meeting of 1995, a prominent business leader proposed that the ratio between World Bank loans and guar-
By the end of 1991, the Bank had supported privatizations as part of 71 structural adjustment and 43 sectoral adjustment loans. The divestiture of public enterprises was the most frequent policy condition with a share of 59 percent of all programs in 1988-91.

**WORLD BANK CONDITIONALITY**

"Contractions and structural changes in the public sector have become a central component of adjustment programs supported by the Bank," the World Bank's 1992 Operational Directive on Adjustment Lending Policy states. By the end of 1991, the Bank had supported privatizations as part of 71 structural adjustment and 43 sectoral adjustment loans. 44 percent of a total of 245 such loans had contained conditions on so-called public enterprise reforms. (Another Bank review for the 1988-91 period ranks the "divestiture of public enterprises" as the most frequent policy condition with a share of 59 percent of all programs.) Other conditions such as the liberalization of trade or labor policies, the devaluation of local currencies and the privatization of state and community land were also meant to encourage foreign private investment.

Apart from adjustment loans, the Bank uses its guarantees, and the advisory services of IFC, for what it calls "advising the governments about a realistic policy framework." While World Bank conditionality normally addresses overall policy, the advice of the IFC in turn covers specific privatization programs and transactions. Other donor institutions such as USAID have also made privatization an element of their policy conditionality for many years. In a move which appeared to be rather ideologically motivated, the U.S. Agency in June 1986 instructed 36 of its missions to get involved in two privatizations per year in their host countries.

The general message of World Bank advice and conditionality regarding privatization seems to be very simple. In a 1992 report the Bank claimed that "under all market and country conditions," privatization pays off in financial and economic terms. "The decision concerning what to privatize and what to reform should thus tend towards privatization as the outcome most likely to produce positive gains," the report stipulated. The same report concluded that "ownership itself matters," a claim which is reiterated in an early draft of the 1996 World Development Report. The 1983 World Development Report had maintained that the efficiency of an enterprise did not depend on "whether it is publicly or privately owned, but how it is managed."

The World Bank pursues various objectives when it supports or enforces privatizations. Economic efficiency should be increased, investment (especially private and foreign) encouraged, and revenues saved or created. In cases of trade-offs, the Bank ranks efficiency gains highest among the different objectives. In order to avoid public debate and opposition, it frequently calls for a speedy process, especially in the divestiture of large public enterprises, for example, by setting time-bound conditions.
Created in 1956, the IFC finances projects of private companies, or private/government joint ventures, with equity investments and loans of up to 25 percent of project cost. Since its founding, it has provided more than 16 billion dollars to 1,595 companies in 114 developing countries. In 1995, the IFC leveraged 5.73 dollars from other investors and lenders for every dollar which it invested. (This leverage effect has increased considerably since the mid-1980s.) Currently its committed portfolio of 9.5 billion dollars consists of projects in capital markets (20.9%), mining (15.1%), infrastructure (15.0%), food and agribusiness (8.6%), general manufacturing (8.5%), chemicals (8.1%), cement (5.9%), textiles (5.8%), timber, pulp and paper (5.8%), tourism (4.5%), and oil refining (1.8%). In 1995, investment approvals by IFC grew by 27.5 percent. Its capital was doubled in 1992. Some member countries expect the next increase to become necessary shortly after the year 2000.

IFC projects are not confined to, but have included privatizations since 1986. By June 1995, it had approved 63 investments in privatizations, and 23 projects supporting follow-up investments of privatized enterprises. While 10 projects had subsequently been cancelled, the other 76 accounted for a total IFC investment of almost 1.3 billion dollars. The IFC focuses on privatizations that provide model transactions across sectors and national boundaries. So far it has financed about one-third of all independent power projects in developing countries, which often constitute the initial steps of a privatization process in infrastructure. The IFC takes pride in promoting the privatization of sensitive sectors such as infrastructure and health care “whenever possible.” It feels that the “comparative advantage” of its involvement is “most pronounced” in the case of the “most complex and politically sensitive transactions.”

Apart from financing projects, the IFC offers a host of advisory services for governments and private companies in developing countries. In more than 100 countries, it has helped to draft laws and regulations, develop stock exchanges, or establish supervisory bodies. In 1986, IFC created the Foreign Investment Advisory Service (FIAS), which it operates jointly with the World Bank. In 1995, the advisory services of IFC included such diverse examples as reviewing the foreign investment law of the West Bank and Gaza, advising the government of Haiti on the privatization of key public enterprises, or preparing a public statement on the investment climate for the government of Paraguay. By that time, the Corporation employed around 185 full-time consultants in Russia alone. IFC advice relates both to comprehensive privatization programs and to individual transactions.

The IFC does not deploy direct policy conditionality. Yet it is aware that it is “viewed as having some influence in convincing governments to adopt policy changes that encourage foreign investment.” “In doing the doable, IFC helps to expand the envelope of what is [politically] possible,” the Corporation remarked in a 1995 report.
Created in 1985, the Multilateral Investment Guarantee Agency (MIGA) provides political risk insurance for equity and debt of private foreign investments. Its guarantees cover the risks of expropriation, war and civil disturbances, currency transfers and breach of contract for up to 50 million dollars per project. By mid-1995, MIGA had extended 155 guarantees amounting to 1.6 billion dollars for projects in 34 countries. Its portfolio consisted of projects in the financial sector (39%), mining (21%), manufacturing (20%), infrastructure (10%), agribusiness (4%), the oil and gas sector (3%), tourism (2%), and services (1%). In 1995, MIGA extended 54 guarantees for a total of 672 million dollars, thus increasing the amount of new coverage by 80.4 percent over the preceding year. In December 1993 and July 1995, MIGA was forced to increase its risk-to-assets ratio in order to cope with its rapid growth rate. Only a capital increase could ease its current thin capitalization, but such a move is currently blocked by the US government.

By January 1992, the MIGA Board had approved seven privatization projects, with another four projects in the pipeline. As the World Bank and IFC, MIGA offers technical assistance and legal advice on issues of investment promotion to member countries. By 1995, it had extended such advice to 54 countries.

After having extended 11 guarantees for private loans since 1983, the World Bank in September 1994 decided to offer IBRD guarantees on a more regular basis. During a pilot phase of two years, the Bank was to extend guarantees for loans and equity of private or joint-venture projects for up to 5 percent of IBRD's total annual commitments. Unlike in the case of MIGA, specific IBRD guarantees are not limited financially, but need a counter-guarantee from the host government. Investors will normally only seek IBRD guarantees for large investments, especially in infrastructure, which are beyond the scope of MIGA's limited financial coverage. By September 1995, the Bank had approved seven IBRD guarantees, and had another 25 in its pipeline. Apart from simply covering project risks, the Bank, according to an internal document, plays an important role "in advising the governments about a realistic policy framework and government support that would be necessary to promote private sector projects". Presently the Bank's management is preparing a new Operational Policy and a Bank Procedure for IBRD guarantee operations.

In June 1995, the World Bank initiated an internal debate about supporting private investments with IDA resources. Its management proposed that IDA should be able to extend guarantees (which should, unlike in the case of IBRD, not require counter-guarantees from the government), and should create a 300 million dollar fund for financing equity in joint projects with IFC over three
years. The donor governments asked the Bank to further elaborate the option of IDA guarantees, but rejected the proposed investment fund, which they felt overlapped too much with the domain of IFC.

III. Challenges

LACK OF A COMPREHENSIVE APPROACH

The World Bank Group is the biggest source of official development assistance, and of public resources for private sector projects in the developing countries. Yet the Group does not have a comprehensive approach to defining in which cases, and with which instruments, privatizations and other private sector projects should be supported. Equity investments, loans to the private sector, political risk insurance for both investments and loans, and technical assistance concerning private sector development are all extended by at least two different institutions of the World Bank Group. The rapid growth of such activities in the recent past was based more on competition than on coordination among the different Bank Group institutions. And the private sector operations were frequently not integrated with the overall country assistance strategies of the World Bank.

SELECTIVITY REGARDING COUNTRIES

Private capital flows, and especially investment flows, to the developing countries have surged since 1989. Yet the bulk of these flows goes to a handful of attractive so-called emerging markets. Five countries—Argentina, China, Malaysia, Mexico, and Thailand—absorbed more than half of all foreign direct investment flows to developing countries in 1989-1993. China is the largest recipient of such investments in the whole world. Brazil, Mexico and South Korea in the same period accounted for more than half of all portfolio investment flows to developing countries. A scant one percent of all private capital flows to developing countries in 1989-1993 went to Sub-Saharan Africa.

The World Bank claims that its overarching goal is the sustainable
In 1990-95, the investments supported by IFC had an average size of 79 million dollars. The average MIGA project had a size of 55 million dollars. Small- and medium-sized enterprises have hardly any chance of securing finance or guarantees from the World Bank Group. Although labor-intensive growth is one of its key poverty reduction recipes, the Bank does not have a comprehensive approach to the informal sector, and to small- and medium-sized enterprises.

The profitability test that IFC as an institution must meet favors investments in large projects. This pressure is increasing. The Board decided that from 1994-98, IFC must lower its administrative expenses from 2.7 to 1.7 percent of its disbursements. In 1990-1995, the investments supported by IFC had an average size of 79 million dollars, of which IFC contributed 27 million dollars. In the same period, the average MIGA project had a size of 55 million dollars, of which the Agency guaranteed 12 million. IBRD guarantees are targeted to projects which exceed the scale which MIGA can still guarantee. Small- and medium-sized enterprises have hardly any chance of securing finance or guarantees from the World Bank Group. Domestic enterprises are excluded from MIGA contracts. Yet it is the small and medium enterprises and the informal sector which create almost all jobs in developing countries. To a much larger degree than in the case of foreign corporations, wages and profits of small companies are also kept in the local reduction of poverty. One of the three guiding principles of IFC is the principle of special contribution. The IFC should not duplicate what the private sector is willing to do, but should play a special role. This task also applies for the regional distribution of the portfolio. In 1992, IFC compared its exposure to the exposure of the private sector in different regions. Weighted by country size, this ratio was 0.6 for East Asia, 0.9 for Latin America, 1.7 for Sub-Saharan Africa, and 1.8 for South Asia. Thus the share of IFC investments in the poorest regions is indeed higher than the share of private capital flows. “This simple portfolio comparison illustrates IFC's special developmental role,” the 1992 report noted.

A closer look reveals that IFC overstated the case. It is not very difficult to exceed minimal levels of private flows. IFC's contribution to the poorest countries, and especially to Africa, is very modest. In 1995, Sub-Saharan Africa received 72 million dollars from IFC's total commitments of 2.9 billion dollars, and almost exactly half of this went to South Africa. At the same time, Sub-Saharan Africa accounted for 899 million dollars of IFC's total portfolio of 9.5 billion dollars, which was slightly less than Argentina's share alone. MIGA in 1995 extended one guarantee to Sub-Saharan Africa, covering a liability of a mere 1.7 million dollars. The region in the same year accounted for 41 million dollars out of a total of 1.6 billion of outstanding MIGA guarantees. The portfolios of IFC and MIGA are distributed slightly more evenly among middle-income countries than private investment flows, but their value for the poorest countries is minimal. The increasing private sector lending of the World Bank Group implies that the share of total lending which goes to the poorest countries is reduced. It is no surprise that governments from Africa and India currently oppose the use of IDA resources for guarantees and for joint ventures with the private sector and IFC.

SELECTIVITY REGARDING PROJECT SIZE

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The World Bank, IFC and MIGA rarely publish data on how many jobs their projects create. In January 1995, MIGA reported that the 500 million dollars of foreign investments which its guarantees had facilitated in the first half of its 1995 financial year will create more than 900 local jobs. It is evident that a million dollars invested in microenterprises will create many more direct jobs than the same amount invested through the World Bank Group's private sector lending. Although labor-intensive growth is one of its key poverty reduction recipes, the Bank does not have a comprehensive approach to the informal sector, and to small- and medium-sized enterprises. Contributing 30 million dollars to a microenterprise fund, which the Board approved in 1995, does not substitute for a comprehensive strategy.

DOUBLE STANDARDS REGARDING APPRAISAL

In the appraisal phase, the World Bank examines the financial and economic rates of return as well as the social and environmental sustainability of its projects. A host of Bank policies—one environmental impact assessment, access to information, resettlement and rehabilitation—are supposed to safeguard the public interest. Large institutional capacities have been created in order to implement these policies. Because of cost and secrecy reasons, private borrowers of World Bank and IFC resources try to avoid the appraisal of nonfinancial aspects, and the implementation of complicated Bank policies. The critique of burdensome project procedures was a recurrent theme at a seminar on IBRD guarantees organized by the World Bank in October 1995.

The appraisal of private sector projects is thus an area of tension between public and private interests. This tension has so far resulted in a series of double standards between the World Bank's public and private sector lending operations:

* Environmental impact assessment: The guidelines on the environmental analysis of IFC and MIGA projects are less strict and comprehensive than the World Bank's respective Operational Directive. The assessments can be done later in the project cycle, when critical decisions about the project have already been taken and the analysis of alternative options does not make sense. Furthermore they do not require an analysis of the national policy and institutional context. (Further double standards are listed below.) The World Bank so far has applied its normal operational directives to the environmental assessment of IBRD guarantees, but has recently announced that it will adjust them to the "more compressed processing schedule" of private projects in a forthcoming new Operational Policy. An especially difficult challenge is the environmental assessment of financial intermediaries that lend on World Bank or IFC resources for domestic projects. A new draft Operational Policy merely states that the Bank "expects" appropriate environmental assessments to be made for subprojects financed by intermediaries.

The appraisal of private sector projects is an area of tension between public and private interests. This tension has so far resulted in a series of double standards between the World Bank's public and private sector lending operations. Such double standards must be avoided because private investors and national authorities often base their decisions upon appraisals by the World Bank Group.
• Project cycle: IFC, MIGA, and IBRD guarantee projects have a very short project cycle of only 3-6 months, which allows very little time for a thorough appraisal. IFC can shorten this procedure further when commercial interests require it. Under the so-called streamlined procedures, projects are approved on a no-objection basis without a Board meeting. IBRD allows shortcuts in its project cycle for guarantees in that it accepts so-called third-party appraisals by the interested borrowers themselves.

• Institutional capacities: The lacking concern for matters of public interest is mirrored by the institutional capacities of IFC and MIGA. MIGA does not have an environmental department of its own, but subcontracts the environmental analysis of its projects to IFC. The latter houses a small environmental division consisting of seven positions and two or three consultants. These specialists are in charge of screening and analyzing 200-250 new IFC and MIGA projects a year, and supervising a portfolio of more than 1,000 projects. As a consequence of lacking capacities, IFC often does not require a comprehensive environmental assessment for projects that would require such an assessment if they were financed by the World Bank. Recent examples were pipeline, thermal power, and cement manufacturing projects.

Double standards in the appraisal of private sector projects must be avoided all the more since private investors and national guarantee agencies often base their decisions upon appraisals by the World Bank Group. “Commercial banks take a lot of comfort lending alongside the World Bank or IFC as they have such stringent criteria,” the Financial Times quoted David Parker, director of project finance at NatWest Markets, on January 16, 1996. The pending elaboration and revision of a series of private sector lending guidelines provides an opportunity for the World Bank Group to live up to this reputation.

ENVIRONMENTAL CONSEQUENCES

The environmental guidelines and capacities regarding private sector lending are very modest—and they focus only on specific projects. Yet the private sector lending of the World Bank Group has potential environmental impacts that go beyond the project level, both in a positive and negative sense.

• Privatization and increased competition can encourage the use of modern technologies and enhance the efficiency of whole sectors, and thus encourage the economic use of natural resources. IFC cites the example of a cement plant in Poland which was completely modernized after privatization, so that production was made cleaner and fuel requirements were sharply reduced. Plans to build new nuclear power stations in Great Britain had to be abandoned in order to make the nuclear industry viable for privatization. Generally, the private sector is much less likely than the state to invest in projects that yield prestige and central con-
control, but are not sustainable.

- Removing state ownership or control can create external costs (such as environmental problems) which are not internalized. This is relevant for many sectors of IFC and MIGA operations. For example, private investors in mining have an incentive to exploit resources fast because they can externalize the opportunity costs of depleting mineral reserves. IFC also invests in industrial projects which would hardly be viable if the external costs were considered. Examples from 1995 were the manufacturing of cars, plastic bottles, aluminum cans, and PVC. Finally, the policy advice of the World Bank sometimes favors private transport at the cost of railway systems, for example in Eastern European countries.

- Privatization and deregulation will generally foster economic growth and the concentration of income at the cost of social equity. This is not only a social problem, as it will often encourage the consumption of luxury items such as cars. The liberalization of external trade has often led to a sudden increase in car sales, as has occurred in Chile and Tanzania.

This short analysis demonstrates that sectoral issues, state policies and institutional capacities must be considered in the context of private sector lending. The Bank's Environment Department stresses that regulatory mechanisms, and the capacity of the state to enforce them, must be analyzed prior to privatizations. It even calls privatizations "a golden opportunity for strengthening the environmental regulatory framework." Yet it is exactly such policy issues that are completely exempt from the environmental assessment of IFC and MIGA projects. The Bank's 1994 World Development Report stresses that "regulatory efforts" must prevent or internalize the external costs of privatizations. The more economic activities and infrastructure services are privatized, the more state regulations and controls must take care of the public interest. Yet the capacities of the state to do so are often weakened in the course of structural adjustment programs.

**ECONOMIC AND SOCIAL CONSEQUENCES**

Social aspects of specific projects are considered under the Appraisal and Accountability sections of this paper. This chapter briefly analyzes social and economic issues of private sector lending and privatizations on a national or sectoral level. The record of social and economic impacts is mixed:

- **Efficiency:** Privatizations tend to increase the efficiency, albeit in a narrow economic sense, and thus the competitiveness of specific companies and the economic system as a whole. Efficiency and economic growth can contribute to a reduction of poverty. "Divestiture made the world a better place by fostering more efficient operation and new investment," a World Bank report on twelve case studies remarked bluntly in 1995. This claim is not only simplistic, but questionable even on narrow terms. The IFC has so far measured the economic...
"Privatization is always political—political in the sense that governments have aims that are non-economic. IFC informs the decision-making process by advising on the likely economic cost of political aims. In doing so, it plays an implicit, and sometimes explicit, advocacy role for maximizing economic gains." (Donaldson (1995), p. 1,3)

rates of return of only seven privatization projects. It considers three of them to be successes, three to have failed, and one to be neutral. Contrary to what the World Bank claims, competition seems to be more important than ownership as such. Efficiency gains will normally not occur when privatized companies can operate in a monopoly situation. Political risk guarantees which are very comprehensive will not provide incentives for efficiency gains.

- **Fiscal burden and revenues:** Privatizations will affect both public expenditures and revenues. Divestitures of loss-making public enterprises in many cases remove unsustainable deficit burdens from government budgets. In a sample of 37 countries, state-owned enterprises received government subsidies of an average 0.2 percent of GDP in 1978-85, but paid an average contribution of 0.9 percent of GDP to the government budget in 1986-91. This shift was mainly caused by privatizations and enterprise reforms in middle-income countries. In some cases only profitable enterprises are singled out for privatization. Then state revenues are reduced in the interest of economic efficiency—or of private monopoly rents. Either way implies a transfer of public revenues to the private sector.

The proceeds of privatizations are often much lower than the book values of the respective companies. In the purported interest of widespread ownership, governments often sell their enterprises to private shareholders too cheaply. According to the think tank CIEPLAN, the divestiture of 12 state-owned companies in Chile in 1986-87 included public subsidies to the buyers of 27 to 69 percent. The shares of British Telecom gained 91 percent in value on the first day after privatization, giving shareholders a windfall profit out of the public chest of 3.3 billion pounds. There are not only political, but also structural reasons for the low revenues from divestitures. The worldwide wave of privatizations has created a buyers' market, in which supply is often bigger than demand. The policy advice of the World Bank Group has contributed to this situation, especially when it was linked with time-bound conditionality. Time pressure often prevents transparency, and gives the private buyer an advantage over the public seller.

- **Availability of services:** When infrastructure services are privatized, their provision tends to become more reliable, which increases the efficiency of the economic system as a whole. The price for this reliability is often rising tariffs, which can exclude large social groups from the respective services altogether. When the telecommunications system of Argentina was privatized for example, the telephone tariffs were increased sixfold within a short period.

- **Employment:** The World Bank does not provide data on the important issue of the impact of private sector lending on employment. In a sample of 40 developing countries, state enterprises in 1991 accounted for 4.1 percent of all jobs. In low-income and in African countries, the respective shares were as high as 8.9 and 18.3 percent, respectively. The priva-
tization of unproductive enterprises will usually result in a loss of jobs. The privatization of airways, ports, and railway companies in Chile cut down the number of jobs by more than 70 percent in each case. In Ghana, the 42 largest public enterprises employed 241,000 people in 1984, but only 83,000 people after their restructuring in 1991. Such job losses can be unavoidable in order to rescue enterprises altogether, or to free peasants or other producers from parasitic state bodies (as in the case of commodity marketing boards in Ghana). Yet the Bank does not have a strategy for how to resolve the problems of increased unemployment.

- Concentration of wealth: In rare cases (such as Bolivia’s divestiture of six state enterprises in 1995), privatizations are used to spread the ownership of public enterprises evenly among the population, or the affected workers. More often, privatizations further enhance the control of a small elite over economic resources. This is especially true when the divestiture takes place under time pressure, often because of the policy conditionality of the World Bank. According to a World Bank report about Mexico (as quoted in a study from Equipo Pueblo), “there has been a worsening of the already skewed and concentrated pattern of ownership distribution in the economy” due to the privatization process. In spite of this, the Bank’s 1995 report, “Bureaucrats in Business,” lists Mexico as a success story of privatization. An early draft of the 1996 World Development Report observes that “inequality has increased significantly” and “poverty has increased markedly” in transition economies. It claims that this is “often a necessary first path of the reform process,” but does not attempt to predict when such sacrifices are supposed to pay off for the poor sectors of society.

- Other aspects: According to a 1995 report, the IFC “plays an implicit, and sometimes explicit, advocacy role for maximizing economic gains.” This implies that it urges governments not to pursue any political and social aims as part of their privatization programs. Examples for such goals are job targets for privatized firms, or the prescription of cross-subsidies to support nonpaying services. The removal of cross-subsidies can have perverse effects however: instead of balancing the interests of rural and commercial clients, private phone companies can force rural clients to effectively subsidize commercial clients. While the former often face monopoly situations, the latter enjoy competitive market conditions.

PARTICIPATION AND ACCOUNTABILITY

Public access to information, consultation and the participation of affected groups are important means to increase the quality and the democratic control of development projects. When it comes to publicly supported private sector projects, the tension between public and private interests affects both accountability and participation. A 1992 World Bank report on the privatization "Divestiture made the world a better place by fostering more efficient operation and new investment," a World Bank report remarked bluntly in 1995. This claim is not only simplistic, but questionable even on narrow terms.

A 1992 World Bank report on the privatization experience stressed the importance of transparency as a “principal lesson” for all privatization operations. And IFC claimed in a 1995 report that a “key tenet” of its approach to privatization was that “the process be as transparent as possible.” Yet so far the Bank and IFC have failed to apply this tenet to their own private sector lending.
The accountability of multilateral private sector lenders is all the more important because unlike public institutions, private borrowers cannot be held politically accountable on the national level.

Experience stressed the importance of transparency as a "principal lesson" for all privatization operations. And IFC claimed in a 1995 report that a "key tenet" of its approach to privatization was that "the process be as transparent as possible." Yet so far the Bank and IFC have failed to apply this tenet to their own private sector lending.

- Access to information: Many documents which are publicly available in the case of Bank operations—for example, the Monthly Operational Summaries—are not made available by IFC. Many other important documents—for example, the Environmental Assessments or the Summaries of Project Information—are published much later in the project cycle, when it is difficult for communities and NGOs to influence a project. The IFC's information policy was reviewed by the Board in December 1995. The review resulted in minor substantive changes, while the main emphasis was laid on a better implementation of the existing policy. The minimum deadline for the release of environmental review summaries of so-called category B projects was extended, and future environmental assessments will be released earlier within the affected countries. Furthermore, more IFC project documents (such as mitigation plans) are to be released after Board approval.

MIGA has so far not carried out any improvements. Using a vague omnibus clause in its constitution, the Agency shrouds itself in complete secrecy about its ongoing operations. It does not even provide information about project approvals by its Board, as long as the guarantee contracts have not been finalized with its clients. This secrecy does not allow for any NGO input into MIGA projects in the planning phase. According to internal information, MIGA is currently preparing a review of its information procedures. No inputs into this exercise have been solicited from NGOs so far.

- Inspection Panel: Apart from access to information, the Inspection Panel is the most important means of holding the World Bank accountable for its operations. When the Panel was created in 1993, the IFC and MIGA were excluded from its authority for no evident reason. In spite of this, the Chilean Grupo de Accion por el Biobio (GABB) in November 1995 filed a complaint against IFC's controversial Pangue project with the Inspection Panel. The complaint was rejected, but President Wolfensohn in December 1995 promised the GABB to "undertake an impartial internal review of the environmental and social issues" associated with the project. Reportedly, he also initiated a debate about coverage of the IFC by the Panel within the Corporation's management.

- Consultation and participation: Privatizations and private sector lending remove assets and resources from public control, and thus run counter to the tenet of good governance which has become so important in the last few years. For several reasons, the participation of NGOs and affected communities is especially important in the case of private sector
lending operations. Because such operations can support efficiency at the cost of social equity, it is imperative that the poor have the right to participate in privatization decisions, and are consulted in all other private sector projects. The accountability of multilateral private sector lenders is all the more important because unlike public institutions, private borrowers cannot be held politically accountable on the national level. An example is a new law in Papua New Guinea that prohibits affected communities from seeking legal redress from foreign investors which violate their interests. In other cases, the public discussion of foreign investments in itself is regarded as detrimental to the national investment climate.

A World Bank report on adjustment lending in 1992 recommended that the Bank "should seek out input from the private sector ... to identify priority areas for improvement of the business environment." It did not put forward a similar recommendation regarding NGOs or trade unions. The Bank's 1989 Operational Directive on Involving NGOs in Bank-Supported Activities contains a very vague reference to the consultation of NGOs, for which "there may be a role in adjustment programs" when "the government and the Bank agree that such a role is appropriate". Experience demonstrates that the Bank, IFC and MIGA are equally reluctant to involve NGOs or affected communities in private sector operations. MIGA's Freeport mining project in Irian Jaya and IFC's aborted pipeline project in Nigeria are examples which have made a mockery of any meaningful consultation or participation process. In a small step forward, the IFC Board in December 1995 decided that environmental assessments in the future must document which public consultations occurred during project preparation, and that consultation plans must be prepared for all IFC projects. It is important that NGOs also be consulted on the new guidelines codifying private sector lending operations which are currently being prepared within the World Bank Group.

IV. Conclusion

An IFC publication in 1992 called "promoting efficiency and genuine competitiveness ... the essence of IFC's developmental role." If carried out in a competitive environment, privatizations and private sector lending can indeed strengthen economic efficiency and foster economic growth. This can contribute to poverty reduction and a more economic use of natural resources. The divestiture of loss-making state enterprises will also alleviate budget pressures. In spite of such benefits, the notion of the 1992 IFC report is obsolete. Decades of experience have demonstrated that wealth does not trickle down, that privatizations take place in a context of power relations and social conflict, and that sustainable development cannot simply be derived from economic efficiency and growth.
The World Bank and its affiliates should rise beyond the paradigm of simply increasing global efficiency. They should aspire to develop new paradigms, through which private sector development can be made compatible with social equity, environmental sustainability, and strong civil societies.

at the price of increasing privileges for the few, and widening social inequalities. To summarize briefly the above analysis:

- **Environmental sustainability**: Increasing the efficiency of resource use serves the interest of the environment. Yet the so-called free market gives no incentives to private companies to consider the external costs of their activities (for example, environmental problems). To the contrary, private companies have every interest in externalizing as many costs as possible. Neither are they capable of solving environmental problems which a privatization strategy causes on the sectoral or national level.

- **Social equity**: Removing state controls serves those actors—countries, regions, companies, individuals—who are most competitive. This will increase economic output, but will concentrate its benefits more and more in the hands of a few. Private capital flows focus on a small group of countries, while the share of the poorest countries is diminishing. Most privatization programs increase the concentration of wealth and control over the economy within society. Infrastructure and social services usually become more reliable when they are privatized, but their availability gets restricted to those groups which can afford the rising tariffs. Salaries often rise for the best educated and most efficient groups of the work force, but structural unemployment increases. Policy changes and finance are geared towards big, often foreign companies, while the informal sector and small enterprises which create most employment are left to fend for themselves.

- **Civil society**: Private and public interests can conflict, especially when the control over natural or financial resources is at stake. Private investors cannot be expected to support an active civil society. Granting access to information and consulting affected people can imply a loss of time, additional costs and potentially fostering future opposition against a private sector project. It is no coincidence that the private sector lending guidelines of the World Bank Group so far have not supported a strengthened role of civil society, but rather undercut the normal accountability standards of the World Bank.

The answers to the trade-offs between efficiency and equity will vary for each sector. It will often make sense to privatize enterprises in the sphere of economic production, but not social service institutions or other public utilities. Due to different historical experiences and political cultures, different societies will also define the respective roles of government and the private sector differently. In every sector and country, privatizations and private sector lending will require a strong state and a strong civil society which can make sure that environmental sustainability and social equity are safeguarded.

The World Bank, the IFC, and MIGA are global institutions, and they are development institutions. This implies a twofold challenge as far as their private sector lending is concerned. In a globalized market, many national economies are forced to increase efficiency even at the cost of social equity. Since the 1960s, the
global economic system has seen a rapid technological change, and a stunning increase in efficiency and output. At the same time, income disparities between the richest and the poorest groups of world society have increased fivefold, and absolute poverty has increased. As global institutions, the World Bank and its affiliates should therefore rise beyond the paradigm of simply increasing global efficiency. They should not content themselves with helping their individual member countries to compete with each other, at a social cost for the poor in all countries involved. Instead they should aspire to develop new paradigms, through which private sector development can be made compatible with social equity, environmental sustainability, and strong civil societies.

As development institutions, the raison d'être of the World Bank, the IFC and MIGA is the promotion of the public interest, or more specifically of sustainable development. As this paper indicates, such development cannot be derived from economic efficiency and growth alone. A positive development impact—measurable in social equity, environmental sustainability and a strengthened civil society—must be achieved by the specific projects and programs which the World Bank Group supports. The 1995 World Bank report, "Bureaucrats in Business," does not deal with the social aspects of privatizations at all. Neither does a 1995 IFC report on the privatization experience. The IFC and MIGA presently have no indicators for measuring the development impact of their operations. They are content with a set of guidelines which are supposed to mitigate negative impacts. The draft 1996 World Development Report does contain a chapter on the social consequences of economic transition and constitutes a small step forward in this respect.

In the future, the World Bank, IFC and MIGA must strengthen their capacities to prevent negative impacts of their private sector lending operations. They must abolish double standards and harmonize their guidelines with the normal World Bank public sector procedures. (Examples are lacking access to information, insufficient requirements for environmental assessments, the restricted authority of the Inspection Panel, and third-party appraisals of projects.) IFC and MIGA must create institutional capacities which allow the effective implementation of these guidelines. This is all the more important since many private investors and national authorities rely on the project appraisals of these institutions. In addition, the Bank, IFC, and MIGA must answer the following questions for every project in order to ensure a positive development impact: Does the project enhance social equity? Does it contribute to environmental sustainability? And does it strengthen civil society? Such criteria should be embodied in the action plan on private sector lending which President Wolfensohn announced will be submitted to the World Bank Board within a few months. They should also be reflected in the various private sector lending guidelines which are presently prepared within the Bank Group.

If the Bank Group applies such a
"By exercising the latitude to say no," the Corporation states in a 1992 report, "IFC can influence governments to change policies that impede capital market developments." There is no reason why IFC, MIGA and the Bank should not use this influence to change policies in the interest of social equity, environmental sustainability and civil society.

The Bank, IFC, and MIGA should also deal more with environmental, social and accountability issues on a sectoral and national level. The Bank's Environment Department calls privatizations a "golden opportunity" for establishing new policy regulations. In their private sector lending, all three institutions focus on financing model transactions, and on influencing the policy framework of the borrowing countries. "By exercising the latitude to say no," the Corporation states in a 1992 report, "IFC can influence governments to change policies that impede capital market developments." There is no reason why IFC, MIGA, and the Bank should not use this influence to change policies in the interest of social equity, environmental sustainability and civil society.

ENDNOTES

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Collaboration with the Bank: Criteria and Illustrative Ideas

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World Wildlife Fund

I. Introduction

As the preceding papers have shown, the World Bank is still at an early point in the transition from an institution focused on the sole objective of economic growth and efficiency to one that promotes poverty reduction, environmental sustainability, and the development of strong civil societies. While the Bank has made incremental progress toward incorporating each of these objectives into "business-as-usual," more rapid and fundamental change is needed if the Bank is to make a significant contribution toward meeting the key challenges of the late twentieth century. The Bank's recent rush to embrace a vision of development driven by the private sector has exposed its continuing weaknesses with respect to empowerment of the poor, protection of the environment, and transparency and participation in its operations.

At the same time, there continues to be a lack of consensus inside and outside the Bank regarding the appropriate role of the Bank with respect to advancing these "new" objectives. While there is little disagreement about the Bank's poverty reduction mandate, there remains much discomfort with the idea of the Bank's taking the lead in such areas as promoting social equity, addressing global environmental issues, and engaging issues of good governance and human rights. There is also lack of agreement on the appropriate tools the Bank should use to advance these agendas, including analytical frameworks, and the composition, incentive structure, and training of Bank staff.

Outside organizations, such as private foundations, nonprofit think tanks, and advocacy groups, are well-positioned to assist in the development of consensus about the appropriate role of the Bank in the twenty-first century, and to take advantage of President Wolfensohn's openness to seeking assistance in realizing his stated intention of reforming the Bank. Outside organizations can take the opportunity to communicate thoughtful and responsible critiques of the Bank, and to raise difficult questions in a genuine spirit of joint inquiry. While joint ventures would not be without risks, narrowly tailored collaborative initiatives could accelerate internal change processes, encourage consensus-building about the appropriate roles of the Bank, and facilitate constructive exchange between the Bank and elements of civil society in borrower and shareholder countries alike.

It is also important to note that the Bank has derived significant benefit from independent support to non-governmental organizations (NGOs) for research, analysis, networking, and advocacy related to World Bank reform. Although at times NGO critiques of the Bank have been contentious and confrontational, there is
In addition to exploring opportunities for direct collaboration with the Bank, independent organizations should continue to play a watchdog and assumption-questioning role.

**BOX 28: OBJECTIVES OF COLLABORATION**

Among the objectives of collaboration with the Bank could be:

- to develop consensus inside and outside the Bank, among shareholder and borrower governments, and between government and civil society actors, regarding the appropriate role of the Bank in promoting sustainable development objectives, and the appropriate tools with which to pursue those objectives;

- to develop human and institutional capacity outside the Bank—particularly in borrower countries—to empower individuals and organizations to engage the Bank as full partners in analyzing and formulating development strategies while preserving their independence, and to develop human and institutional capacity within the Bank to encourage such partnerships; and

- to facilitate exchange of perspectives and expertise, particularly where the strengths and experience of the Bank and other organizations are complementary.

No question that those critiques have been responsible for drawing the attention of shareholder governments and Bank management to serious problems in the Bank's operations. While important changes in policy and practice have been made in response to external advocacy, there will always be a need for independent critique. As stated in *The Economist*'s review of Bruce Rich's book, *Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development*:

> [s]he Bank needs Mr Rich and his kind to alert it to the unintended consequences of its activities, and to question its assumptions about development.

In addition to exploring opportunities for direct collaboration with the Bank, independent organizations should continue to play that watchdog and assumption-questioning role.

**II. Criteria for Collaboration**

The recommended criteria for outside organizations in selecting appropriate collaboration initiatives with the Bank are based on the following assumptions. First, it is assumed that the Bank's interest in collaboration is not principally driven by a need to leverage additional funds. Instead, the Bank looks to independent organizations for the legitimacy, credibility, expertise, and microlevel engagement that they can lend to collaborative activities, and is only interested in external funds when independent finance is required. Second, it is assumed that the outside organization's interest in collaboration with the Bank is driven by a desire to advance those of their own objectives that can best be achieved through cooperation with the Bank rather than through independent action (see Box 28, "Objectives of Collaboration").

Discussions of potential collaborative activities should therefore focus on those which:

- do not require additional funding from the outside group; or
- require financial support independent of the Bank (i.e., that the Bank cannot, should not, or will not fund); and
- cannot achieve their objectives through the independent actions of the Bank and/or the outside group.

Where external funding is required, first priority should be given to those activities that meet both the latter two conditions, with second priority given to those that meet one or the
other. Figure 2 provides a simple matrix of these two conditions, with illustrative activities in each of the four cells. Elaboration of all three criteria and illustrative examples are given below.

**COLLABORATION THAT DOES NOT REQUIRE ADDITIONAL FUNDING**

The first principle for collaboration with the Bank is that **valuable collaborative activities need not involve commitment of external funds at all.** In the McNamara era, for example, the Bank looked to private foundations for intellectual leadership, and it is assumed that Mr. Wolfensohn is eager to establish similar relationships with outside organizations today. Prior to Mr. Wolfensohn’s arrival, the Bank had become an increasingly closed universe, isolated from external intellectual currents and critiques. The intellectual capacity embodied in the staff of other organizations, often combined with knowledge of and access to networks of academic and advocacy communities, represent an extremely valuable resource for the Bank to tap.

Many of Mr. Wolfensohn’s current initiatives inside the Bank could benefit from the knowledge and expertise of external organizations. For example, Mr. Wolfensohn has announced major expansions of the Bank's internal staff training capacity (the “Learning Center”), staff exchanges with other institutions, and EDI’s training program for developing country professionals. Outside organizations are well-placed to assist the Bank in identifying external individuals and institutions to broaden and enrich those training programs.

Another example relates to the Bank’s implementation of new policies on NGOs, participation, and

<table>
<thead>
<tr>
<th>Collaboration criteria</th>
<th>Activity requires independent source of financial support</th>
<th>Activity could be financed by Bank alone.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity depends on joint action to achieve objectives</td>
<td>Consensus-building on the Bank's mandate and tools to promote sustainable development; Participation of independent organizations in Bank analysis and strategy formulation</td>
<td>Development of community foundations</td>
</tr>
<tr>
<td>Activity could be undertaken by outside organizations alone</td>
<td>Research, operations &amp; organizational support deemed too &quot;political&quot; for direct Bank engagement</td>
<td>Public education on development challenges and the role of multilateral institutions</td>
</tr>
</tbody>
</table>
A second principle for participation in collaboration with the Bank is that private funds should not finance activities that the Bank can and should fund itself. Information disclosure in borrower countries. Private international organizations could provide information on these policies to their field staff and networks in borrower countries, and encourage them to engage the Bank's resident missions on these new terms, thereby accelerating the reform process.

**SUPPORT FOR ACTIVITIES THAT THE BANK CANNOT, SHOULD NOT, OR WILL NOT FUND**

A second principle for participation in collaboration with the Bank is that private funds should not finance activities that the Bank can and should fund itself. Despite the current crisis with respect to IDA replenishment, the Bank remains a resource-rich institution. Examples of the Bank's ability to marshall discretionary funds to meet perceived high-priority needs are its recent commitments to the CGIAR and CGAP. Collaborative initiatives should not entail private funds being used to cover costs that should be internalized in regular Bank operations, as has occasionally been the case with GEF funds. For example, standard environmental assessment and public consultation associated with individual Bank operations are already mandated by existing Bank policy, and should not be subsidized with external funds.

At the same time, external funding is needed for:

- activities that the Bank cannot fund (because the integrity of activity itself would be compromised by Bank funding); and
- activities that the Bank will not fund (because it does not yet agree that it should).

Illustrative examples are described below.

**Cannot.** As described in the civil society theme paper, the Bank's Articles of Agreement (and/or their restrictive interpretation by the Bank's management and Board) prohibit the Bank from involvement in activities determined to be "political." The recent Board-level controversy over the Bank's "Bureaucrats in Business" report (which was deemed by some to be too "political") and resulting legal opinion from the Bank's General Counsel reinforced a conservative approach to issues of human rights and treatment of political issues in Bank-sponsored research. Independent funding for research and advocacy related to issues deemed outside the Bank's mandate—and providing fora to question the limits of that mandate—could fill an important gap.

**Should not.** There are many activities that the Bank could fund within its current mandate, but should not fund—or at least not fund alone—due to the nature of the activities themselves. For example, the participation of NGO staff and academics in the analysis, formulation, and evaluation of Bank policies and strategies is highly desirable, and indeed the Bank has provided funding for such participation on an _ad hoc_ basis in a number of cases. However, wishing to preserve the fact and appearance of independence from the Bank, many
organizations and individuals are unwilling to accept Bank funds as compensation for such participation. Private funds to support that participation could enable nongovernmental actors to collaborate with the Bank without compromising their integrity or independence.

**Will not.** Finally, there are activities that the Bank should, but is unwilling, to finance on its own. The principle that private funds should not finance activities that the Bank can and should fund itself has already been articulated above. However, in special circumstances, there may be opportunities for external organizations to fund such activities in the short run in order to demonstrate their feasibility or efficacy to the Bank. For example, bilateral trust funds have been used to make available technical expertise in energy efficiency and social assessment on a short-term basis with the expectation that the Bank would internalize such expertise in the long run.

**SUPPORT FOR ACTIVITIES THAT REQUIRE COLLABORATION TO ACHIEVE THEIR OBJECTIVES**

A third principle for collaboration with the Bank is that **scarce private funds should be reserved for those objectives that can only be achieved through joint and coordinated action.** An example of an objective that does not meet this criterion is increased public awareness in shareholder countries about development challenges in general and about the role of the multilateral institutions in particular. Both the Bank and independent organizations might agree that investment in development education is needed to encourage a more sophisticated public debate on development assistance than is currently underway, for example, in the United States. However, a collaborative effort is not only unnecessary; it would likely be seen by many as an external subsidy for the Bank’s public relations.

Several types of collaboration that do meet the condition of requiring joint action emerge from the theme papers:

- development of consensus among key stakeholders regarding the appropriate roles of the Bank through research and consultation;
- participation of civil society in central, regional, and country-level analysis and strategy development; and
- coupling of Bank financial resources and macrolevel policy leverage with the microlevel engagement and expertise of outside organizations.

Illustrative examples are described below.

**Consensus-building.** As described in the “Overview” and theme papers included in this volume, there is a varying degree of consensus inside and outside the Bank about the appropriate role of the Bank in addressing the challenges of poverty, environment, and civil society and private sector development. Private support for collaborative research and analysis should be targeted to those issues where a lack of consensus on objectives or tools is preventing constructive partnerships between the Bank and other stakeholders in the development process. The participation of the Bank in such consensus-
External support for collaborative research and analysis should be targeted to those issues where a lack of consensus on objectives or tools is preventing constructive partnerships between the Bank and other stakeholders in the development process.

Building exercises is necessary for their success.

Participation. Increasing the participation of affected peoples and civil society more generally in development-related decision making requires collaboration among the Bank, borrower governments, and institutions of civil society. Independent support for NGOs to participate in Bank analytical work and strategy formulation—including country assistance strategies—would help external sustainable development advocates influence and learn more about the Bank's operations from the inside without compromising their independence.

Macro-micro linkages. Marrying the Bank's financial resources to external sources of expertise and experience is another opportunity for collaboration. The experience of private foundations in the development of national and community-level foundations, for example, is of value in assisting the Bank bridge the gap between its "wholesale" capacities and "retail" needs in borrower countries. Similarly, foundation expertise in institutional development and grant-making could be instrumental in ensuring that endowment-sized funds available from the Bank and the GEF are invested appropriately.

III. Some Illustrative Ideas

In the course of developing the theme papers in this volume, some preliminary ideas for collaborative efforts between the Bank and outside organizations were generated.

The ideas clustered into three categories:

- collaborative analysis and consensus-building at the international level, for example, independent support to NGOs and academics to work with the Bank on overall policy and conceptual issues related to privatization and private-sector lending;
- free-standing collaborative activities in individual country contexts, for example, external advice to the Bank and independent support to stakeholders when the Bank is involved in capitalizing a social investment fund in a particular country; and
- centrally-coordinated regional-level or national-level collaborations, for example, support to NGOs to monitor and evaluate the implementation of Bank policies in several countries.

The third category offers the highest potential for synergies.

The critical role of independent support is to enable private individuals or organizations representing the public interest to engage the Bank in a collaborative mode without surrendering their independence from the Bank. In many cases, such organizations are already undertaking their own analyses, and engaging the Bank with greater or lesser degrees of success. Independent sponsorship can help facilitate openness to collaboration from the Bank's side, ensuring receptivity to requests for information and communication of results.

Examples are provided below in the context of one or more sustain-
able development objectives treated in the theme papers.

POVERTY REDUCTION AND SOCIAL EQUITY

As described in the paper by Carlos Heredia, the Bank's effectiveness as an instrument of poverty reduction remains highly controversial. At the international level, private financial support could be targeted to independent analysis and consensus-building related to:

- the significance of debt in perpetuating poverty in borrower countries, and the adequacy (or inadequacy) of proposals for a Multilateral Debt Reduction Facility likely to be presented by the Bank and the IMF to their member governments in April of this year;
- the impact of Bank-supported structural adjustment programs on poverty and inequality in various regions; and
- the impact of Bank-supported privatizations on poverty and inequality in transition economies, to be treated in the 1996 World Development Report.

At the country level, external funds could support NGO participation in the formulation of various Bank analyses and strategies, including:

- Participatory Poverty Assessments (PPA), which assess the nature and extent of poverty and identify the policy, public expenditure, and institutional issues that constrain poverty reduction;
- Public Expenditure Reviews (PER), which analyze government revenues, expenditures, and budget priorities;
- Country Assistance Strategies (CAS), which outline the priorities for Bank lending over a three- to five-year period.

NGO participation in these processes could have the dual benefits of ensuring due attention to poverty, equity, and gender issues, and strengthening NGO analytical capacity and understanding of the Bank.

ENVIRONMENTAL SUSTAINABILITY

As described in the paper by Frances Seymour, there is a large and increasing gap between the cutting-edge analysis in the Bank's central environment unit and the neglect of environmental sustainability in the Bank's average operations. The objective of collaboration with the Bank in this area should be to build consensus on a new paradigm for a "sustainability approach" to development, and to accelerate its application to real world development challenges.

At the international level, external support could be targeted to independent analysis and consensus-building related to:

- the role of the Bank in addressing global environmental threats—which could be linked to the Global Overlays research program ongoing in ESDVP—and the extent to which the Bank should address the question of how consumption in the North constrains development in the South (particularly in light of Mr. Wolfensohn’s participation in the upcoming G-7 summit);
NGO participation in these processes could have the dual benefits of ensuring due attention to poverty, equity, and gender issues, and strengthening NGO analytical capacity and understanding of the Bank.

Externally-driven consensus-building is particularly important with respect to the environment, where the Bank’s credibility is low and will remain so for quite some time.

- the implications of ESDVP’s Wealth of Nations analysis—which incorporates conservation of natural capital as a factor in the measurement of sustainable development—for the Bank’s lending program and policy advice; and
- areas of disagreement in specific technical areas, for example, the minimum necessary role of chemical fertilizers and pesticides in various agro- nomic systems, and the feasibility of various energy efficiency and renewable energy technologies.

At the national level in borrower countries, support for external input to PPAs, PERs, and CASs—in addition to National Environmental Action Plans—could help ensure that a “sustainability approach” is adopted.

Independent organizations could also play a role in both shareholder and borrower countries in developing political consensus around the concept of environmental sustainability and the appropriate role of the Bank in achieving it. Were the Bank to announce tomorrow that it was committed to the new paradigm described in the environment theme paper, the institution would not be able to act on that commitment without strong political support and partnerships with government and non-government actors. Externally-driven consensus-building is particularly important with respect to the environment, where the Bank’s credibility is low and will remain so for quite some time.

GOOD GOVERNANCE, CIVIL SOCIETY, AND HUMAN RIGHTS

As described in the paper by David Hunter, the Bank has only recently begun to recognize the permeability of boundaries between “economic” and “noneconomic” factors in the development process. Private support to civil society organizations to enable them to take advantage of the political space opened by the Bank’s new commitment to “participation”—without losing their independent character—is perhaps the single most important prospective opportunity for collaboration. In particular, this could include support for:

- NGO participation in the development of CASs (described above);
- NGO testing and monitoring of the participation “flagship” operations—that have been identified by the Bank in each region—to assess the Bank’s commitment to participation and its ability to act on that commitment; and
- participation of civil society in dialogue related to policy reform lending, which is not yet adequately represented in the “flagships” identified by the Bank.

At the international level, additional opportunities for collaboration could include support for analysis and consensus-building related to:

- elaboration of the concept of “social capital” and its implications for Bank investment to strengthen the institutional, structural, and procedural fabric of governance and civil society, and strengthening the conceptual linkages between economic develop-
ment and governance/civil society/human rights issues;

- the Bank’s role in promoting an “enabling environment” for civil society (analogous to the Bank’s role in promoting an enabling environment for for-profit private sector development): the Bank’s central NGO unit is already developing guidelines related to desirable legal and tax frameworks for nonprofits; and

- lessons learned about the development of financial intermediaries, national endowments, and community-based foundations relevant to the Bank’s increasing interest in establishing or supporting autonomous grant-making institutions in borrower countries.

Each of these could have collaboration analogues at the national level.

**CROSS-CUTTING ISSUES**

Cutting across all of the “sustainable development” themes are questions related to the position of the Bank in the international infrastructure of multilateral institutions and instruments. For example, the obligations of the Bank with respect to U.N. agencies, summit commitments, and instruments—particularly environmental conventions and human rights standards—are very much in dispute. Independent support for consensus-building on the appropriate mandate for the Bank with respect to these issues would be a strategic complement to interventions at the operational level.

**IV. Conclusion**

The preceding analysis suggests that there are many prospective opportunities for outside organizations to collaborate with the Bank to achieve common objectives. Many opportunities—such as sharing knowledge of academic and advocacy networks around the world—would not require any commitment of private funds. Collaborative endeavors involving external funds should be focused on activities that the Bank cannot, should not, or will not finance, and that require joint action to achieve their objectives. Whatever collaborative initiatives are explored, they should not come at the expense of funding for independent analysis and critique of the Bank, which has in large measure been responsible for the reforms that have been achieved to date.

**ENDNOTES**

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Support to civil society organizations to enable them to take advantage of the political space opened by the Bank’s new commitment to “participation”—without losing their independent character—is perhaps the single most important prospective opportunity for collaboration.