Bank's "poverty alleviation" policy making poverty worse

By Bruce Rich

The World Bank's **raison d'être**, in its own words, is environmentally sustainable poverty alleviation. Yet, as the Bank works through its sixth decade of trying to promote something called "development," the poor in most of its borrowing countries are in worse shape than they were a decade and a half before.

According to the United Nations Development Program (UNDP), since 1980 "economic decline or stagnation has affected 100 countries, reducing the incomes of 1.6 billion people." For 70 of these countries, average incomes were less in the mid-1990s than they were in 1980, and for 43 they were less than in 1970.

In the early 1990s, incomes fell by 20% or more in 21 countries, mainly in the former Soviet Union. The poorest fifth of the world's population has seen its share of global income fall from 2.3% to 1.4% over the past 30 years.

Even according to the Bank's Operations Evaluation Department's (OED) Annual Review of Development Effectiveness, "poverty trends have worsened...The number of poor people living on less than US$1 a day rose from 1,197 million in 1987 to 1,214 million in 1997. Excluding China, there are 100 million more poor people in developing countries than a decade ago."

Furthermore, since 1990 life expectancy has declined in 33 countries. What difference, then, has the World Bank made? The Bank now claims a higher overall success rate for its projects (up to 72% from 64% in 1991), but part of the reason for this is that the Bank's evaluation process for projects is not very credible.

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In the Bank's evaluation of what it calls "successful outcomes," very little importance (5%) is attached to a project's likelihood of maintaining its results over its intended useful life. This is a serious omission, given that the Bank's own internal audits reveal an astonishing 51% failure rate to achieve sustainable results in fiscal years 1998 and 1999, a performance that has not changed appreciably in the last decade.

This failure rate is even more acute in the poorest countries and in the developmentally most critical sectors. In Africa, in 1998-99, only 34% of evaluated projects are of likely sustainability, and only 26% of likely "institutional development impact."

In the Social Sector, the OED found that sustainability declined from 25% in 1994-97 to 20% in 1998-99. For Population, Health and Nutrition lending, sustainability declined from 55% in 1994-97 to 50% in 1998-99. In the Environment Sector, sustainability also declined to the same extent.

Hence, under World Bank President James D. Wolfensohn, an already abysmally low performance in the social and environmental sector has become even worse, according to the Bank's own figures. This is particularly significant because, if a project doesn't produce lasting benefits beyond or even during its lifetime, the increased debt burden that borrowing from the Bank incurs is nothing more than a drag on the economies of poor countries. From the borrowers' standpoint, the Bank thus becomes as much a contributor to their problems as a solution to them.

Yet World Bank management faces no consequences for such a poor performance. On the contrary, it means more business. Heavily indebted poor countries need still more World Bank loans, followed by debt relief paid for by the taxpayers of the industrialized countries. Meanwhile, the octopus-like bureaucracy emits an ever greater cloud of reports espousing its concern for the poor.

The failure of poverty and environmental assessments

Ever since the early 1980s, non-governmental organizations (NGOs) concerned with poverty alleviation and the environment have criticized the Bank relentlessly for financing development disasters in numerous countries. New Bank policies on poverty alleviation and the environment, and increased staff did little to mute the criticism, as many Bank operations in the field went forward in violation of these policies. In the summer of 1996, another study by the Bank's OED revealed the massive failure of the Bank to implement effectively its key poverty alleviation and environmental policy instruments—Poverty Assessments (PAs) and Environmental Assessments (EAs).

Beginning in 1988, the Bank began to conduct PAs of its borrowing nations to serve as a basis for better incorporating poverty reduction elements in the Bank's main country lending strategy documents: the Country Assistance Strategies (CAS). The PAs were supposed to promote increased collaboration between the Bank and borrowers in poverty reduction, and to identify specific poverty reduction lending initiatives.

The Bank's major donor governments made preparations of these PAs, for the period 1994-96, a condition of the $18 billion funding replenishment of the International Development Association (IDA)—the part of the World Bank that makes low-interest loans to the poorest countries. Bank staff prepared a voluminous Poverty Reduction Handbook to guide staff and management in carrying out PAs and poverty reduction lending. By December 1994, 46 PAs had been completed.

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World Bank's loans to corporations made at poor's expense

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The OED review, however, concluded that the PAs were a failure in influencing lending priorities and project design. The assessments had little impact on CASs—and this impact was supposed to be the single most important reason for their existence. The OED report found that "CASs focused overwhelmingly on broad macroeconomic stabilization and structural reform issues, with few references to the status or causes of poverty, or to approaches to poverty reduction." Not surprisingly, "Poverty Assessments have so far had little influence on the volume of lending targeted on reducing poverty."

The OED report indicated that many of the Bank's borrowing governments did not in any case view poverty reduction as a goal or priority.

Perhaps the most interesting insight into the real role of concern for poverty in the Bank's institutional culture can be gleaned from the report's characterization of comments by Bank staff familiar with the PA initiatives. They were able to express their opinions anonymously on Bank electronic meeting software:

"Poverty Assessments are believed to lack influence with borrowers because poverty reduction is often not the overreaching operational objective...Within the Bank, Poverty Assessments are not influential because they are believed not to be taken seriously by senior management. The Program of Targeted Interventions [increased loans to reduce poverty] (PTI) has little support and generates a degree of cynicism. Too often the PTI designation is merely a label applied to projects that have little genuine poverty-reducing influence to meet an imposed requirement."

The OED's environmental report's main findings were equally damning, concluding that most full EAs (required for so-called "Category A" projects) "generate massive documents that are of little use in project design and during implementation."

Most EAs were undertaken too late in the project cycle, so that "very few EAs actually influence project design;" as a result, public consultation and information disclosure, also required by the Bank's public information policy, was also weak, and when it occurred often happened too late in the project cycle to be effective.

Moreover, "most Category A project EAs have failed to give serious consideration to alternative designs and technologies as called for in the [Operational] Directive, and those that do often explore weak, superficial, or easily dismissed options."

Recommendations and environmental action plans contained in EAs were often not implemented, and Bank supervision of the environmental components of projects was often lax or nonexistent. EAs, the report continued, "are often not understood by project implementation staff and, in many instances, not even available in project offices."

The report also pointed out that, if the single most important problem undermining the effectiveness of the EAs was their tardy preparation in the project cycle, Wolfensohn's efforts to speed up loan approval would worsen the problem: "If the Bank continues to reduce the number of days available for project preparation and appraisal, finding time for meaningful consultation (and quality control of EA reports) will be increasingly problematic."

As with other OED reports, the analysis of both Poverty and Environmental Assessments was devastating, but the follow-up by Bank management virtually nonexistent.

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Corporate welfare or poverty alleviation?

Although he regularly reiterates the Bank's commitment to poverty alleviation, Wolfensohn has simultaneously strengthened the institution's shift to supporting private corporations. In what the Bank's 1995 Annual Report called "a dramatic departure from what had been Bank policy for half a century," Wolfensohn has committed the Bank to increase the scale of the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and to devote increasing amounts of International Bank for Reconstruction and Development (IRBD) capital to guaranteeing private sector investment, as opposed to direct lending to governments.

The key question is whether the growing use of the Bank's financial resources to support such corporate investment is really a good or optimal use of public funds to help the poor. The answer, as far as many grassroots development and environmental groups are concerned, is that the growing focus on the private sector is little more than corporate welfare, with little direct connection to improving the lot of the poor.

The Bank's private sector financial services do principally help large corporations, many of them with headquarters in rich donor countries, including some of the largest multinationals on Earth. In 1996, 1997 and 1998, MIGA and the IFC approved loans and insurance for Coca-Cola bottling plants in Kyrgystan and Azerbaijan. Since 1997, the Bank has been preparing a huge IBRD / IFC project to assist Exxon-Mobil, Chevron and Petronas in oil-field development and pipeline construction in Chad and Cameroon. MIGA guarantees have helped to support huge gold mining operations in Indonesian Irian Jaya and Papua New Guinea run by giant multinational mining operations with execrable environmental records:

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Billions of Bank's financial aid lost through corruption

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Freeport McMoran and Rio Tinto Zinc.

In Mexico, a **Wall Street Journal** article noted, "over the past 18 months the recipients of IFC money have been a 'who's who' of the country's publicly-listed blue chips." Among several example, the **Journal** cited an IFC investment in a fund sponsored by Carlos Slim, a multi-billionaire who is one of the world's richest men. In Brazil, the IFC's latest investments include stakes in multi-billion-dollar companies that are partners of large U.S. multinationals such as Wal-Mart and GTE Corporation.

Another area of dubious developmental benefits for the poor that has attracted IFC (and MIGA) investment is four- and five-star luxury hotels of well-known international chains such as Inter-Continental, Westin and Marriott. One would assume at the very least that IFC investments in such hotels would be financially sound. Surprisingly, the IFC Annual Performance Review for 1998 lists two such investments that have performed so poorly that they have required major restructuring: the Camino Real hotel in the beach resort of Ixtapa, Mexico, and two hotels in Zambia operated by Inter-Continental Hotels.

MIGA's 1998 report includes guarantees of about $29 million each for a Dutch beer company to build breweries in Moscow and near Bucharest, and guarantees totalling $34.3 million to construct a Marriott hotel in Miraflores, Lima, one of the richest, most expensive residential districts in all of Latin America.

In 1998, MIGA issued four guarantees totalling $75 million to expand Citibank operations in Turkey and the Dominican Rwepublic; four guarantees totalling $64 million to expand operations of the two biggest banks in the Netherlands (the ING and ABN Amro groups) in Turkey and Ecuador; and a $90 million guarantee to expand the branch bank of the Banque Nationale de Paris in St. Petersburg. Banco Santander, one of the biggest banks in Spain, was the beneficiary of three guarantees totalling $64.1 million to expand its operations in Uruguay and Peru, and Lloyds Bank of London also received a guarantee of $13.9 million to expand lending in its Argentinian branch office. These operations accounted for nearly half (48%) of MIGA's 1998 commitments.

"The key word to understanding the World Bank is 'disconnect'—the disconnect between its alleged purposes [helping the poor and protecting the environment] and its record."

How indeed were these projects helping the poor or protecting the environment? The Bank's key argument was that, by supporting private sector investment in capital-intensive areas, especially infrastructure, "fiscal space" would be opened up for governments to devote proportionally more resources to social and environmental services. In practice, however, this was rarely the case: in many countries where the Bank promoted privatization and helped finance private sector investment, governments had **cut** social expenditures under Bank-supported structural adjustment programs (SAPs).

The promised land of export-led private-sector growth that would raise the living standards of the poor often receded further with each new Bank loan: Mexico had been a model pupil through the 1980s and early '90s, and the living standard of more than half the population was lower in 1996 than it had been in 1980.

The Bank's other standard response, apart from the "fiscal space" rationale, was that its projects promoted growth and created employment—an assertion that could justify almost any project. But even on these grounds the record is suspect. In 1997, MIGA claimed that the 70 guarantees it approved facilitated some $4.7 billion in foreign direct investment, creating 4,000 jobs in host countries. This amounts to one job created for every $1.17 million invested. If the goal is job creation for the poorest of the poor, this is clearly a bankrupt policy.

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Tobacco giant threatens Ottawa with "light," "mild" NAFTA suit

Philip Morris, one of the world's largest tobacco companies, has warned that it will file a NAFTA claim if the federal government goes ahead with a proposal to ban the use of the words "light" and "mild" on cigarette labelling in Canada.

According to a Philip Morris attorney, Mark Berlind, such a ban would violate NAFTA and global trade rules, and justify a company suit against Ottawa to obtain compensation for lost profits.

Former federal Health Minister Allan Rock had announced last fall that the two words would be banned on cigarette packages because they deceive smokers into believing such products are safer.

But Philip Morris argues that any such ban would be "tantamount to expropriation of the company's investments in Canada," and as such would make the federal government liable for multi-million-dollar compensation under NAFTA rules.

Most NAFTA experts agree that the company would have a strong case, and expect that the Chrétien government will back down rather than risk another large NAFTA-enforced payment to a large corporation.

Key word for understanding the World Bank is "disconnect"

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The culture of corruption

Another major problem with operations at the Bank is the way in which its culture encourages corruption and the systematic diversion of funds in a number of the Bank's major borrowers. The Bank, under Wolfensohn, while proclaiming a more visible role in fighting corruption in developing countries, has done little to address the fundamental source of the corruption associated with World Bank lending. That source is the internal pressure to keep lending in spite of poor compliance with World Bank policies—not just concerning poverty alleviation and the environment, but concerning the Bank's most basic fiduciary duty to ensure that its funds are not misappropriated from their intended uses.

If the Bank is serious about knowing—and changing—how its money is really used, much more is needed than Wolfensohn's initiatives to hire a private accounting firm to conduct spot audits in a handful of countries, and, more recently, firing a few staff caught in acts of flagrant corruption and disqualifying the few companies that are caught red-handed in procurement irregularities.

In recent years, the consequences of years of Bank complicity in the corruption of its major borrowers finally began to surface in Russia and Indonesia. **Business Week** alleged that "at least $100 million" from a $500 million Russian coal sector loan was either misspent or could not even be accounted for. Noting that the Bank was preparing a new half-billion-dollar loan for the Russian coal sector, **Business Week** observed that "World Bank officials seem surprisingly unperturbed by the misspending. They contend offering loans to spur change is better than micromanaging expenditures." A little over a year later, the **Financial Times** estimated the amount stolen in the coal sector loan to be much higher, as much as $250 million.

In the case of Indonesia, Northwestern University Prof. Jeffrey Winters alleged at a 1997 Jakarta press conference that "shoddy accounting practices" by the World Bank had allowed corrupt Indonesian officials to steal as much as 30% of Bank loans over the previous 30 years—a mind-boggling total of over $8 billion.

At about the same time, the Bank's Jakarta office commissioned an internal study of corruption in World Bank lending programs to Indonesia. But the findings and recommendations of the study, which confirmed many of Winters' charges, were never acted upon by World Bank senior management, and Wolfensohn learned of the existence of the report only in July 1998, a year after its completion.

In the 15 months after the publication of the report, the Bank committed and disbursed over $1.3 billion more to Indonesia without any effective measures to contain the "leakage" detailed in the study.

The many "disconnects"

The key word for understanding the World Bank is "disconnect"—the disconnect between its alleged purposes and its record, the disconnect between Wolfensohn's proclamations to change the Bank's culture and the actual internal reforms needed to address the Bank's systematic failure to implement its most basic policies concerning poverty alleviation and environmental assessment.

There is also the disconnect between speeding up loan approval, weakening Bank policies, and claiming to root out the "culture of [loan] approval."

Then there is the widely noted disconnect between claiming to use public funds and guarantees to help the poor and the rapid growth of the IFC and MIGA with a preponderance of clients being large multinational corporations and international money-centre banks. Their activities, moreover, provide little direct economic benefit—and too often a negative social and environmental impact—on poor populations in developing countries.

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Over the past several years, external pressures placed on the Bank have heightened still further the tension and contradiction between development effectiveness and the "loan approval culture." Recent trends are troubling. In 1998, nearly 40% of new IBRD / IDA commitments were large, non-project, quick disbursing loans and credits (double the amount of the previous year), and in 1999 the figure rose to 63%.

The Bank cannot promote improved development effectiveness and be an automatic teller machine for the much-criticized structural adjustment bailout deals of the IMF at the same time. Claims that such loans are effective tools for promoting needed policy reforms in crisis situations are hollow and disingenuous.

(Bruce Rich is senior attorney and director of the International Program at Environmental Defense in Washington, DC. He has authored a major critique and history of the World Bank, ***"Mortgaging the Earth,"*** *and was awarded the United Nations Global 500 Award for environmental achievement. This article, first written for the International Forum on Globalization, is a summary and update of an additional chapter on the Wolfensohn years at the Bank.)*