

Chapter Four International Financial Institutions

4.1. International Financial Institutions: General Background

Toward the end of the Second World War, in July 1944, representatives of the United States, Great Britain, France, Russia, and 40 other countries met at Bretton Woods, a resort in New Hampshire, to lay the foundation for the post-war international financial order. Such a new system, they hoped, would prevent another worldwide economic cataclysm like the Great Depression that had destabilized Europe and the United States in the 1930s and had contributed to the rise of Fascism and the war. Therefore, the United Nations Monetary and Financial Conference, as the Bretton Woods conference was officially called, created the International Monetary Fund (the IMF) and the World Bank to prevent economic crises and to rebuild economies shattered by the war.

The Bretton Woods strategy addressed what were considered to be the two main causes of the pre-war economic downturn and obstacles to future global prosperity—the lack of stable financial markets around the world that had led to the war and the destruction caused by the war itself. The IMF would be aimed at stabilizing global financial markets and national currencies by providing the resources to establish secure monetary policy and exchange rate regimes, while the World Bank would rebuild Europe by facilitating investment in reconstruction and development. Although intended to benefit the global economy and contribute to world peace, the World Bank and the IMF, collectively referred to as international financial institutions (IFIs), have become primary targets of the anti-globalization movement. In many countries, they are resented and are viewed as imposing Western-style capitalism on developing countries without regard to the social effects.

The Origins of the IFIs

At the time of Bretton Woods, there was serious concern about the stability of global economic markets. The world-wide depression of the 1930s had been deepened by the instability of international currency markets and the contraction of international trade, so that stabilization of those markets and promotion of trade were considered crucial to avoid another crisis. Likewise, the widespread destruction of Europe and uncertainty about its future also threatened to cause economic and political disruption. The countries allied to fight Nazi Germany and Japan believed that a similar collaborative effort was the only way to stabilize their economies and those of their soon-to-be-defeated enemies and to provide funds to rejuvenate the countries destroyed by the war.

The Bretton Woods conference therefore gathered together some of the world's most prominent minds in economic policy and some of its most powerful policy-makers to chart a new course. Representing the United States and serving as chairman of the conference was **Henry Morgenthau**, the U.S. Secretary of the Treasury. Morgenthau was accompanied by **Harry Dexter White**, the Assistant Secretary of the Treasury, who had laid the groundwork for the conference and originated the key ideas and policies to be discussed.

Along with them was **Dean Acheson**, then the Under Secretary of State, who later became Harry Truman's influential Secretary of State during the first years of the Cold War, and a number of senators and congressmen. Leading the British delegation was the famed economist **John Maynard Keynes**. Other delegations of notables came from China, India, Russia, and France. Some leading economists from smaller nations were also quite influential at the conference, such as Louis Raminsky of Canada, Kyriakos Varvaressos of Greece, and Johan Beyen of the Netherlands. Morgenthau opened the conference by telling his fellow participants, "What we do here today will shape to a significant degree the nature of the world in which we are to live."

The aim of the conference was to draw up plans for the IMF and World Bank (as well as a proposed **International Trade Organization**, which never got off the ground as a result of concerns among many countries over their economic sovereignty). The conference was controversial, however, with the public, politicians, and media in many of the countries-especially the United States-that were wary of international control of their sovereign economic policy. Even the U.S. and British delegations, the leading countries at the conference, commented to each other that their plans had to be politically amenable to their home governments to be ultimately approved.

At the same time, the conference was largely opaque to the public. The prominent American commentator Walter Lippman said, "It has been impossible for the general public to obtain any idea of what the Bretton Wood conference is about. Though it is concerned with questions which will affect men's lives deeply, the language of monetary policy is understood by very few men in any country"(<http://www.imfsite.org/origins/confer2.html>).

Negotiations at the conference were, therefore, **contentious**. Although White had drawn up plans for the proposed organizations, many details, especially regarding financial contributions to the new institutions, were still to be worked out. Countries were concerned about the balance of power within the organizations as reflected in their proportions of contributions of gold to the IMF and their concomitant ability to draw from the IMF (their "quotas").

There were extensive IMF negotiations regarding how to divide the total amount of money the IMF would have among the 44 participants. **India** insisted on having as high a quota as **China**, for example, while **France** insisted on having more than India and more than the three Benelux countries (Belgium, the Netherlands, and Luxembourg), who were coordinating their monetary policy. The **Russians** insisted on a quota of not much less than the British and argued that they should have to contribute less gold to the fund than other countries because of their suffering in the war, but be able to draw a higher proportional quota than other countries. At the same time, they refused to publish accurate economic statistics.

Other disputes concerned the governance of the organizations, such as how many permanent seats the major contributors would hold and where the organizations would be located; the British unsuccessfully lobbied for the IMF to be in London. Another significant dispute revolved around whether the dollar would serve along with gold as the standard for exchange rates, which, in the end, the American delegation successfully insisted on. Meanwhile, Keynes, leading the committee that drew up plans for the World Bank, dominated the drafting process and forged the institution largely along his preferred lines and implementing his key economic idea-that governments should spend their resources to stimulate their economies during slowdowns.

With the diplomatic wrangling completed, the conference's Final Act was signed on July 22, 1944, although the institutions did not actually start operations until the following year. In a letter read to the delegates, **U.S. President Franklin Roosevelt** said that they had prepared two further foundation stones for the structure of lasting peace and security.

The following sections will briefly explain the operations of the IMF and the World Bank.

4.2. International Monetary Fund (IMF)

4.2.1. Historical developments of IMF

Conceived at the United Nations' Monetary and Financial Conference in Bretton Woods, New Hampshire, in July 1944, the International Monetary Fund (IMF or the Fund) was formally established in 1945 when 29 governments signed its Articles of Agreement.

It began operations in 1947 with a membership of 44 countries. As of 2009, with a membership of 184 countries, a staff of about 2,700 people drawn from some 141 countries, and a total capital subscription (or quota) of \$327 billion (as of February 2005), the IMF is arguably the most powerful supranational financial institution in the world.

Like the World Bank(WB) and the World Trade Organization (WTO), the IMF was created by the West—with the United States, and to some extent United Kingdom, in the lead—to help promote peace and prosperity through international economic stability and cooperation. Communist countries were originally excluded from the organization until 1972 when Romania became a member, with China following suit in 1980. The most significant expansion of the IMF, however, occurred in 1992 when Russia and thirteen other Former Soviet Republics joined the organization (Rourke 1993).

The main impetus for the IMF's formation was the belief that both the Great Depression and the Second World War were caused, at least in part, by the international monetary instabilities, if not chaos, that characterized the decades of the 1920s and 1930s. Consequently, as originally conceived, the IMF was to maintain financial stability by granting short-term loans to countries experiencing balance of payment crisis. However, its mission has grown and undergone some adjustments over the years, all of which have given it enormous power and influence over the economies of many countries in the developing world. A corollary of this unbridled clout is the common tendency among many intellectuals, policymakers, and civil society organizations, *inter alios*, to blame the IMF—and, to some extent, the World Bank and the WTO—for nearly all the economic problems of the so-called Third World.

4.2.2. Objectives

According to its Articles of Agreement, the IMF has six main objectives:

1. To promote international monetary cooperation through a permanent institution that provides the machinery for consultation & collaboration on international monetary problems.
2. To facilitate the expansion & balanced growth of international trade, & to contribute thereby to the promotion/maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
3. To promote exchange stability and maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
4. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
5. To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with [an] opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
6. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members (IMF 2005c)."

Clearly, the IMF's primary functions are to foster global monetary cooperation, secure financial stability, promote international trade, and advance sustainable economic development among its members (Peet 2003; Butkiewicz and Yanikkaya 2005). Thus, the organization deals mainly with policies that have a bearing on macroeconomic performance of its members, including those relating to budget deficit, trade deficit, monetary policy, and inflation.

4.2.3. Governance and Organizational Structure

Technically the IMF is part of the UN system, but its governance and organizational structure are different. The highest decision-making body of the IMF is the Board of Governors, made up of one governor and one alternate governor for each member. The Board of Governors, which normally meets once a year, delegates the day-to-day decision-making of the organization to the Executive Board, which meets several times each week at the IMF headquarters in Washington, DC.

The Executive Board is composed of 24 Directors, who are either elected or appointed by individual member countries or a group of them, and a Managing Director, who is assisted by various Deputy Managing Directors. Selected by the Executive Board, the Managing Director serves not only as the chief of the IMF staff, but also as the chairperson for the Executive Board.

The IMF also has five area departments, including those for Africa, Asia and Pacific, Europe, Middle East and Central America, and the Western Hemisphere. In addition, the organization boasts of several functional and special service departments, such as finance, legal, fiscal affairs, policy development, research and statistics, and monetary and financial systems departments at its headquarters, together with a number of information, liaison, and support service departments and institutes (IMF 2005d).

While voting on the Executive Board of the IMF is somewhat weighted on the basis of members' capital subscription, it is important to note that, as with the World Bank, each member is given 250 'basic votes' to alleviate some of the voting inequities wrought by the disparities in capital shares of its members. At the same time, there is no denying that the IMF, like the World Bank, is still overwhelmingly controlled by the rich countries of the North.

At present (as of September 2005) the United States alone has as much as 17.08 percent of the total votes on the Executive Board—this, together with Japan's 6.13 percent, Germany's 5.99 percent, France's 4.95 percent, and United Kingdom's 4.95 percent, takes up more than a third of the total available votes on the Executive Board. Conversely, more than forty Sub-Saharan Africa countries in the organization, for instance, have only about 5 percent of the total votes, and the situation among Latin American and Asian countries is not any better, with the notable exception of Saudi Arabia which has 3.27 percent of the total IMF votes (IMF 2005e).

We must note, even if parenthetically, that efforts by oil-rich Saudi Arabia to increase its capital subscription and, consequently, its voting power, in the 1970s proved unsuccessful—suggesting that quotas, once established, are kept fairly stable, and that capable, up-and-coming countries have difficulty procuring larger IMF shares.

To promote international currency stability, the IMF, in 1969, created its Special Drawing Rights (SDRs) to support the Bretton Woods fixed exchange rate system which was clearly faltering at the time, due to dramatic weaknesses in the value of the US dollar upon which the system relied for fixed convertibility into gold.

Balance of payment problems in the United States—emanating from intense global competition, high cost of American foreign adventurism (especially with regards to the Vietnam war), double digit inflation, etc.,—undermined the confidence of the international community in the US dollar (Rourke 1993), which was then pegged at a rate of \$35 per ounce of gold within the Bretton Woods system.

The value of one SDR was initially pegged at 0.888 grams of gold, which was then equivalent to one US dollar. After the eventual collapse of the Bretton Woods system of fixed exchange rate in 1973, with the introduction of floating exchange rates, the SDR was redefined as a basket of key international currencies, which today consists of the average value of the following four currencies: the Euro, the yen, the British Pound Sterling, and the US Dollar (IMF 2005f).

In addition to serving as the unit of account for the IMF and other international organizations and, consequently, the denomination for IMF quotas, SDRs supplement existing official reserves of IMF members. Strictly speaking, the SDR is neither a currency nor an actual claim on the IMF; rather, it serves as a potential claim on the freely usable currency of IMF members. SDR holders can obtain freely usable or ‘hard’ currencies in exchange for their SDRs either through a voluntary exchange between members, or through the IMF designating members with strong external financial positions to buy SDRs from members with weak external positions (IMF 2005f).

As of the end of February 2005, the IMF had a total of SDR 213 billion, which translates to about US\$327 billion. The United States alone held SDR 37 billion, or a quota of 17 percent, which gives it 17 percent of IMF votes (IMF 2005g).

4.2.4. IMF Operations

As the preceding suggests, the IMF procures its funds primarily from the contributions of its members by way of their capital subscriptions (or quotas). Members are required to pay a quarter of their quota in ‘hard’ or readily convertible international currency, such as the US dollar or the yen, and the remainder in their own national currency (Peet 2003). In addition to these quotas, the IMF derives some funds from internal sources, especially from interest on its loans and from two main supplementary borrowing arrangements: (a) the General Arrangements to Borrow (GAB), established in 1962 with eleven members, including the Group of Ten industrialized nations and Switzerland; and (b) the New Arrangements to Borrow (NAB), set up in 1997 with 25 participating nations. The IMF could procure as much as SDR 34 billion from these two borrowing arrangements per year if need be.

The IMF relies on three main mechanisms-surveillance, technical assistance and lending or financial assistance—to pursue its expressed goal of promoting international financial stability.

IMF surveillance entails regular dialogue with, and policy advice to, its members. Data and insights from these exercises inform the IMF’s regular assessment of global and regional development performances and trends captured in its well-known *World Economic Outlook* and the *Global Financial Stability Report*, published twice a year.

To boost members’ ability to design and implement effective economic policies, the IMF provides (free) training and technical assistance in such areas as banking, fiscal, monetary, and exchange rate policies to its members.

Members experiencing balance of payment problems can usually approach the IMF for financial assistance. Often a policy program design by the IMF together with the authorities of the borrowing nation allow for the immediate withdrawal of the first 25 percent of the nation’s quota, or the “first

credit tranche”—originally deposited by that same nation in hard currency or gold—on fairly liberal borrowing terms. Should this amount becomes insufficient, the country can then negotiate for more resources, or for the purchase of “upper credit tranche,” in hard currency; such purchases normally come with stringent conditionality set out in the various IMF loan facilities and arrangements, which include the following seven:

(i) *Stand-by Arrangements (SBA)*: This facility allows members to borrow funds to correct short-term balance of payment problems. SBAs are normally given for a period of 12 to 18 months. For members with no outstanding credit obligations, the first 25 percent of the SBA is normally subject to very liberal conditions or what the IMF calls “first credit tranche conditionality.” Beyond the first tranche, the terms get more stringent, and the borrowing nation is required to provide more substantive justification.

(ii) *Compensatory Financing Facility (CFF)*: Created in 1963, this facility is to help members cope with temporary balance of payment difficulties attributable to exogenous shocks, such as shortfalls in their export earnings or a sharp rise in the cost of their imports. To qualify, the borrowing nation needs to show that the problem is, indeed, temporarily, and that it is the result of factors beyond its control. At first, only shortfalls in merchandise exports were eligible for the CFF, but it was expanded in 1979 to cover tourist services and workers’ remittance, and broadened again in 1981 to include excess cereal import cost.

(iii) *Extended Fund Facility (EFF)*: Established in 1974, the EFF is used for mid- to long-term financing of countries in need of structural economic reforms. It works under the assumption that balance of payment difficulties have some structural origins that require long-term structural economic changes to fix. EFF is normally granted for a period of three years, with the possibility of a year’s extension. Access to EFF is subject to a limit of 100 percent of the borrowing nation’s quota.

(iv) *Poverty Reduction and Growth Facility (PRGF)*. Created in 1999 to replace the erstwhile Enhanced Structural Adjustment Facility (ESAF), the PRGF provides low interest loans to low income members of the IMF embroiled in protracted balance of payment difficulties. Eligibility for the PRGF is based on members’ *per capita* incomes; as of March 2005, a total of 78 members were eligible for assistance under this facility. Qualified countries are allowed to borrow up to 140 percent of their quota, at an annual interest rate of 0.5 percent, starting 5.5 years and ending 10 years after the fund’s reimbursement. The switch from ESAF to PRGF was a result of intense criticism of the IMF’s Structural Adjustment Programs. As the name suggests, the IMF hopes to use this facility to promote its poverty reduction initiatives in the developing world.

(v) *Supplemental Reserve Facility (SRF)*: Established in late 1997, the SRF provides additional short-term loans, at a relatively higher interest rate, to members experiencing balance of payment problems as a result of sudden, disruptive loss of market confidence in their economies and the consequent outflows of capital and pressure on their reserves and capital accounts. Russia, South Korea, and Brazil are among the countries which have used this facility in the past.

(vi) *Contingent Credit Lines (CCL)*: This facility was created in 1999 to (potentially) help prevent the spread of capital account-driven crises and to serve as a buffer for members with strong economic policies to ward off balance of payment problems created by international financial contagion. The eligibility criteria for the CCL were rather stiff: Among other things, in theory, the borrowing nation needed to pass an assessment of its economic policies by the IMF, and be prepared to pursue what the IMF considered to be satisfactory economic policies. The facility was, however, allowed to expire in November of 2003, because no member used it, as it potentially labeled them as being “in contagion”.

(vii) *Emergency Assistance for Natural Disaster*: This facility is to assist countries dealing with balance of payment problems arising from sudden, unforeseeable natural disasters such as flood, hurricane, and earthquake. To qualify, the borrowing nation has to provide a statement of policies that it intends to pursue with the fund, and be prepared to cooperate with the IMF in an effort to find durable solutions to its balance of payment problems. In 1995, this arrangement was extended to cover post-conflict situations (IMF 2005h).

4.2.5. Collaboration with WB & other Institutions

The IMF and the World Bank are generally seen as sister institutions, not only because both are part of the United Nations and were conceived at the same Bretton Woods meeting—hence their composite name, the Bretton Woods institutions—but also because they actually share a common goal of enhancing the living standards of people in their member countries. To attain this unitary goal, they routinely take up complementary roles, with the IMF focusing more directly on aberrations in the global financial system and balance of payment problems, and the World Bank dealing mostly with long-term economic development and poverty alleviation initiatives.

The two institutions undertake several joint programs, especially since 1989 when they signed a joint concordant to formally solidify their cooperation. Among other things, the IMF and the World Bank coordinate their country assistance programs with regular meetings between their staff; conduct parallel and sometimes joint country missions; launch joint development initiatives, such as the ongoing Heavily Indebted Poor Countries (HIPC) program and the recent Financial Sector Assessment Program; and engage in high-level coordination involving annual meetings between the Board members of both institutions.

Perhaps nowhere is the collaboration between the IMF and the World Bank more evident than in their Structural Adjustment Programs (SAPs)—recently revamped by the IMF into the Poverty Reduction Growth Facility (PRGF). In this regard the IMF provides short-term loans to help resolve the borrowing country's balance of payment problems and, consequently, stabilize its macroeconomic situation, in preparation for adjustment-proper from the World Bank (Easterly 2005; Stiglitz 2003). The Bank, for its part, offers long-term financial and technical assistance targeting sectoral reforms, physical and social infrastructure projects (e.g., roads, hydro-electric dams, hospitals and schools) and, more recently, capacity-building, democratic governance, and anti-corruption initiatives in the borrowing country.

The IMF is generally seen as the senior and more austere sibling, or the “bad cop” in this relationship—to borrow the common North American law enforcement jargon. As Robert Biel (2000 p. 235) describes it, the division of labour between the Fund and the Bank could be likened to that between two policemen (cops) interrogating a crime suspect, with the bad cop (i.e., the IMF) acting overtly brutal and overbearing, while the good cop (i.e., the World Bank) acts more friendly towards the suspect, telling the suspect how he is working in his or her interest—all in an effort to get the suspect to open up or sign the necessary papers. No wonder the Fund has been the main target of most of the rowdy SAPs-riots, until recently when it replaced its SAPs initiatives with the PRGF, following the Asian crisis of 1997.

Besides the Bank, the World Trade Organization (WTO) is the other institution with which the IMF collaborates very often—this is hardly surprising, given the two institutions' shared belief in what amounts to ‘trade determinism’ (Dunkley 2004, 3). For instance, the Fund participates in several WTO committees and working groups and *vice versa*. Also, the WTO is required to consult the IMF on a number of issues, especially those concerning balance of payments, currency convertibility, and monetary reserves, given the latter's observership status at the former.

Additionally, both institutions routinely coordinate some of their international trade-related technical assistance to nations. And, as with the Bank, the Fund maintains regular contacts with the WTO at the highest level, with the Managing Director of the Fund and the Director General of the WTO holding regular discussions on matters of common interest.

Today, so powerful have the Bretton Woods institutions and the WTO become in exerting command and control in the affairs of the developing world that some critical development theorists now attribute—albeit sarcastically—divine and religious authority to them by way of such phrases as “supranational clergy” (De Rivero 2001) and the “unholy trinity” (Peet 2003). This is how De Rivero (2001, 54-56) puts it:

“Today the IMF and the World Bank have acquired supranational powers to dictate and supervise the economic policies of any developing country, affecting for good or evil the daily life of every one of its citizens, without becoming accountable to anyone ... such virtually exclusive dedication to the underdeveloped countries, along with the submissiveness of their governments, has transformed the IMF and the World Bank into a powerful and illuminated supranational high clergy.”

In addition to the World Bank and the WTO, the Fund collaborates with several other agencies, especially those in the UN systems, including the UNICEF, ILO, UNCTAD, UNDP, WHO, and FAO, depending on the particular issue at stake. More recently, with mounting criticisms over the lack of grassroots input in its programs, the Fund has embarked on initiatives to smoothen its dealings with civil society organizations, such as faith-based associations, labour unions, NGOs, and community development organizations, through meetings, seminars, and workshops.

4.2.6. IMF Conditionality and Structural Adjustment in the Developing World

Most loans granted by the IMF are subject to conditionality that the borrowing country is obliged to follow to help remedy the situation that caused the balance of payment problem for which it is seeking IMF financial assistance in the first place (IMF 2005i). Over the years, loan conditionality—which only became part of the IMF Articles of Agreement in the late 1960s—has become a medium by which the IMF monitors, regulates, and controls the economic policies of developing countries.

Until the early 1980s, IMF conditionality focused mainly on macroeconomic policies. But since then it has become more comprehensive, more austere, and many—including Biel (2000), Hoogvelt (2001), Stiglitz (2003), Dunkley (2004) and Chan and Grabel (2004)—would argue, more ideological, to include issues of democratic governance and institutional and market-oriented reforms couched in terms of ‘neoliberalism’ and the ‘Washington Consensus.’ The latter is a term coined in 1990 by John Williamson of the Institute of International Economics to stress the near-religious adherence to free-market principles by the IMF, World Bank, the United States government and other Washington, DC-based institutions in their dealings with the countries of the South (De Rivero 2001, 56; Khor 2001, 73).

Generally, governments of borrowing countries—nearly all of which are now from the developing world—are required, if not coerced, via IMF (and World Bank) conditionality to reduce their involvement in their respective national economies, by promoting ‘free trade,’ financial liberalization, privatization, public sector contraction, and the removal of government subsidies on utilities and social services such as healthcare and education.

The IMF now has many protocols for monitoring and assessing compliance to its loan conditionality. For instance, it uses *phased disbursement* techniques to ensure that the borrowing country adheres to loan conditionality before successive installments of loans are paid out. And with its *prior actions* package, the IMF ensures that a country agrees to take specific actions before it approves the loan.

In a similar vein, it expects the borrowing country to meet a host of quantitative and structural *performance criteria*, some of which are measured by way of quantitative and macroeconomic indicators, while others are assessed by way of qualitative measures and targets, before subsequent disbursements are made.

Finally, the Fund relies on a comprehensive *program review* protocol to evaluate the overall progress of its loans (IMF 2005i). The economic austerity engendered by IMF conditionality—most notably by currency devaluations, wage freezes, public sector job retrenchments, and the removal of subsidies—has been a long-standing source of popular discontent and violent riots across the developing world, as the next section would show.

4.2.7. IMF Riots

Clearly the IMF uses its loan conditionally to compel borrowing nations not only to take what the Fund considers to be the necessary measures to correct their balance of payment problems, and thus be in a position to pay off their debts, but also to help promote neoliberal reforms that would reduce the state's involvement in the economy.

Beneath it all is the problematic assumption, on the part of the IMF and its supporters, that “Third World” countries would develop if (and, perhaps, only if) they abandon anti-market, state-driven economic models and adopt Western capitalist principles, which open up their economies to free trade and foreign investment. The IMF generally acknowledges that some of its loan requirements are austere, but generally insists that they are mere short-term ‘growing pains,’ justifiable for the long-term economic gains that await the borrowing nations through trickle-down economics (Stiglitz 2003).

Since the late 1970s when IMF conditionality became stringent, it has drawn massive, often violent, protest across the developing world. While some of these upheavals are directed towards national governments for accepting IMF loans and their attendant conditionality, others are orchestrated by national governments themselves either to pressurize the IMF to relax some of its requirements or to use the IMF as a scapegoat for their own economic mismanagement. Still other such demonstrations are organized by civil society organizations, students, labour unions, and the like, against both the national government and the IMF on the premise that these two entities colluded, in camera, to bring about the ensuing austerity.

‘IMR riots,’ as they are often called, usually begin as “food or bread riots,” with people opposing sudden price increases in food items such as bread, flour, and sugar, sometimes within the context of a broader popular discontent over government cutbacks in jobs, wages and the provision of basic utilities. One of the well-known, and oft-cited, IMF riots occurred in Egypt in January 1977 when President Anwar Sadat bowed to the IMF pressure to cut subsidies that resulted in retail price increases of about 50 percent for commodities such as flour, fuel, and cigarettes. Several people were killed, as the Egyptian army put down the consequent violent riot. The government eventually recanted on the drastic cuts and used a more gradualist approach which saw the cuts extended over time, with the help of a Stand-by Arrangement from the IMF and a \$US1 billion loan from Saudi Arabia and Kuwait (*The Economist*, January 22 1977, p. 59).

Morocco run into a similar situation in June-July of 1981, when the Democratic Workers’ Confederation in Casablanca mounted a rowdy protest against the government’s decision to eliminate subsidies on staple food items, upon the insistence of the IMF, for a US\$1.2 billion loan to help

Morocco deal with its balance of payment deficit. The removal of subsidies caused the price of sugar, for instance, to increase by 37 percent; flour by 40 percent; and butter by as much as 76 percent (*The New York Times*, July 4 1981; Peet 2003, 88). The estimated fatalities from this riot ranged from a low of 60 deaths, from government counts, to more than 600 deaths, from the estimates of the opposition Socialist Movement.

Even though the Moroccan government publicly took responsibility for the price increases, the protest was directed as much to the IMF, which was blamed to have coerced the government behind the scenes. Like the situation in Egypt, the Moroccan government was forced to roll back the price increases, as living conditions in the country worsened. Many other African countries, including Côte d'Ivoire, Ghana, Niger, Nigeria, Uganda, and Zambia, have, one time or another, come under the spell of 'IMF riot' over the years. But it would be a mistake to assume that these upheavals are somehow confined to Africa—they are virtually ubiquitous across the developing world.

In fact, one of the very first massive IMF riots took place in Argentina in 1976, when workers in Cordoba went on strike against the government for freezing their wages to help lower its expenditure and the rate of inflation, in fulfillment of an IMF conditionality for a loan which the government sought to offset increased costs of oil imports (*New York Times* March 9 1976). Similar strikes have occurred in many other Latin American and Caribbean countries, including Bolivia, Mexico, Brazil, Ecuador, Jamaica; and in Asian countries, such as the Philippines, Indonesia, and Malaysia.

Since the 1988 mass protest at the annual meeting of the IMF and the World Bank in West Berlin, where delegates were greeted with anti-IMF and World Bank graffiti on the Brandenburg Gate, these protests have become increasingly international in character, targeting not only the high-profile meetings of IMF (and World Bank and the WTO), but also the various annual meetings of the G7/G8 and G10 nations. Thanks to the internet-enhanced organizational skills of contemporary social resistance movements, NGOs, and civil society organizations, these high-profile meetings have become the focal points of the enduring *dialectical* tensions between the North and South.

Dialectical is used decidedly here, as the North-South struggle is hardly along a simple, clear-cut geographical faultline. Indeed, many of the issues involved in the struggle, especially those relating to the influence of transnational corporations; structural adjustment programs; neoliberal globalization; environmental sustainability; labour abuses; poverty alleviation; and the fight against HIV/AIDS, are of concern to protesters in the South as much as they are to those in the North. Also, several of the anti-IMF, World Bank and WTO riots (*a-la Seattle*) are organized, or at least spearheaded, by resistance movements based in the North, working in collaboration with their allies and chapters in the South, due primarily to the acute dearth of financial wherewithal among organizations and protesters in the latter.

There are now several (inter)national social resistance movements which consider their opposition to the IMF and kindred supranational organizations, in particular, and to neoliberal globalization, in general, as their *raison d'être*. Notable examples are the Third World Network based in Penang, Malaysia, and its affiliate the Third World Network-Africa, based in Accra, Ghana; the Press for Change Movement in Kenya; The African Women's Economic Policy Network based in Kampala, Uganda; the Development Group for Alternative Policies, headquartered in Washington, DC; and the World Development Movement, based in London, UK.

4.2.8. 'The New Imperialism'

Over the past decade or so, the IMF, together with the World Bank and the WTO, has become a central focus of the global North-South tension. At the heart of this discord is a concern among many

critics who see the Fund as an instrument of command and control, deployed by the North to dominate the South in what amounts to a “new imperialism” (Harvey 2003; Biel 2000) or “recolonization” (Hoogvelt 2001, 181). Critics contend that the IMF-(co)-sponsored Structural Adjustment Programs (SAPs)—which have recently been changed into the Poverty Reduction and Growth Facility (PRGF)—were nothing more than a ploy to siphon-off financial and material resources from the South to the North, through a dogmatic adherence to trade liberalization, export promotion, stringent debt service conditionality, currency devaluation, financial deregulation, and many other related economic principles, espoused within the Washington Consensus. This is how Robert Biel (2000, p. 236) cast his understanding of this grand maneuver:

“There is an element of a new kind of planning inherent in SAPs. Neo-liberalism constantly asserts that a command economy is less efficient than the market, but this is just propaganda to undermine the possibilities of a social dialogue about what such planning could achieve. The problem for international capitalism is not economic planning per se, but the fact that, if this is done by the state, the latter will tend to become a repository of a significant amount of the value which the exploiters cannot lay their hands on directly. But if the allocation of resources were done directly by a sort of plan orchestrated by international institutions [e.g., IMF], there could be efficiency in gains without these risks.”

In a similar vein, De Rivero (2001, 57-58) laments that: “After more than twelve years of applying adjustments and reforming their markets, the great majority of Latin American, Asian and African countries are still trapped in the purgatory of neoliberal reforms, and have not managed to break free from the sins of unemployment and poverty. Their raw material exports do not fetch profitable prices, their debts continue to be a heavy burden...and productive transnational investments are not forthcoming.”

Another leading critic, the Australian economist Graham Dunkley, concludes his recent opus *Free Trade: Myth, Reality, and Alternatives* (2004) with the indictment that ‘free trade’ is basically a myth. In his words: “the reality is that today’s worldwide trust for free trade and globalization is a pro-business, ideological, politically motivated movement which ignores the extensive and ‘non-consensual’ economic, social, environmental and cultural costs of these policies” (p. 221-222). Richard Peet arrives at virtually the same conclusion when he writes under the pithy subheading “Questioning Faith” in his *Unholy Trinity* (2003, 103) that “For us this means that the IMF adheres to neoliberal economic thought in the production of policy prescriptions on grounds of faith, rather than the foundation of proven science.”

Homologous SAPs-related criticisms of the IMF (and the World Bank) have emanated from a number of predictable and not-so-predictable sources over the years. The formidable list of critics includes leading economics professors, such as Robert Rowthorn of Cambridge, Paul Krugman of Stanford, and Paul Streeten of Boston University; Nobel prizewinners for economics, such as Maurice Allais and Joseph Stiglitz; public intellectuals like the pre-eminent geographer David Harvey, the linguist Noam Chomsky, and the political economists Susan George of the Transnational Institute in Amsterdam. That is not all, reputable investment bankers of Wall Street, such as Felix Rohatyn, Warren Buffet, and George Soros; religious and philanthropic organizations, such as the Ecumenical Council of Churches, the Latin American Episcopate, and Oxfam; and even UN agencies, such as UNICEF and UNDP, have all criticized the IMF for its adjustment programs in the South (De Rivero 2001; Dunkley 2004).

Many trace the growing powers of the IMF, first and foremost, to its voting formula, which effectively gives the rich countries of the North, notably the United States, United Kingdom, France, Germany, and Japan, overwhelming clout in the organization, with the numerous country of the

South relegated to the background. It is important to note, even if parenthetically, that all of the past and present Managing Directors of the Fund have been Europeans, as a result of a 'gentlemen's agreement' between the US and the Europeans, by which the former, in turn, nominates the head of the World Bank. The list of the Fund's Managing Directors over the years, at least for didactic purpose, includes Camille Gutt of Belgium (1946-1951); Ivar Rooth of Sweden (1951-1956); Per Jacobsson of Sweden (1956-1963); Pierre-Paul Schweitzer of France (1963-1973); H.J. Witteveen from the Netherlands (1973-1978); Jacques de Larosi re of France (1978-1987); Michel Camdessus of France (1987-2000); Horst K hler of Germany (2000-2004); and Rodrigo de Rato of Spain (2004-present) (IMF 2005j). Recently, the US-Europe 'gentlemen's agreement' has received sharp criticisms from the other IMF members, as a result of clumsiness and problems in recent nominations. Some opponents of the IMF also insist that with its nearly exclusive focus on the development problems of the South, the IMF has tactically diverted critical attention from the fundamental issues underlying the inequities of contemporary global capitalism and neoliberal globalization. Routinely listed among these fundamental matters are issues surrounding the capital speculation market; agricultural subsidies in the North; the lack of accountability on the part of transnational corporations and even the IMF itself; and unfair terms of trade for primary commodities in the world market.

A corollary of the North-South imbalance in bargaining power is the growing concern that the IMF interferes with the domestic affairs of its Southern members with its stringent loan conditionality. Even allegations of the Fund undermining the basic sovereignty of Southern countries abound in the available literature (Hoogvelt 2001; De Rivero 2001, Dunkley 2004; Chomsky 2001; Stiglitz 2003; Barber 1996). So is the attack that the IMF's loans, and their attendant conditionalities, are aimed at perpetuating the subjugation of the Southern members (Rourke 1993). Opponents are equally critical of the Fund's apparent disingenuousness in compelling the poor, powerless countries of the South to embark on policies, such as balanced budget and reduced import, that even rich countries of the North could hardly accomplish (Rourke 1993).

The common criticism that IMF-induced cutbacks in subsidies and jobs sow seeds of popular discontent and instability in many developing countries is not hard to fathom, given the numerous 'IMF riots' noted above. The works of some critics, such as the sociologist Ankie Hoogvelt and political scientist William Reno, go even further to suggest that SAPs-related anti-corruption initiatives of the IMF are partly responsible for the civil wars in parts of Africa, in particular. Hoogvelt (2001, 188), for instance, observes that:

"In its efforts to get the state budget under control, the IMF has even negotiated with governments to subcontract tax collection to foreign firms. But this manner of reining in rent-seeking state and its officials dissolves the patrimonial glue that holds the society together. It brings about fragmentations as erstwhile clients are forced to seek their own benefits independent of the central authority. This hastens the collapse into warlordism."

A similar attack is readily discernable from Reno's analysis of the civil war in Sierra Leone, where he notes that the elimination of rent-seeking opportunities through structural adjustment did weaken state apparatuses and undermined state-civil relations in the country (Reno 1995).

As with all controversies, there are those, especially IMF (and World Bank) staffs, who argued contrapuntally by singing the praises of SAPs in such countries as Ghana and Uganda, in particular, and of free-market enterprise in general (Devarajan, Dollar, and Holmgren 2001). Additionally, some champions of the IMF are quick to note that the Fund does not force any country to borrow or adopt its policies, and that it is the leaders of these Southern nations who ultimately decide on whether to take the Fund's loans or to leave it. Fair enough, but given the Fund's exclusive focus on the development problems of the South over the last three decades or so; the acute powerlessness of the

Southern members in the operations of the Fund; the growing list of conditionality and protocols for surveillance and compliance; and yet the increasing poverty and debt-burden in the South, it is not unreasonable to attribute some blame to the Fund, just as in the interest of a balanced attribution of culpability one could plausibly blame the mismanagement, corruption, and leadership problems of the South for some of the economic development woes in that part of the world.

Since the Asian financial crises of 1997—which led to sharp declines in the currencies, stock markets, and other asset prices of countries such as Thailand, Indonesia, South Korea, Hong Kong, Malaysia, and the Philippines, and later rippled through the global financial market with major contagion effects in Brazil, Russia, the United States, and many other countries—IMF (and World Bank) initiatives, especially those relating to financial deregulation under SAPs, have come under intense scrutiny and criticism. Many critics blamed the IMF for the Asian crisis, on grounds that the organization encouraged the so-called Asian ‘tigers’ not only to liberalize their financial sector, but also to peg their respective national currencies to the US dollar and to maintain high domestic interest rates in a move to attract foreign capital for their ‘fast track capitalism.’ This, critics argue, exposed the Asian countries to excessive speculative capital investment under an equally excessive regime of financing/banking deregulation, which led to overinvestment in the short-term, high-yield, high-risk sectors of the economy. In 1998, mounting anger over the Asian crisis compelled no less an entity than the US Congress to debate, quite spiritedly, on whether or not to authorize an additional funding of some \$18 billion to replenish the IMF, whose funds were virtually depleted by the multi-billion-dollar bailouts engendered by the Asian crisis and its aftermath. The debate culminated in the establishment of the International Financial Institutions Advisory Commission by the US Congress in 1999 to report on the activities of the IMF, the World Bank and other international institutions (e.g., the Inter-American Development Bank, the Asian Development Bank, the African Development Bank). Among other things, the Commission’s final report (commonly known as the *Meltzer Report*, after the Carnegie Mellon University economics professor, who chaired the commission) called for a comprehensive review of the financial procedures of the Bretton Woods institutions. It also recommended that the IMF restricts its lending to the provision of short term, collateral-based, high interest loans to emerging economies, while the World Bank focuses mainly on grants, as against loans, for poor countries, with the two institutions avoiding duplication as much as possible.

With its efficiency—and, to some extent, its credibility—long under the microscope, the IMF has begun to take a critical, reflexive look at its operations, with new programs for change. One such initiative is the replacement of its erstwhile Enhanced Structural Adjustment Facility, with which most of its SAPs were funded, by the current Poverty Reduction and Growth Facility (PRGF). This shift occurred in 1999, following intensive internal evaluation of IMF operations in response to criticisms and negative public perceptions of the organization. With the PRGF, the IMF is now making poverty reduction a centerpiece of its operations in developing countries, and also moving away from its dogmatic adherence to neo-liberalism to an emerging post-Washington Consensus paradigm, which places more emphasis on capacity building, democratic governance, transparency, public participation, and the mobilization of social capital, civil society, and diasporic resources.

Also, the IMF seeks to use the PRGF to assert greater country ownership of its programs. Another important program in this regard is the Heavily Indebted Poor Countries (HIPC) initiative, which was first launched in 1996 as HIPC I in response to massive public outcry and some ‘internal’ advocacy (led by James Wolfensohn, the then President of the World Bank) over the debt-service overload on poor countries. Under the provisions of HIPC I, the IMF and the World Bank—working with the donor community—hope to reduce the foreign debts of poor countries to manageable levels. The initiative was augmented in 1999 under HIPC II—mostly in response to demands by *Jubilee 2000* (J2K)—to make poverty reduction the main priority of HIPC. To date, HIPC package worth some US\$32 billion has been approved for 27 poor nations, 23 of which are from

Africa (IMF 2005k). The Gleneagles Declaration of 2005, is yet another program by which the IMF and the World Bank—after some discernable foot-dragging—are working with the G7 (or G8 minus Russia) to write off more than US\$40 billion worth of Africa’s foreign debt in support of the continent’s fight against poverty and the scourge of HIV/AIDS.

It would be nothing short of a grand omission to discuss the IMF’s recent image-, credibility-, and efficiency-building initiatives without mentioning the establishment (in 2000/01) of its Independent Evaluation Office (IEO), charged with the responsibility of “enhancing the learning culture of the IMF....; helping to build the IMF’s external credibility by undertaking objective evaluations in a transparent manner; ...and promoting greater understanding of the work of the IMF” (IMF 2001:1). The growing dialogue between the IMF and various (inter)national civil society organizations is also part of the IMF’s newfound appreciation for the need to listen to, and learn from, the public. In the final analysis though, the IMF would continue to be embroiled, perhaps justifiably, in a cloud of negativity, unless it is able to help reduce poverty and deprivation to perceptibly low levels in the developing world—after all, that is what it purports to do with its new lending facilities, the Poverty Reduction and Growth Facility.

4.3. World Bank

Headquartered in Washington, DC, with a staff of approximately 9,300 people worldwide, the World Bank (or “The Bank”) is the world’s premier multilateral economic development institution. It was conceived in July 1944 at Bretton Woods, New Hampshire, together with the International Monetary Fund (IMF), to help rebuild Europe, following the destructions of World War II. It came into formal existence as the International Bank for Reconstruction and Development (IBRD) in December 1945, after the ratification of its Articles of Agreement by 29 governments.

The Bank commenced its operations on June 25, 1946, with Eugene Meyer, an American investment manager, as its first President (Peet 2003; the World Bank 2005a). The Bank’s very first loan, to the tune of US\$250 million, was granted to France in 1947 for postwar reconstruction—in real terms, this remains the largest single loan issued by the Bank to date. Available records (notably, the World Bank 2005b) show that by August 1947, the budding Bank had authorized reconstruction loans to the Netherlands (US\$195 million), Denmark (US\$40 million), and Luxembourg (US\$12 million). With the realization that the postwar reconstruction of Europe would take more than such piecemeal loans, the United States, almost single-handedly, established the European Recovery Program (or the Marshall Plan) of 1947, thereby relieving the Bank of its heavy reconstruction burden. While reconstruction, relating especially to natural disaster and post-conflict rehabilitation, remains an important part of the Bank’s activities, much of its contemporary preoccupation is on poverty alleviation, with its publicly stated mission “to fight poverty and improve the living standards of people in the developing world” (World Bank 2005c).

During its early years, the Bank relied mostly on the expertise of engineers, financial analysts, and economists; but today it has become far bigger and more complex, employing a wide variety of physical and social scientists, public policy experts, and sectoral analysts from about 160 different countries in pursuit of its overarching goal of poverty alleviation.

4.3.1. Organizational Structure and Purpose

To be precise, the World Bank is part of a big, multifaceted conglomerate called the World Bank Group, made up of five closely related development institutions, which include:

The International Bank for Reconstruction and Development (IBRD), which was established in 1945 with the original intent of helping to reconstruct postwar Europe, but now focusing mostly on poverty

reduction in the developing world through the allocation of loans, grants, and technical assistance. The IBRD now has 184 members with a cumulative lending of US\$394 billion, as of August 2005 (World Bank 2005d);

The International Finance Corporation (IFC), which was established in 1956 to promote private enterprise through the provision of technical assistance, loans, and equity financing to private investors, without accepting government guarantees. The IFC now has a membership of 178 countries and a cumulative committed portfolio of US\$23.5 billion, as of August 2005.

The International Development Association (IDA), which was established in 1960 to provide loans to the poorest and non-creditworthy countries of the South. Its loans are generally interest-free, but carry a 0.75 per cent administrative fee. The IDA now has 165 members and a cumulative loan commitment of about US\$150 billion by August 2005;

The International Center for Settlement of Investment Dispute (ICSID), which was established in 1966 to help settle investment disputes between governments and foreign investors. The ICSID has “full international legal personality” with the capacity “to contract; to acquire and dispose of movable and immovable property; and to institute legal proceedings” (World Bank 2005e). The ICSID has a membership of 165 and a cumulative total of 159 registered cases by August 2005 (World Bank 2005d).

The Multilateral Investment Guarantee Agency (MIGA), which was established in 1988 to provide investment insurance for noncommercial risks, such as currency inconvertibility, war, civil unrest, and breach of contract. MIGA also provides advisory and technical services to help developing countries attract foreign investment. It now has 165 members, and has issued cumulative guarantees of up to US\$13.5 billion by August 2005 (World Bank 2005d).

Each of the five institutions of the World Bank Group is owned and controlled by its member governments which subscribe to its basic share capital. While all five constitute the World Bank Group, the term World Bank (or the Bank) is usually used (as in what follows) to refer specifically to the International Bank of Reconstruction and Development (IBRD) and its closely-related (albeit, legally distinct) subsidiary, the International Development Association (IDA). It bears acknowledging that, since the IBRD and IDA are legally distinct entities, bundling them here, as is often done (see Peet 2003), is a bit problematic, even though the World Bank lists both the IBRD and the IDA on its official letterhead.

The operations of both the IBRD and IDA resemble those of a regular bank in the sense that they both grant loans and credits to member countries. However, the World Bank (i.e., IBRD and the IDA) is not a bank, in the common usage of the word, but one of the many specialized agencies of the United Nations and, consequently, does not operate for profit, for one thing (Peet 2003).

The purpose of the World Bank as stated in the original Bretton Woods Articles of Agreement is fivefold:

- a) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.
- b) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on

reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

- c) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balance 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 labour in their territories.
- d) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.
- e) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to peacetime economy (the World Bank 2005f)."

The World Bank is owned by its member nations, or shareholders. The number of shares and votes held by members varies somewhat, but not exclusively, in accordance with the size of their respective economies. Thus, as with the IMF, the World Bank is dominated by the rich nations of the North, most notably, the United States, which now holds 16.41 *per cent* of the total votes; other influential members are Japan (7.87 *per cent*), Germany (4.49 *per cent*), United Kingdom (4.31 *per cent*), and France—4.31 *per cent* (World Bank 2005g). At the same time, to be fair, we must note that the IBRD has an allotment of 250 basic votes to each member to help reduce some of the economy-based vote disparities.

The member countries are represented at the Bank by a Board of Governors, which is the final decision-making body of the institution. These Governors meet once a year at the Bank's Annual Meetings. The day-to-day operations of the Bank are delegated to the Bank's 24 Executive Directors, five of whom are appointed by the top five shareholders—United States, United Kingdom, France, Japan, and Germany—with the remainder elected by the other members. The Executive Directors meet as often as the business of the Bank warrants. They deliberate and decide on loans, grants, and other applications to the Bank—in conjunction with several Vice Presidents—before making proposals to the President for final approval (World Bank 2005g). The Presidency of the World Bank is customarily given to the United States (which also has the largest number of shares and votes) as part of a 'gentlemen's agreement' between United States and Europe in exchange for the *de facto* right of Europeans to nominate the head of the IMF. Thus, whereas the IMF has always been headed by Europeans, all the past and present Presidents of the Bank have been American citizens; they include Eugene Meyers (June 1946-December 1946); John J. McCloy (March 1947-June 1949); Eugene R. Black (July 1949- December 1962); George D. Woods (January 1963-March 1968); Robert S. McNamara (April 1968-June 1981); Alden W. Clausen (July 1981-June 1986); Barber B. Conable (July 1986-August 1991); Lewis T. Preston (September 1991-May 1995), James D. Wolfensohn (June 1995- May 2005); and Paul Wolfowitz, from June 2005 (World Bank 2005h) to June 2007.

4.3.2. Financial Resources and Lending Facilities

The World Bank raises its funds primarily from the private financial market through the sale of bonds, discount notes, and other debt securities (Peet 2003). On an annual basis the Bank raises anywhere from US\$12 to US\$15 billion; for the 2004 fiscal year, for instance, it raised US\$13 billion (the World Bank 2005i). The Bank uses its AAA-credit rating (derived mainly from the guarantees of the OECD governments) to procure funds from the international capital market, which it, in turn, lends to its middle- and low-income member countries. In addition to these debt products, the Bank

derives some of its financial resources from interest on its loans, members' capital subscriptions, and regular donations from its rich members (Peet 2003). IBRD loans are for the most part given at near-market terms, but with relatively longer maturity periods, ranging from 15 to 20 years with an additional three-year grace period. The main recipients of IBRD loans are middle-income countries, such as those in Asia, Latin America, the Caribbean, and Eastern Europe. In 2004, for instance, out of the total lending of US\$11 billion by the IBRD, a whopping 45 *per cent* went to Latin America and the Caribbean, with the remainder going to the regions of Europe and Central Asia (27 *per cent*); East Asia and Pacific (15 *per cent*), Middle East and North Africa (9 *per cent*), and South Asia—4 *per cent* (World Bank 2005i).

The IDA, on the other hand, concentrates on the very poor countries of the world with interest-free loans, credits and, more recently, grants; the latter is becoming all the more popular due to the Bank's increasing zeal towards poverty reduction. Unlike the IBRD, which depends mainly on the sale of bonds for much of its financial resources, the IDA is financed mostly by donor countries, which meet every third year to pull their resources together for future IDA operations. IDA loans generally have longer maturity dates: ranging from 35 to 40 years, with as much as a 10-year grace period. To qualify for IDA loans, the member nation should have no more than US\$865 in *per capita* gross national income. Unsurprisingly, Africa features quite prominently in IDA loans. During the 2004 fiscal year, for instance, Africa topped the list of all regions that received IDA funding, with a share of 45 *per cent* of the nine-billion-dollar total for the year (World Bank 2005i). Other notable regions in this regard include South Asia (33 *per cent*) and East Asia and Pacific (10 *per cent*), with the remaining 12 *per cent* going to the countries of the Middle East and North Africa; Latin America and the Caribbean; and Europe and Central Asia (World Bank 2005i).

The World Bank has two main lending facilities, namely, *investment lending* and *development policy lending*—the latter replaced the erstwhile Structural Adjustment Lending Facility recently (World Bank 2005j). Investment lending, which constitutes about 75 to 80 *per cent* of the Bank's lending, is used to fund a wide range of physical infrastructural projects, social services, and post-conflict reconstruction. Development policy loans, which constitute about 20 to 25 *per cent* of the Bank's lending, are geared toward long-term structural reforms. They are usually granted by the Bank, working in conjunction with the IMF. Until recently, development policy loans were used primarily to support macroeconomic policy reforms and sectoral reforms in such areas as agriculture, forestry, and mining, under the Structural Adjustment Programs (SAPs), within the overarching framework of neoliberalism and the Washington Consensus. The latter refers to an unwritten consensus emanating from long-standing consultations between several Washington, DC-based institutions (e.g., the IMF, World Bank, US Congress and US Treasury Department), which emphasize macroeconomic stability, free-trade, privatization, and financial deregulation in their dealings with the countries of the South (Stiglitz 2003:16; De Rivero 2001:56). It was following intense public outcry and protest from civil society organizations, academics, policy maker, and many other concerned groups that the Bank recently replaced its adjustment lending with the development policy lending, which now covers not only structural and sectoral reforms, but also initiatives in poverty reduction, capacity building, democratic governance, tax reforms, civil service reforms, human development, and legal and regulatory reforms. Like the investment loans, the Bank's development policy loans are given to middle- and low-income countries. With the increasing realization that development programs could hardly succeed without a deep sense of control on the part of the borrowing nation and its citizenry, the Bank is now using this policy-based lending to promote national ownership of programs, by encouraging broader consultations with the public and stakeholders in the design and implementation of its development programs (World Bank 2005j).

4.3.3. Development Activities and Paradigm Shifts over the Years

Currently the World Bank is involved in more than 1,800 development projects in nearly all socioeconomic sectors across the developing world. These projects range from providing micro-credit in Bosnia Herzegovina, improving access to health care in Mexico, helping raise awareness about HIV/AIDS in Guinea and the Republic of South Africa, enhancing the education of girls in India and Turkey to assisting in the reconstruction of post-conflict East Timor, fighting river-borne diseases in Senegal, and assisting in rural development projects in Tanzania (World Bank 2005b,k; Mallaby 2005).

The striking feature of World Bank funding in recent years is its growing support for social services (e.g., education, health, and nutrition) and environmental sustainability (Prah 2005; Peet 2003). In fact, the Bank is now the leading external financier of education projects in the world, with some US\$30 billion in loans and credits committed to more than 150 such projects in about 83 countries in 2005 (World Bank 2005c and 2005k). Similarly, the Bank leads all external funders in the fight against HIV/AIDS for which it has committed billions of dollars in the developing world, especially in Africa—home to as much as 70 *per cent* of the world's 42 million infected people (World Bank 2005k). With regards to environmental sustainability, the Bank is now involved in a host of biodiversity, water resources, and pollution control projects in conjunction with several environmentally conscientious groups and foundations such as the MacArthur Foundation, Conservation International, and the Washington, D.C.-based Global Environment Facility (World Bank 2005k).

Yet, until the 1960s the Bank's preoccupation was almost exclusively on large physical infrastructural projects, especially those dealing with hydro-electric power dams, transportation and, to a lesser extent, telecommunication. Meager support was given to the social sector, be it education, healthcare, or sanitation (Prah 2005; Peet 2003). That was hardly surprising for a number of reasons: First, the prevailing development wisdom at that time saw economic growth, as measured by macroeconomic indicators such as gross national product or growth rates, as the surest path to development. A corollary of this thinking was the belief that the best way to accomplish economic growth was through capital investments in physical infrastructure, such as roads and power plants, to help alleviate what was purportedly the main obstacles to progress: physical barriers, frictions of distance, and poor rural conditions. Secondly, from the perspective of the Bank, which was then operating primarily as a financial, rather than a development, institution, investments in such tangible, mega-projects were preferable, if not more valuable, because they were naturally readily visible, easily defined, and more amenable to quantitative measurements and direct monetary returns. We must remember too that during that time, a far greater proportion of the Bank's financial resources (at least, until the creation of the IDA in 1960) emanated from the sale of bonds to Wall Street investors whose ideas of financial prudence couldn't be informed less by the social and ethical ramifications of capital investments. Many were those investors who actually believed that investments in social provisions (e.g., education, water, healthcare, etc.) did not normally, or at least directly, increase the borrowing country's ability to repay its loans. Thirdly, from the standpoint of national politicians, such mega-projects offered, as have always been the case, good opportunities for self-serving ceremonies, monuments, and politically expedient photo-ops, not to mention avenues for corruption and favoritism. So strong was the emphasis on mega infrastructure projects that, between 1948 and 1961, power and transportation projects accounted for a whopping 87 *per cent* of the Bank's lending to less developed nations (Prah 2005)

This tilt in the Bank's funding towards physical projects continued till the late 1960s when Robert McNamara used his presidency (from 1968-1981) to move poverty reduction to the centre of the Bank's operations. This transformation—informed by the basic needs approach to development that was becoming popular among academics and policy makers at the time—questioned the veracity of

the prevailing orthodoxy that gave primacy to economic growth, and the attendant emphasis on physical capital at the expense of human capital. It was becoming clear to many observers then that outcomes of investments in physical infrastructure were no where near what could be possibly ascertained through investments in human capital, with such provisions as good, affordable education, health care, nutrition, family planning and the like. And as the basic needs approach gained currency, the Bank began to see itself not so much as a financial institution as a development agency, whose aim was to help alleviate poverty and improve the human condition in the developing world. Notable example of the Bank's basic needs lending in this early period included a 1970 Fertility Planning loan to Jamaica; a 1974 education loan to Malaysia and another in the same year to Oman to construct and equip that country's very first primary teacher training institution; and the highly successful *Onchocerciasis* (river blindness) Control Program of 1974, undertaken in conjunction with WHO and UNDP in West Africa (World Bank 2005b,k).

Despite the Bank's turn towards the social sector (including population-control), loans in this sector never exceeded those approved for mega-infrastructure projects, let alone replaced them. For instance, the Bank's very first financing for family planning, which went to Jamaica in 1970, amounted to US\$2 million. By the end of 1973 fiscal year, the Bank's total lending for population control worldwide had increased to US\$22 million—this obviously amounted to a sizeable relative increase; yet it constituted a mere 3 *per cent* of the Bank's lending for transportation (US\$682 million) and about 7 *per cent* of its funding for electric power (\$322 million) during the same fiscal year (Prah 2005). What makes this disparity even more remarkable was the fact that McNamara for one saw the population problem as one of the greatest obstacles in poverty alleviation (Prah 2005).

Peet (2003) speculates that the motives behind McNamara's move towards poverty alleviation “seem to have combined genuine, compassionate generosity with the realization, intensified by the Vietnam disaster, that US national security was incompatible with a world of poverty” (p.119). One could also assert that the then US President Lyndon Johnson's war on poverty, promulgated through his *Economic Opportunity Act* of 1964; the civil right movement of the time, which culminated in the signings of the *Civil Rights Act* of 1964 and the *Voting Right Act* of 1965; and the introduction of Medicare and Medicaid in 1965 made poverty alleviation an acceptable, and perhaps even palatable, social theme in the minds of many American citizens and investors then. Equally plausible is the conjecture that some of the North's appetite for poverty alleviation in the South then emanated from the dynamic realities of the Cold War: It was not unreasonable then to argue for poverty alleviation funding on grounds that it was an investment in the fight against the spread of communism and in world peace. Not only that, by the late 1960s and the early 1970s, criticisms over the environmental devastations wrought by many of the Bank-sponsored mega dams, such as the Volta River Project and the Akosombo Dam in Ghana, the Ganges-Kobadak Irrigation Project in Bangladesh, and many others in places like India, Pakistan, Bangladesh, and Thailand were becoming highly vociferous not only in the development circle but also in the popular press (Caufield 1996). In fact, such criticisms continue to follow the Bank today, with even increasing intensity, given its enduring interest in funding such projects across the world (the World Bank 2005b).

By the early 1970s, the Bank was putting more of its basic needs funding into agricultural and rural development projects which culminated in the popular notion of “integrated rural development” during the McNamara era (World Bank 2005b). In a landmark address to the Bank's Board of Governors, held in Nairobi, Kenya, in September 1973, McNamara proposed a strategy for integrated rural development with small-scale farming at its core (the World Bank 2005b). However, much of the Bank's efforts in agriculture, in particular, and rural development, in general, were frustrated by its acute dearth of insight into the land tenure systems and the cultural values of many of the agricultural communities it sought to assist. And, as Peet (2003:120) points out, “well before the end of

McNamara's presidency, the ardour had gone from the poverty initiative;...debt and balance of payment in the Third World became leading issues, with structural adjustment as the solution."

4.3.4. World Bank and SAPs

Joseph Stiglitz in his *Globalization and its Discontent* attributes the Bank's (and the IMF's) dramatic shift towards SAPs to the neoliberalism advocated by the Thatcher and Reagan governments in the United Kingdom and the United States, respectively, during the 1980s. As he puts it "the IMF and the World Bank became the new missionary institutions, through which these ideas were pushed on the reluctant poor countries that often badly needed their loans and grants" (Stiglitz 2003:13). A similar view is held by Harvey (2003), who observes—under the pithy sub-heading of "Accumulation by Dispossession" in his *The New Imperialism*—that:

"Together with Reagan, she (Thatcher) transformed the whole orientation of state activity away from the welfare state and towards active support for the 'supply-side' conditions of capital accumulation. The IMF and the World Bank changed their policy framework almost overnight, and within a few years neo-liberal doctrine had made a very short and victorious match through the institutions to dominate policy, first in the Anglo-American world but subsequently throughout much of the rest of Europe and the world" (p. 157-58)."

The changing of the guard from the McNamara presidency to that of William Clausen in 1981 provided an additional impetus for the rapid diffusion and acceptance of the neo-liberalism at the Bank. For one thing, whereas Hollis Chenery, the Harvard development economist who served as adviser to McNamara, was a strong believer in Keynesian economics, especially in its acknowledgement of the important role of the State in development, the Stanford University professor Anne O. Krueger, who became the Chief economist under Clausen (and now the first Deputy Managing Director of the IMF since 2001), saw the State as a key rent-seeking instrument in the developing world and, thus, a major part of the development problem that needed redress (Stiglitz 2003:13). Under the influence of Clausen, Krueger and many other "free marketeers"—to borrow Dunkley's (2004:1-2) term—privatization, liberalization, deregulation, and commodification within the framework of SAPs became the mantra of the Bank in its dealings with developing countries. This initiated a new regime of *accumulation by dispossession*, entailing the release of "assets held by the state or in common into the market where overaccumulating capital could invest in them, upgrade them, and speculate in them" (Harvey 2003:158). This regime involves (il)legal and (un)subtle mechanisms of predation, which, in turn, boost the material resources of dominant groups, institutions, and nations, while at the same time dispossessing or bilking the subaltern and the poor in the global South.

The Bank works with the IMF in pursuance of its adjustment programs. The latter, which is generally considered the senior partner in the ensuing division of labour, takes the lead with its short-term stabilization programs aimed at resolving macroeconomic problems relating to trade deficit, inflation, monetary policy, and the like, before the Bank comes in with its long-term structural adjustment-proper, dealing with anything from government spending and taxation, privatization and divestiture, and financial liberalization and deregulation to international trade policy, labour market regulations, and civil service reforms.

Even though much of the theoretical and empirical grounding for the Washington Consensus, upon which the adjustment programs are based, came from responses to the economic problems that were somewhat specific to Latin American countries (Stiglitz 2003:16), by the late 1980s adjustment programs were being applied quite religiously to virtually all countries of the South. We thus find fairly similar SAPs conditionality across the developing world, most notably in sub-Saharan Africa,

where SAPs have dominated economic policy making since the early 1980s (Noorbakhsh and Paloni 2001). SAPs conditionality generally entails privatization, trade liberalization, currency devaluation, export promotion, the removal of government subsidies and price control mechanisms, and cut-backs in government jobs, wages, and social spending (Mosley, Harrigan and Teye 1995). The immediate effects of SAPs have been economic austerity, experienced through price hikes for erstwhile subsidized essential goods and services; the proliferation of user fees in social services; rising unemployment, poverty, and many such social predicaments. No wonder SAPs-induced riots have become a common fixture of the social resistance movement in the South: From Algeria, Benin, Nigeria and Ghana through Sudan and Uganda to Zambia, in the case of Africa; from Argentina, Bolivia, and Dominican Republic through Ecuador, Jamaica, and Mexico to Venezuela, in the Latin America and Caribbean region; and from Indonesia and Jordan through Malaysia and the Philippine to Russia, in the case of Asia and Eastern Europe (Peet 2003).

At the same time, it is important to note that the intense criticisms that followed the Asian and Latin American financial crises, among many other SAPs-induced social and economic problems in the developing world, prompted the Bretton Woods institutions to move into what some now call a post-Washington Consensus—involving a shift from extreme, market-friendly neo-liberalism towards poverty reduction; egalitarianism; democratic governance; capacity building; and civil society, social capital, and diaspora mobilization initiatives.

4.3.5. Collaboration with IMF and other Institutions

The Bank has long-standing working relations with the IMF. Indeed, besides SAPs, the Bank works with the IMF on a number of important global fronts—by way of high-level coordination, regular meetings, exchange of information, and joint mission and programs—of which the Heavily Indebted Poor Countries (HIPC) initiative and the Financial Sector Assessment Program deserve special mention here (Mallaby 2005; World Bank 2005c,l).

Following years of public outcry—and intense internal advocacy by James Wolfensohn, in particular, who ‘fought’ against the IMF and most of his own staff at the World Bank—over the acute financial constraints wrought by the debt service obligations of ‘Third World’ nations, the Bank and the IMF launched the HIPC (more precisely HIPC I) program in 1996 to provide a framework by which creditors could provide debt relief to the poorest and most heavily indebted countries of the world. Unlike previous *ad hoc* debt relief programs, the HIPC program is a comprehensive, multi-step initiative, which enjoys the support of nearly all multilateral creditors (the World Bank 2005l). In 1999, the program was revamped under HIPC II, with intense pressure from *Jubilee 2000* (J2K), to provide even faster, deeper, and broader relief by lowering the threshold of eligibility and by instituting new guidelines by which countries could move from the ‘decision’ to ‘completion’ points faster. HIPC II has one important conditionality: that all freed resources be used for poverty reduction, in pursuance of which national governments are required to provide a comprehensive Poverty Reduction Strategy Paper in consultation with the general public, key stakeholders, and civil society organizations.

Some 38 countries are currently potentially eligible for debt relief under HIPC, of which 32 are in Sub-Saharan Africa (World Bank 2005l). The Bank’s main contribution to the HIPC involves the forgiveness annual debt service due on IDA debts and the establishment of the HIPC Trust Fund to support and reimburse the debt relief provided not only by the IDA but also by other regional and sub-regional multilateral creditors. The IMF for its part supports the initiative with assistance provided through its Poverty Reduction and Growth Facility (IMF 2005; World Bank 2005l).

Another high-profile development initiative on which the Bank is collaborating intensively with the IMF is the Millennium Development Goals (MDGs) promulgated in September 2000 at the United Nations Millennium Summit. Essentially, this declaration aims at reducing the level of poverty by half by 2015, in addition to initiatives to promote general equality, improve maternal health, achieve universal primary education, combat HIV/AIDS, and promote environmental sustainability. The Bank and the IMF contribute to the attainment of these lofty goals with their Global Monitoring Report (GMR), which provides an annual assessment of the progress made regarding the MDGs. Another noteworthy collaboration between the Bank and IMF is done through the Financial Sector Assistance Program (FSAP), which was launched in 1999 to boost the resilience of member countries' financial sectors, by identifying the strengths and weaknesses of national financial systems and making recommendations for improvement, if needed.

Besides the IMF, the Bank collaborates with many other international institutions, such as the WTO, WHO, FAO, UNICEF, and UNDP, depending on the particular trade-, health-, poverty reduction- and development-related issues at hand. For instance, the Bank is now working with the UNDP to provide basic public goods and to create conducive environment for the restoration of functioning national government in war-ravaged Somalia. Similarly, the Bank has teamed up with WHO in the global fight against diseases such as HIV/AIDS, *Tuberculosis*, *Onchocerciasis* and, more recently, the Avian (bird) flu outbreak in Asian countries such as Cambodia, Vietnam, and China. Also, since the mid-1990s, when the Bank started hiring civil society specialists to work in its headquarters and regional offices worldwide, it has been collaborating with a wide range of civil society organizations, such as indigenous peoples' organizations, labor unions, and faith-based groups etc. (the World Bank 2005i,k).

4.3.6. Prevailing Critiques and Polemics

For decades now the World Bank has projected an image of a development institution geared towards improving the human condition across the globe, in general, and in the developing world, in particular. To be fair, the Bank has made significant contributions to world development over the years: In addition to providing loans and grants to middle- and low-income countries and helping in the reconstruction of war-torn nations from Angola, Burundi, Rwanda, and Somalia in Africa through the Balkans (i.e., Bosnia Herzegovina, Croatia, Yugoslavia, and Macedonia) to Sri Lanka and onto East Timor in the far east, the Bank has long been an active participant in the fight against global scourges such as HIV/AIDS, malaria, and tuberculosis. Additionally, the Bank remains a leading sponsor of a wide range of mega infrastructural projects worldwide.

At the same time, set in juxtaposition with the growing North-South economic inequality in the midst of ubiquitous World Bank (and IMF) sponsored adjustment programs, it is not unreasonable to accord the Bank some culpability or, at the very least, to question the authenticity of the Bank's claim to alleviate poverty—and this is exactly what a number of intellectuals, policy makers, development practitioners, and civil society organizations are doing with a chorus of hard-hitting criticisms and polemics. For the most part, criticisms of the Bank relate to the overwhelming control exerted by the Western industrialized nations, notably the US, over its operations; the environmental devastations caused by many of the Bank-sponsored mega-projects; the adverse social consequences of its adjustment programs; and the growing poverty and debt service burdens across the developing world (Caufield 1996; Stiglitz 2003; George 2001).

As with the IMF, many are those who see the Bank as nothing but an instrument of Western hegemony and neocolonialism, operating with a hidden agenda to siphon-off financial and material resources from the developing to the developed world. Even though some critics are hesitant to go as far as alleging any grand conspiracy; others, including Susan George of the Transnational Institute

and the British development scholar Robert Biel do not mince words at all. This is how Robert Biel, for instance, cast his ‘conspiracy theory’ in relation to the Bank and IMF’s adjustment programs:

“The liberal critique of structural adjustment programs (SAPs) often assumes they are wildly mistaken, but this is to forget that SAPs are not really there to help countries develop, but to integrate them into the system of the self-expansion of capital. If they make the people poorer, this could be a sign that they are doing a very good job (Biel 2000:231).”

Biel contends that the debt crisis in the developing world was (or is) hardly fortuitous. As he puts it: “In the colonial days, the local community was made subservient to the international capitalist one by introducing taxes; in order to pay these, families had to switch to cultivating cash crops. The modern equivalent is the ‘debt’ which forces countries to sell their output rather than consume it. In this way the debt crisis fitted in neatly with the overall picture. ... The ‘debt’ guarantees, in straightforward fashion, that the value generated by export promotion will not fund local development. Export earnings effectively simply become debt repayment. In remarkable fashion, the North has its cake and eats it too” (Biel 2000:237-240).

Given the Bank’s (and more so the IMF’s) common demand, until recently, for currency devaluation in the developing world—a demand that invariably makes their exports far cheaper for people in the developed world—one could not help but to be sympathetic to Robert Biel’s position, as expressed in the above quotation.

Dwelling mainly on a 1982 to 1990 dataset from the OCED, Susan George demonstrates the extent to which the Southern countries have remitted their Northern counterparts over the years through debt servicing. According to her, for the 108 months—from January 1982 to December 1990—the debtor nations of the South paid an average of US\$6.5 billion, per month, to the creditor countries of the North in interest alone. If payments of principal are added to the equation then the South-North remittance goes to an average of US\$12.45 billion, per month, for the 108 months covered. Susan George further estimates that during that period, the North-South resources flow totaled some \$927 billion, compared to a South-North resource transfer of \$1,345 billion (in debt service alone). This amounts to a net South-to-North outflow of US\$418 billion—which, according to her, is equivalent to the South supporting the North to the tune of six times the Marshall Plan with which the US financed the postwar recovery of Europe.

Based on these calculations, it is probably not controversial to agree with Susan George (2001:207) in observing that: “If the goals of official debt managers (i.e., the World Bank and the IMF) were to squeeze the debtors dry, to transfer enormous resources from South to North, and to wage undeclared war on the poor continents and their people, then their policies have been an unqualified success. If, however, their strategies were intended—as these institutions always claim—to promote development beneficial to all members of society, to preserve the planet’s unique environment, and gradually to reduce the debt burden itself, then their failure is easily demonstrated.” Such profoundly perturbing revelations about South-North resource transfer could also be found in a 1989 UNCTAD report which noted that since 1983, capital outflows from developing countries to the developed world exceeded that going in the reverse direction (UNCTAD 1989:38). What is perhaps worthy of reiteration here is the belief among many analysts that much of this resource transfer is instigated, or at least overseen, by the World Bank (and the IMF and, to some limited extent, the WTO)—the ‘supranational clergy’ or the ‘unholy trinity’ to borrow the phrases of De Rivero (2001) and Peet (2003), respectively.

This is how Abdoulaye Wade (once a Minister of State in Senegal) puts it in the specific case of Africa: “Two facts emerge from the World Bank’s accounts. The first is that Africa is paying this

institution more than it receives from it. Which means that, contrary to the received wisdom, African poverty is financing the long-term wealth of the rich countries. The second fact is that the Bank, on a global level, is in financial difficulties. It is therefore thanks to our repayments that it manages to survive (quoted in Rahnema 2001:208).”

With its exclusive focus on, and active involvement in, the economies of the developing world, coupled with the overwhelming power wielded by its First World members via the skewed voting formulae, it is not difficult to see why critics would perceive the Bank as an instrument of re- or neo-colonialism, especially given the widening North-South income gap. A corollary of the neocolonization charge is the attack that the Bank often uses its loans, and their attendant conditionalities, to interfere in the domestic affairs of developing countries and, in extreme cases, to undermine the basic sovereignty and political power of poor nations with highly austere conditions, which inexorably engender mass disenchantment (Mosley, Harrigan, and Toye 1995). We thus find De Rivero (2001), for instance, lamenting that:

“[U]nder the supervision of the IMF and the World Bank, the so-called developing countries....have lost democratic control of their national economic and financial policies. This supranationality is continuing to spread, and threatens even to overrun political aspects that were formerly the exclusive province of the sovereign state, such as state objectives, governance, and military expenditure.” (p. 55) Besides the alleged erosion of sovereignty, there are critics, such as Benjamin Barber (1996), who contend that the Bank and kindred institutions have jeopardized democratic development in many former Soviet Republics, in particular, by focusing strictly on economic policies and programs to the virtual neglect of social issues such as income distribution and poverty. According to Barber (1996:15) “this is perhaps why majorities in all but a handful of ex-Soviet lands have been busy reelecting former Communist officials ... to their new democratic legislatures.” Not only that, until the advent of the second and third generations of SAPs in the late 1980s and of the post-Washington Consensus in the late 1990s, the Bank was not really concerned about democratic and institutional reforms in the poor nations it dealt with. The general belief was that democracy was, perhaps, not conducive for economic reforms—hence the much-touted ‘authoritarian advantage hypothesis’ by which the human right abuses of such regimes as the Ferdinand Marcos government in Philippines, Augusto Pinochet’s in Chile, and Jerry Rawlings’ in Ghana were willfully overlooked by the Bank in pursuance of its SAPs. Writing on the specific case of Ghana, Boafo-Arthur (1999:17) had this to say: “the IMF and the World Bank could not have been oblivious to the various extra-legal measures put in motion by the PNDC (i.e., the Provincial National Defense Council government of Rawlings). The institutions simply turned a blind eye to the regime’s excesses for the sake of the program.” In fact, the tendency for new democratic governments to avoid the austere conditionality of the Bank, for fear of losing political votes, had been the main worry of the Bank. However, the Bank knows better now: for one thing, SAPs and other Bank initiatives have a better chance of success when pursued under democratic governance or side-by-side with democratic and institutional reforms relating to state capacity, rule of law, and property rights etc. (Przeworski and Limongi 1997).

While the Bank uses its conditionality to *purportedly* curtail corruption, economic mismanagement and other vices, and to promote specific economic policies and sectoral reforms, there are some indications that conditionality does not work well, especially as an anti-corruption tool, due to the basic economic problem of fungibility—the idea that money being used for one purpose inevitably frees up other money for other purposes which may or may not be productive or honest (Stiglitz 2003:46). The idea that the bank uses its conditionality to curtail corruption and economic mismanagement is debatable, though (and hence the emphasis on “purportedly”), given the bank’s lending history in countries such as Indonesia and Lesotho.

The Bank has also come under intense criticism for its dogmatic adherence to neoliberal principles, couched in the Washington Consensus. In particular, critics see the Bank's insistence on trade liberalization in developing countries as hypocritical, given that many of the advanced nations which control the Bank keep their own markets protected, especially when it comes to agricultural commodities for which developing countries have the so-called "comparative advantage." The assertion that 'free trade,' together with the theory of comparative advantage on which it is based, is a myth is gaining increasing currency even in mainstream academic discourse. And perhaps no where is this case more forcefully presented than in Graham Dunkley's *Free Trade: Myth, Reality and Alternatives* (2005), where he demonstrates that indeed several leading economists have long been skeptical about the free trade doctrine than we are commonly led to believe. Like many critics, Dunkley is of the view that the prevailing free trade doctrine is "over-simplified, based unduly on questionable myths and assumptions ... [entailing] changes which, along with many technological and developmental pressures, are undemocratic or non-consensual" (p.11). At the end of the day, we must note that most of the advanced countries, including Great Britain, the United States, and Japan, have long used selective protectionism to protect their infant industries and economic sectors for which they lack competitive edge.

As Chomsky bluntly puts it: "One reason for the sharp divide between today's first and third worlds is that much of the latter was subjected to 'experiments' that rammed free market doctrine down their throats, whereas today's developed countries were able to resist such measures" (1998:361). A similar point is echoed by Chang and Grabel (2004) who note that "Britain and the USA, the most strident free-trade missionaries in the world today, actively utilized protectionist policy during the early years of their development" (p. 10). The past tenses used in the two preceding quotations should not deceive anyone into thinking that protectionism in the First World is perhaps a policy of the olden days; a complete reading of Chang and Grabel (2004) and Chomsky (1998) would show that protectionism and subsidies are still prevalent not only in the agricultural sector, but also in the defense and other high-tech industries of the West. No wonder allegations of disingenuousness continue to follow the Bank in its frequent insistence on free trade in the developing world.

Another neoliberal mantra that has come under simmering critical fire is privatization. A long-standing SAP conditionality is for borrowing nations to undergo drastic privatization and divestiture, on grounds that competitive private firms are likely to perform economic activities more efficiently than the State. While there is some truth to this, the Bank (and the IMF) has generally approached privatization rather rigidly, as though the State has very little or no role in the economy, be it in the production of utilities, such as water and electricity, or in the provision of social services, such as education, healthcare, and sanitation. Undoubtedly, privatization often turns State-owned enterprises from losses to profit. However, this is frequently done by way of wage freezes, employment retrenchments, and other precarious labour arrangements, most of which create socioeconomic problems of their own. Moreover, the riddance of "Third World" governments from the economy often creates massive economic gaps, avenues for prize gouging, and monopolistic tendencies among private entrepreneurs.

Stiglitz, for instance, writes of a situation in Côte d'Ivoire where many university students could not afford internet connections due to the high prices imposed by a private French firm which monopolized the telephone business in that country following privatization. And dwelling on his concept of 'accumulation by dispossession,' David Harvey demonstrates, in his characteristic thought-provoking manner, how the Bank and other neoliberal advocates use privatization to facilitate capital accumulation, benefiting Westerners and their transnational corporations. "If capitalism has been experiencing a chronic difficulty of over-accumulation since 1973," writes Harvey (2003), "then the neo-liberal project of privatization of everything makes a lot sense as one way to solve the problem... as it helps to create a stock of devalued, and in many instances undervalued,

assets in some part of the world, which can be put to profitable use by the capital surplus that lack opportunities elsewhere” (p.149-150). And within the developing nations themselves, government officials and politicians have routinely used privatization to reward their cronies by selling State-owned enterprises to them at near-steal prices, at the expense of the general public.

Beside SAPs, perhaps no other area of the Bank’s operations has engendered longer-standing and more vociferous public outcry than its funding of mega dams in developing countries. The numerous international protest and demonstrations over the nearly 400 Mayans who were massacred for refusing to relocate from their ancestral lands in the early 1980s for the construction of the Chixoy Dam in Guatemala; the more than 25,000 people whose fishing grounds were destroyed in the construction of the Pak Mun Dam in Thailand; and the thousands more who were displaced by the Bujagali Falls Dam in Uganda, the Nam Theun 2 Dam in Laos, the Ganges-Kobadak irrigation project in Bangladesh, and the Sardar Sarovar Dam on the Narmada Valley in northwest India attest to this. One would be hard pressed to find any other mega project that has brought greater international disrepute to the Bank, with regards to its efficiency, than the Sardar Sarovar project, whose adverse environmental impacts are well documented in the now famous *Morse Report*.

Authored by an independent review team—led by the former UNDP chief Bradford Morse and his deputy, the Canadian human rights lawyer Thomas Berger—this report (published in 1992) invigorated the international outcry that compelled the Bank to finally stop financing the Sardar Sarovar project in India. With hints from the Morse Report to the effect that the inefficiencies besetting the Sardar Sarovar project might be more widespread, the Bank undertook an internal review of its loan portfolio under the leadership of Willi Wapenhans, a former Vice President of the Bank. And “lo and behold,” after reviewing about 1800 World Bank projects in some 113 countries, Wapenhans noted in his review (now known as the *Wapenhans Report*, leaked to the public in late 1992) that as much as 37.5 percent of the Bank’s project completed in 1991 were ‘unsatisfactory’, up from 15 percent in 1981, with the worst performance recorded in the areas of water supply, sanitation, and agriculture.

The Wapenhans Report also noted that the Bank had failed to enforce a whopping 78 percent of its own conditions in loan agreements on projects completed by 1991. There is little doubt from any objective reading of both the Morse and Wapenhans Reports that several World Bank projects have had immense adverse consequences regarding loss of life, environmental destruction, and debt service burdens in the developing world (Caufield 1996; the World Commission on Dams 2005). Thus, the Bank’s stated mission to reduce poverty leaves much to be desired; and its foot-dragging on the 2005 Gleneagles Declaration on Africa—by which the G7 (or the G8 minus Russia) seeks to provide some \$40 to \$55 billion worth of debt relief to Africa—feeds into its disingenuous and imperialistic image, at least in the eyes of critics. Certainly, the Bank needs to do more, given the deteriorating human condition and the worsening debt situation in the developing world.