The World Bank Group: A Politico-Economic History

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Since its founding at the Bretton Woods Conference in 1944, the World Bank has grown into one of the most powerful international institutions situating itself at the centre of the dominant economic and financial system which seeks to control a majority of the world's resources and markets. It also dominates the international discourse on development through its own research and publications and through its funding and consultancies that span a wide cross-section of the world's social scientists and research institutions.

Originally set up as the International Bank for Reconstruction and Development (IBRD), along with the International Monetary Fund (IMF), the primary roles of these institutions was to be involved in the efforts to reconstruct a war-devastated Europe, to regulate the international monetary and financial order and to restructure international finance and currency relationships after the conclusion of World War II.[1] The productive capacities of many economies in Europe had been devastated and needed an urgent financial infusion. Additionally, they agreed on implementing a system of fixed exchange rates with the U.S. dollar as the key currency. While the IBRD and the IMF were meant to be involved in the reconstruction effort, another element of their mandate was to provide guarantees to private banking institutions who were lending money for developmental projects in other parts of the less industrialized world. Ironically, the IBRD provided less than $500m while the US controlled Marshall Plan contributed nearly $ 13 b. As one of America's leading historians noted, much of this was to lay the foundation for the advancement of US geopolitical goals particularly the containment of the growing power of the Soviet Union.[2] It is important to note that at that early stage, these institutions had no control over the economic decisions of individual government's or in the direction and content of national policy.

The nature of the birthing process of the IBRD has significantly marked the identity and the character of the World Bank not just as an instrument to further American geopolitical interests but also in its integral relationship with the most powerful think tanks and alliances of private capital.

The delegates of the US and England (the latter led by Keynes) gave shape to the two institutions. Since the Second World War when it had the biggest economic potential, the USA has remained the dominating power of the Bretton Woods system. The dollar had the most purchasing power and was backed by gold. In fact, a little known fact in this history is that the indebted countries of Europe transferred large amounts of gold to the U.S. further

[1] They are popularly known as Bretton Woods institutions as they were founded at the United Nations Monetary and Financial Conference, a gathering of 730 delegates from all 45 Allied nations at the Mount Washington Hotel, situated in Bretton Woods, New Hampshire. The conference was held from 1 July to 22 July, 1944.
[2] Walter LaFeber, *America, Russia, and the Cold War.*

bolstering the latter's domination. The dollar gained in value and became the key currency of the Bretton Woods system. What is also important to note is that it was critical for the new system to address the imbalance caused by the differentially located countries that would inevitably fall into a balance of payments crisis. John Maynard Keynes recommended that both the creditors and debtors have a responsibility to create equilibrium in foreign trade. The head of the US delegation, Harry Dexter White argued that the deficit country had to assume responsibility for the imbalance. The Americans won out consolidating the iniquitous system.[3]

It is not a coincidence therefore that the US holds the largest number of shares in the WB nor the fact that the charter locates its head office in the center of US political and military power, Washington, D.C. Keynes was also opposed to this and wanted both the international institutions to be autonomous of any national political or economic influence. Since their founding, there is also an unwritten agreement that the President of the World Bank will be chosen by the US and that of the IMF by European governments.

U.S. Domination

Another significant aspect of the Bank's identity is that this President has always been a US citizen, always a male and always either a very senior member of the corporate or banking world or a senior member of the US military establishment. It should be a matter of grave concern to a non-aligned country like ours that we continue to allow an international institution to exercise so much domestic influence when in it is so led by such powerful American economic or military officials. The table below highlights this.[4]

World Bank President	Tenure	Previous Positions
Eugene Mayer	1946	Partner, Lazard Freres
John J. McCloy	1947-49	Assistant Secretary of War
Eugene R. Black	1949-63	Vice President, Chase National Bank
George D. Woods	1963-68	Board Chairman, First Boston Corp.
Robert McNamara	1968-81	Secretary of Defense
Alden Clausen	1981-84	CEO, BankAmerica
Barber B. Conable	1984-91	U.S. Congressman
Lewis Preston	1991-95	CEO, J.P. Morgan
James D. Wolfensohn	1995-2005	Executive Partner, Salomon Brothers
Paul Wolfowitz	2005-2007	Deputy Secretary of Defense
Robert Zoellick	2007-	Managing Director, Goldman Sachs; Member, Advisory Board, ENRON

The World Bank President controls a massive international institution that is the single largest source of development finance in the world. These funds have profound consequences on the

[3] Bradford Delong, J. (2000, December 10th). www.j-bradford-delong.net/Econ_Articles/Reviews/skidelsky3.html. Also see Bruce Rich, *Mortgaging the Earth: The world Bank, Environmental Impoverishment and the Crisis of Development*, beacon Press, 1994 and J. Pincus, *Reinventing the World Bank*, Cornell University Press, 2002.

[4] Bruce Jenkins and Nancy Alexander, *Who Rules the World Bank?,* Bank Information Center, 2005

lives and livelihoods of million of people and the on the fragile ecosystems that often are the source of their subsistence. The WB is the third largest employer in the US with over 10,000 employees.

The late 1940s and early 1950s saw the loosening of the grip of colonial powers as more and more countries gained independence. The Bretton Woods sisters reoriented their mandate and actively sought to "integrate" these countries into the Western world. Again this was not done to address trade imbalances and to create greater equity but to gradually facilitate penetration of Western capital and influence into the newly liberated countries and to gain access to critical resources that these countries had. India was one of the many countries that protested against these policies and in 1956, the World Bank created the International Finance Cooperation (IFC)[5] to grant credits to private organisations that lacked capital for projects in the developing world. Five years later, it established the International Development Association (IDA) to provide loans at low interest rates to poor countries.

The International Finance Corporation (IFC) is the world's largest multilateral source of equity and loan financing for private enterprises in developing countries (its 2006 financing was US$ 8.3 billion). It claims to support economic development, employment and poverty reduction by promoting open, competitive and efficient markets and direct support for private companies in developing countries. The IFC has developed a range of financial tools and services to enable private companies to manage investment risks and broaden their access to capital and developing company markets. The Bank and IFC have also established the "Rapid Response knowledge initiative," which specializes in policy advice on business environment reforms and privatization policy in developing countries.

A closer look at IFC operations show that much of its support actually goes to large, well funded corporations and not to small-scale, local entrepreneurs. In India IFC clients include big corporates such as Ambuja Cement, Apollo Tyres, Ballapur Industries and Usha Martin, ICICI Bank and Tata Tea.

Through the IFC, corporations get access to large, government sponsored infrastructure and service delivery projects and investment opportunities that are relatively risk free. Local communities, on the other hand, have little voice and no benefits in these investments as social and environmental safeguards are increasingly overridden by corporate demands for profits.

By the early 1960s the World Bank emerged as the dominant source of financial aid for developing countries. According to its own website, it provides, "nearly $16 billion in loans annually to its client countries. It uses its financial resources, highly trained staff, and extensive knowledge base to help each developing country onto a path of stable, sustainable, and equitable growth in the fight against poverty."[6] More stridently over the past two decades, it has used harsh conditionalities to direct national economies to be restructured. It has also encouraged particular kinds of foreign investment by making guarantees and participating in

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[5] This section is adapted from Guttal Shalmali. (2007). 'Corporate Influence and the World Bank'. Focus on the Global South. June.

[6] www.wb.org

partnerships with foreign investors, particularly transnational corporations. Currently it is active in about 100 countries.

In 1988, a new agency was added to the three under the World Bank Group – the The Multilateral Investment Guarantee Agency (MIGA) .[7] MIGA provides some of the most important services to private corporations by mitigating the political risks of private investment in high risk, low income and conflict affected countries. MIGA's forte is political or sovereign risk, which includes governmental actions that jeopardise corporate revenues. In 2006 it provided guaranteed worth US$1.3 billion

MIGA risk guarantees protect corporate investors against loss resulting from government expropriation of assets and breach of contract, war and civil disturbance including insurrection, coups d'état, revolution, sabotage, and terrorism. MIGA prides itself as a leader in the political risk insurance industry and collaborates with private and public insurers to "encourage private sector insurers into transactions they would not have otherwise undertaken'. MIGA's beneficiaries are generally TNCs in sectors such as water, energy, oil and gas, telecommunications, automobiles, agribusiness and luxury hospitality. MIGA also provides "dispute mediation" services and in this, it is complemented by the fifth agency, the International Centre for the Settlement of Investment Disputes (ICSID). ICSID, created in 1966, serves as a private, almost secret court to settle disputes between states and private investors. ICSID has been in the public spotlight recently because of a US$ 50 million lawsuit brought against the Bolivian Government by Bechtel and Aguas Del Tunari for cancellation of a water privatisation contract in the Bolivian town of Cochabamba. A massive, coordinated international campaign against Bechtel forced it to accept 30 cents as its settlement. But the case directed the world's attention to the Bank's system of closed door trade courts, majority of which involve protecting the rights of corporate investors in crucial public interest sectors such as water, electricity, telecommunications, oil, natural gas and mining.

Directing the Development Agenda

A relatively less known role of the World Bank is as a major research institution that exercises enormous influence on the direction and content of development research, policy and action. Ex-President Wolfensohn was unambiguously explicit in stating this role when he remarked that it was necessary to strengthen further the WB's role as a "provider of leadership in the field of development knowledge." Nicholas Stern wrote in the World Bank as an Intellectual Actor, "the weight of the number of development economists, the research budget and the leverage from its ending means that the Bank's potential influence is profound, and it cannot be seen as just one of a number of fairly equal actors in the world of development economics."

In 1978, the World Bank started publishing its annual World Development Report. Its language is consciously crafted to appeal to a large audience. Its influence is gauged from the fact that a decade ago, the budget to produce this was over Rs 12 crore. Almost 200,000 copies of the Report are sold and distributed across the development community overwhelming most other related research. As a leading scholar of the WB remarks, "Many thousands are distributed free to journalists, Southern universities and targeted audiences."[8]

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[7] Ibid

[8] Alex Wilkes, Bretton Woods Project, December 1997.

Guiding this process is the Development Economics Vice Presidency that has grown in size and influence not only within the institution but also in its links to the development research community worldwide. This team not only privileges those who legitimize a dominant neo-liberal ideology, it also actively works to marginalize and delegitimise those who do not subscribe to the official line. Robin Broad, a professor at the American University in Washington, DC, reveals the structures and processes through which the dominant paradigm is maintained. Another highly respected social scientist who worked for several years with the WB calls this "paradigm maintenance".[9]

The World Bank's Ideology

In addition to the clear direction defined by its history, consecutive issues of the WDR indicate what the primary thrust of WB's paradigm is. Take the 1997 World Bank Development Report, *The State in a Changing World.* A cursory reading will suggest that the WB is emphasizing a more responsible role for the state in improving its commitment to the social sector and to the environment, to involve citizens in decision-making and address endemic issues like corruption and arbitrary action. Part of this language has been necessitated by the growing criticism of the Bank not only from civil society organisation and community representatives but also from the political leadership of many countries who felt that the Bank was being too aggressive in propagating a withdrawal of the state from critical arenas of the market.

A more careful reading coupled with the record of the Bank reveals a picture that is contrary to this. The WDR clearly justifies the fact that the World Bank was established to promote the globalisation of trade and the integration of economies. Whatever problems it identifies, the solutions it proposes are likely to emphasise further liberalisation and internationalisation of economies, rather than alternatives. The argument that continues to dominate is the oft-repeated statement by the DEC that as world trade accelerates growth, and growth increases the incomes of the poor, world trade therefore benefits the poor.

Its findings run completely counter to many studies, particularly those of the UNDP which has been pointing out for several years that income inequalities are growing both within countries and between them. The UNDP 1999 Human Development Report, for example, states that the income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest grew to 74 to one in 1997, up from 60 to one in 1990 and 30 to one in 1960. Inequalities within countries have been rising too since 1980 particularly in China, the countries of Eastern Europe and the CIS, and OECD countries.

The Bank has a relatively new emphasis on the corruption of public officials, of the need to cut back their discretionary authority and limit the scope for "arbitrary action". Yet, there is an almost total absence of extending this analysis to the private sector. Private enterprises are seen as the motive forces of economic growth and there is no concern for the widespread

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[9] Robin Broad, 'Research, knowledge, and the art of 'paradigm maintenance': the World Bank's Development Economics Vice-Presidency (DEC)', *Review of International Political Economy*, 13:3, August 2006, pp 387-496. Also see Robert Wade, 'Is Globalization Reducing World Poverty and Inequality?', *World Development*, 32:4, 567-89.

violence wrought by unaccountable companies or the growing political power that they wield or the massive transfer of state resources and the commons to the private sector.

Undemocratic Governance Structure

The World Bank continues to claim that it is an integral part of the UN system. This assertion has been repeated so many times that a majority of those concerned about national and international development have accepted this erroneous claim. On one fundamental ground, it cannot claim to be part of the UN system: its governance structure.

Industrialised countries control the Bank through their voting shares on the Executive Board. In the IBRD (and these percentages are broadly mirrored in the other Group organisations), the G-7 control 43% of the vote (the developed countries together control 62.13%). The US alone controls 17%. All developing countries *together* control only 39%. This shareholding nature of representation at the World Bank clashes at times with the Bank's mission as a leading multilateral development institution. The countries with the most intensive relationships with the Bank have the least representation and voting shares. Finally, the deliberations in the Board are secret. Even when contentious issues are brought before the Board, it refuses citizen access to the process through which it acts.

This is at complete variance with the basic principles of democratic decision-making: that those affected by WB policies and decisions should have fair representation; that the decision-making is transparent; and, that allow for those affected to have clear recourse if their rights are violated. It is clear that the WB is physically, politically and legally very distant from those countries and people whom they adversely affect.

While each of the G7 countries have a full director in the WB Board, 47 African countries have only 5.4 % of the vote and only two directors to represent their interests. They have therefore lacked influence over the 464 current Bank-financed projects in Africa. Similarly, 24 sub-Saharan countries share one Board seat and have only 3 % of the vote (see table below).[10] When a single Board member represents two dozen countries with more than US$6 billion in ongoing projects, fair representation of the citizens of each country becomes impossible.

[10] www.wb.org

Countries	Active Projects (U.S. $m in 2005)	Countries	Active Projects
Benin	196	Gabon	0
Burkina Faso	472	Guinea	223
Cameroon	193	Guinea-Bissau	52
Cape Verde	53	Madagascar	1030
Central African Republic	17	Mali	478
Chad	307	Mauritania	272
Comoros	13	Mauritius	12
Congo, Dem Rep. of	1332	Niger	260
Congo, Republic of	157	Rwanda	272
Cote D'Ivoire	n.a.	Sao Tome and Principe	12
Djibouti	53	Senegal	661
Equatorial Guinea	0	Togo	0.3
Total			**6065**

Negative Net Transfers

Net transfers (disbursements minus repayments minus interest payments) to developing countries from the Bank and the International Bank for Reconstruction (IBRD), have been negative every year since 1991. The IBRD is now not making any contribution to development finance other than providing funds to service its outstanding claims. The International Development Association (IDA), which provides interest-free credits and grants to the poorest developing countries to boost their economic growth, is the only source of net financing from the Bank.

But these disbursements amount to only 4-5 billion US dollars a year. Taken together, the contribution of the Bank to the external financing of developing countries is negative by some 1.2 billion dollars. Social Watch, an international network of over 400 citizens' organisations in 60 countries monitoring commitments to eradicate poverty concludes that the WB is ‘‘failing to fulfil the purpose of its mission".[11]

As outlined above in the section on the institutions governance structure, this is all the more worrisome. Though developing countries have very little power in decision-making, they are the ones that have to largely finance the administrative costs of the WB through interest and other charges on loans.

Conditionalities[12]

The Bank typically requires certain actions of borrowing countries in advance of loan/grant approval and/or in the course of a project’s implementation - known as ‘conditions’ or ‘conditionality’. Conditionality became particularly controversial in the context of structural

[11] The Social Watch Report, 2006
[12] This section is adapted from Bank Information Centre, *Toolkit on the World Bank*, 2007.

adjustment loans in the 1980s, when the Bank used its lending to advance a particular set of macroeconomic reforms that came to be known as the "Washington Consensus". Investment projects often contain conditionality as well.

Numerous developing economies were subjected to 'structural adjustment'. State participation in the economy was constricted, public sector enterprises were privatized in the name of efficiency, restrictions on foreign investment were diluted or withdrawn altogether and the national economy was engineered to be integrated into the world market.

In fact, structural adjustment policies (SAPs) created widespread harm an exacerbation of poverty and inequality, an erosion of livelihood supporting resources and a growing environmental crisis. The Bank itself had to grudgingly acknowledge that SAPs were failing. Unfortunately, they invented new terminology and introduced 'Poverty Reduction Strategy Papers' whilst retaining a similar package of conditionalities.

Conditions can range from requiring a government to privatize its state-owned companies or adopt lower trade tariffs, to mandating new budget and procurement procedures to seeking equal treatment to domestic and foreign investors to the deregulation of labour and environmental laws. The Bank's imposition of controversial conditions on borrowing governments has been heavily criticized over the years, as a violation of national sovereignty and an undemocratic way to force reforms that can have substantial consequences on people and the environment.

Economic Policy conditionality can also be used in less obvious ways. For instance IDA, the WB's most concessional lending arm, allocates its lending on the basis of Country Policy and Institutional Assessments (CIPAs). The record of a country in implementing a slew of economic reforms becomes the basis for entering into a loan agreement. These 'scorecards' become in effect, conditionalities in disguise.

Developments within the institution indicate how rigorously the Bank seeks to maintain its economic policies. Dissent, even constructive criticism is not tolerated. These developments have led critics to conclude that the World Bank cannot be reformed from within. Take the case of two high-profile scholars who worked in the Bank and made several constructive criticisms. In 1999, Lawrence Summers, the Bank's former Chief Economist who was Secretary to the US Treasury, a post that gave him even greater leverage in the Bank's affairs, forced out Joseph Stiglitz, his successor as Chief Economist. Stiglitz had publicly expressed his reservations about the efficacy of the 'Washington Consensus' (a convergence of economic ideology shared by the Bank, the IMF and the US Treasury Department) for their policies on inflation control, trade liberalisation, deregulation and privatisation. These were "sometimes misguided" and "neglected fundamental issues". He particularly criticised the Bank and IMF for creating unemployment in the name of economic efficiency. After this incident, Stiglitz remarked that, "I could no longer speak freely".

The second case was that of economist Ravi Kanbur, who was recruited by Stiglitz in early 1998 as lead author of a special issue on poverty of the Bank's annual World Development Report. Kanbur had been arguing that it was imperative that the WB and policymakers must examine the impact of their actions on real people rather than relying on general economic principles. Kanbur resigned when Summers became directly involved in rewriting sections of

the report on the adverse effects of globalisation. Summers through his changes, reasserted the importance of economic growth in poverty reduction and the role of market reform in delivering growth.[13]

Safeguard Policies

WB's environmental and social safeguards policies were adopted in 80s and early '90s in response to external concerns about the detrimental impacts of World Bank projects internal concerns about development effectiveness and increasing demands that the Bank shifts its lending practices towards more sustainable development. Each of its policies whether on involuntary resettlement (OP/VP 4.12) or the one on indigenous peoples (OP/VP 4.10) or on cultural property have been respected more in their violation than in their spirit. For instance, its standards on indigenous peoples mandate the Bank to ensure "that the development process fully respects the dignity, human rights, economies and cultures of indigenous peoples." In a wide crossection of Bank funded projects, whether in Orissa or in India's Northeast, there has been little concern for the gross violation of this standard. Another issue that it has consistently avoided committing itself to is the reparations for past harm.

Information Disclosure[14]

The World Bank first adopted a disclosure policy in 1994, and has since reviewed and updated its policy at least twice: in 2002 and 2005. Although far more information is available from the WBG today than it was years ago, many of the Bank's key decisions and operations remain shrouded in secrecy.

- Draft information about strategies, policies and projects under consideration is not routinely available to the public depriving affected populations of the opportunity to influence decisions before they are taken.
- The Board of Directors meets behind closed doors and transcripts of discussions are not made public, preventing people from knowing how their governments are representing them and shielding the most important development decisions from public scrutiny.
- The WBG discloses virtually no information during the implementation of projects and strategies, hampering efforts to monitor the impacts of the institution's operations and to track the use of its funds while there is still time to correct problems.
- Information related to internal and external negotiations
- Information generated by a third-party (such as consultants)

Accountability Mechanism: The Inspection Panel

The idea for an Inspection Panel originated as early as 1990, when civil society groups engaged in seeking accountability of IFIs began advancing specific proposals for an appeals or investigative body to increase the Bank's accountability.

In early 1993, the Centre for International Environmental Law and Environmental Defense Fund drafted a detailed proposal for creating an independent appeals commission at the World Bank.

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[13] Richard Douthwaite, *Ecologist*, September 2000
[14] Ibid

Although, policy makers from several countries and some of the Bank's executive directors voiced support for an Inspection Panel, the most critical pressure came when the US Congress introduced the creation of an inspection panel as one of several key conditions for further funding of the IDA, the bank's concessional loan arm. By the fall of 1993, the adverse publicity that accompanied the release of the Morse commission and the bank's internal Wapenhans reports and the explicit pressure brought by the US Congress forced the WB to create the independent inspection panel (as well as to revise its information policy).

The panel opened its doors for business in September 1994, and as of September 2007, it had received 49 claims from around the world. The investigative panel can only investigate and offer corrective action for lapses in compliance on part of the WBG. In that sense there are no available channels to redress civil society and community grievances.

Conclusion

Since its entry into the developing world, the World Bank has been consistently exposed for furthering a unilateral neo-liberal agenda and for contributing to large-scale social, cultural, economic and ecological harm. That it does this with the active participation of national elites and pliant researchers and NGOs does not dilute its primary mandate. It has undoubtedly become more sophisticated in managing dissent and in softening critiques of its mandate and practice by adding social scientists to some of its research teams or seeking to better integrate itself into the UN system.

Unfortunately, despite decades of comprehensive evidence, the Bank refuses to structurally democratize itself, delink the institution from the influence of the US treasury and the corporate sector, rethink research and knowledge production and dissemination, put an end to economic policy conditionality, publish the minutes of all Board meetings (including who casts the votes) and create and open, transparent process for selecting its President. Unless it is serious in actively taking these steps, it will continue to structurally remain one of the most undemocratic institutions primarily committed to private-sector led economic growth.