The Successes and Failures of the World Bank on Global Poverty

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Created shortly before the end of World War II in 1944, the World Bank is a multilateral institution, which together with the International Monetary Fund (IMF) and the World Trade Organization (WTO), is part of what has come to be known as either the Bretton Woods Agreement or from a more skeptical perspective as 'unholy trinity' (Peet, 2003: i) or 'three sisters' (McNeill, 2003:158). Initially created to assist the redevelopment of war torn Europe, the World Bank has evolved to a global institution concerned with both the enhancement of liberal trade policies across the planet, but also with the reduction of poverty through assisted development. 67 years after its creation this complex global financial institution has come to be fiercely challenged, by both theorists such as Bruce Rich or Paul Cammack, but also by numerous other voices especially from within the global civil society. The main accusations Rich points out are the lack of efficiency in promoting global development as well as diminishing the poverty phenomenon at the planetary level (Danaher, 1994). On the other side of the accusation stand thinkers like Sarwar Lateef express their belief in the high level of effectiveness the World Bank's development policies and projects have had on the world's poor populations (1996). It is fair to recognize the fact that the two contradicting views do not provide the field of International Political Economy with a stable and trustworthy dimension of the effectiveness of the World Bank as a global financial development institution. Having identified the problem, this research paper, by overcoming some of the data availability problems, will seek to obtain a clear, explanatory concept by combining the two views and therefore attaining a theoretical and empirical middle ground. Furthermore, the general structure of the argument will first present both the case for and against the World Bank, so that towards the final part of the paper the reader can be provided with a balanced view of the matter at hand, a view that will be further conceptualized in the concluding arguments.

Since 1944 the World Bank has constantly developed its policies, their focus and its administrative structure, in an attempt to better tackle the ever-changing poverty challenges. In the early years of functioning the World Bank's main focus was on providing aid to reconstruct the European economies as well as 'guaranteeing loans made by private banks for projects in poorer, developing countries' (Rich in Danaher, 1994:1). The spectrum of the projects in the 1945-1980 period, extended from road construction or building of damns to adjusting to a limited extent national policies. By the 1980s the focus of the Bank was shifting by broadening from policies directed to project assistance to the introduction of broader Structural Adjustment Programs (SAPs) similar and complementary to those the International Monetary Fund had already introduced. SAPs were lending programs a country would have to adhere to in order to receive the financial support from the World Bank. The aim of the World Bank's SAPs was similar to the IMF's program, which aimed at imposing economic and especially trade liberalization in the developing world. The programs were based on the concept that privatization, domestic deregulations on trade, macroeconomics and the labor market will eventually bring about social gains (WB, 1997). Some good examples of the validity of the rationale behind SAP schemes are provided by the countries part of the 'East Asian miracle' (Glick and Moreno, 1997:1), countries such as Taiwan, Hong-Kong, Korea or Singapore, which due to the liberalization of their economies have experienced an unprecedented economic boom, 'becoming richer than many of the former colonial powers' (Lateef, 1996:292). Furthermore it is important to mention that in the process a staggering figure of over 230 million people have been lifted out of poverty, while living standards have also improved for those remaining in poverty (Lateef, 1996).

On the other hand due to problems with conditionality 'overloading' as well as lack of good governance in the majority of countries on the African continent, most of the SAPs implemented have in some cases made the situation worse instead of improving it. A good example is Zambia, a country which after gaining independence in 1964 had a relatively healthy domestic economy based on the export of copper and the production of metal (Fundanga in Onimode, 1989). After concluding the 1973 Stand-by Agreement with the IMF Zambia benefited from loans from other international actors such as the British government or the World Bank. The liberalization of the Zambian economy has led to a dramatic increase in the public debt and while Zambia failed in 1987 to secure a new agreement with the IMF, global financial institutions such as the World Bank have declined any further payments to the Zambian government. Drawing on past experience, in the 1990s the World Bank has shifted its focus on the problems behind the failures of its financial products in the developing world. Such problems include the issue of fund mismanagement by the local authorities and the lack of good governance in many of the recipient countries (McNeill, 2003). Proof of the Bank's commitment to improve its services is the large number of reports on the efficiency of SAPs as well as subsidies to areas as diverse as Fisheries or Agricultural technology. It is in such documents that the World Bank has emphasized on issues such as the effects of its financial mechanisms on the environment (Milazzo, 1998). Building on that, the Bank has further emphasized the concept that the 'ideal state is a minimal one, but one that is highly efficient in carrying out economic reforms' (Abrahamson in McNeill, 2003:69).

Furthermore, President McNamara embarked on a program to combat poverty but also other problems associated with it such as environmental protection standards. McNamara went further to suggest a strong link between policies that are alleviating the conditions of the poor and those protecting the environment, by stating that 'by helping the poor the Bank is helping the environment' (Rich, 1994:82). This is fairly true especially if we are to consider the situation in developing countries where people in order to assure their daily subsistence engage in actions damaging the environment, the most visible concern being deforestation (WB, 1997). Although it can be argued about McNamara's policies to have suffered from a lack of accountability and an inefficient top-down control, this should not affect the relevance of the World Bank as whole and especially its effectiveness. This argument holds especially if we are too analyze the improvements McNamara's successors have made and how they have improved the levels of efficiency of the World Bank's poverty target programs. A good example is President Wolfensohn who has provided the World Bank with a new set of strategies such as the development and 'strengthening of partnerships at a global and most important local level and a focus on sustainable development through a more integrated approach to development' (Cammack, 1998:6).

Furthermore the World Bank has convincingly changed by implementing new concepts such as 'Knowledge Bank' and 'country ownership' (Cammack, 1998: 6) which besides giving each state the responsibility to create 'Poverty Reduction Strategy Papers (PRSP)' (Levinsohn, 2002:3), provide a more case specific approach to the successful implementation of the financial products provided by the World Bank especially through its extensive know-how on a large span of topics. These papers have been implemented especially during the presidency of Stiglitz which has significantly made poverty action by the World Bank more effective. Other important developments of the World Bank in the field of combating poverty have been the establishment of Poverty Sector Board, the introduction in its SAPs of ' 'meso-policies' (Stewart, 1995:193) such as 'safety-nets' (Mosley et al., 1995:313) to protect the poor from possible policy failures, a GMT program to promote gender-equality in Sub-Saharan Africa and the conduct of thorough poverty assessments at the global level with 90% of the world's poor being now officially accounted for (WB, 1997).

Other projects aimed at dealing with the poverty issue have been the creation of a Task Group on Social Development, as well as the implementation of partnerships with INGOs, NGOs, local governments as well as the private sector, especially in areas such as road or railway infrastructure development (ibid.). Taking into consideration the above examples of successful implementation of programs and administrative reforms it is fair to agree with Sawar Lateef who has correctly pointed out to the fact that since its existence the World Bank 'has exported unprecedented improvements in the levels of human material conditions, although poverty remains a major global problem' (1996:291). He then goes on to correctly emphasize the fact that without the World Bank's financial and policy assistance many states in the developing Southern hemisphere could not qualify to gain access to similar financial products available on the open financial market (1996). Having presented the case for the positive efficiency of the World Bank, this research essay will now proceed with the analysis of the arguments against it, by presenting some of the key theoretical and empirical attacks.

The programs and policies of the World Bank to tackle poverty have not been evenly successful across the planet. This imbalance in the efficiency of the World Bank's mandate to fight poverty is what motivates skeptics who either believe urgent reforms are needed or the World Bank needs to be replaced by alternative institutional mechanisms such as a 'World Development Agency' (Gilpin, 2001:390). First of all the general influence of the World Bank's projects on poverty on the African continent have in an overwhelming majority failed due to either the immature state system in the region or to the inefficient and rigid adjustment packages delivered to the African governments. In East Asia, more specifically in Indonesia the World Bank's development programs have failed due to the 'weakness in the Bank's mode of operation and understanding' (WB, 2004:87) of the country's poverty dynamics, 'social capability' (Krause in Koo and Perkins, 1995:310), and governance issues.

Regarding the environmentally aware agenda of the World Bank this can easily be refuted both by the small number of specialists dealing with environmental risk assessment within the Bank's institutional architecture, as well as by the environmental friendliness of the projects that have been implemented so far. Good examples are the Sardar Sarovar dam and the coal-plants in India which have been financed by the World Bank (Rich in Danaher, 1994). In this case would it be correct to twist McNamara's speech and say that the World Bank by not helping the environment has not helped the fight against global poverty? If this is the case then the legitimacy of the World Bank's programs is at stake mainly if we are to accept the idea that 'poverty is a major cause and effect of global environmental problems' (WCED in Ekbom and Bojo, 1999: 1). With regards to the PRSP Jim Levinsohn has pointed out to the fact that although they are "country-owned" they might not be done by some governments which do not have the funds and neither the expertise to develop them (2002). This is mostly the case for the African countries which lack proper state infrastructure as well as a stable annual income to the national budget (Levinsohn, 2002).

In addition, with regards to the World Bank's PRSPs, most of them lack a long-term or at least a medium-term (Mosley et al., 1995) vision which is most unfortunate as the global campaign against poverty is a process that through its inherited nature will stretch across a long period of time (Anyaoku in Onimode, 1989). From a pessimist perspective this new concept of strategy papers can be seen as only a façade for 'aging prescriptions geared to increasing the overall opening of the "host country" to external economic actors and free market rules' (Levinsohn, 2002:14). The failures of the World Bank in tackling poverty although predominantly concentrated on the African continent, also extend to regions such as Central and South America, where adjustment programs have ruined some of the local states' economies. This is the case of countries like Argentina or Mexico, where trade liberalization has lead to an incommensurable public debt, unemployment, low wages, and price inflation. These factors have caused especially in Argentina civil unrest destabilizing the country and further affecting its competitiveness on the global markets. Frances Stewart has correctly pointed out to the reasons of such development neoliberal policy failures as lying with the fact that 'during adjustment governments can make choices which offset, or accentuate, any ill-effects of adjustment on the poor' (1995: 193). The World Bank has also been accused of not directing the money to those in actual need. Many times it is the elites in a specific state that benefit the most and a good example of this reality is the fact that the bank accounts of some African political leaders have been boosted by both the World Bank and the International Monetary Fund.

It has also been the case that the World Bank has aided controversial regimes such as Romania's Ceausescu, instead of financing development projects in countries with a more democratic record such as Alende's Chile (Rich in Danaher, 1994). Another issue associated with the World Bank is the fact that because its largest shareholder is the United States Government, the Bank will rather support the interests of the US and other states in the developed North than those of developing countries. This would clearly disadvantage any policy initiative requiring uninterested financial participation in programs targeting the alleviation of poverty in the underdeveloped worldwide 'peripheral areas' (Wallerstein, 1976: 231) such as programs aimed at countering 'flight-capital' (Onimode, 1989:1) trends. This concern stands on empirical data if we are to look at the system used to distribute the votes among the member states. The voting quota within the Board of Governors of the World Bank is distributed according to the concept of 'one dollar- one vote' (Stiglitz, 2003: 112), meaning that it is the wealthier countries that dominate the agenda-making of the World Bank. The disadvantage and the exclusion of poorer countries from the decision-making process are clear and the 'risk of marginalization' (WB, 1997:5) imminent. In addition problems such as a worrisome democratic deficit or general lack of accountability arise and challenge the legitimacy of the World Bank as a democratic actor in global governance (Stiglitz, 2003). Having seen what the criticism towards the World Bank entails this paper will now continue with the concluding remarks by providing a balanced understanding of the level of effectiveness of the workings of this controversial global financial institution.

The World Bank is not a perfect institution. It is an institutional construct designed by humans that ever since its creation in 1944 has undergone major policy shifts as well as administrative reforms. These changes have clearly improved its capacity to deal with global challenges as it is the case with the phenomenon of poverty. While many of its Structural Adjustment Programs have failed it would be unfair to not take into account the developments some European as well as East and South-East Asian states have experienced as a result of integration in the world market economy. Even the South American countries like Brazil, Chile or Argentina are now to a certain extent on the track towards further development. This fact is also acknowledged in the 1996 World Bank's report on competition policy in Latin America, which suggests that regional integration is following a continuum path, while some improvements in policy-making is still needed. While global poverty remains one of the main challenges not only for the World Bank, but for global governance as a whole (Baylis et al. 2008), IPE theorists and students must recognize the global trend of economic growth. With the data that the World Bank is now gathering on the world's poor there are signs to hope for further improvement of all financial products this institution will provide to governments of developing countries in the future (Levinsohn, 2002). Still, at the same time it would be risky to ignore the failures that many states have experienced in collecting reliable data as well as the difficulty the World Bank has come across during its time, with centralizing and interpreting that data so that it serves best in designing new poverty strategies.

The World Bank is not a conspiracy of the capitalist elites aimed at enslaving the global proletariat (Cammack, 2003), and it is also not an advocate of the poor (ibid.). This is what has to be grasped in order for the whole institutional construct to be understood and possibly improved. The Bank itself has risen out of political and security necessity in the US sphere of influence to stabilize Europe and it has grown to adapt through time to a limited extent both to the new challenges of the late 20th century as well as to the politically correct speech the growing global civil society has been promoting in the ever globalizing public space. Furthermore it is these groups in the civil society that have incorrectly exclusively blamed both the World Bank and 'globalization for their own and the world's problems' (Gilpin, 2001:230). As an overall conclusion it would be safe to regard the policies as well as the aid and development programs of the World Bank as being not entirely ineffective but with case specific structural and institutional irregularities and inefficiencies. Last but not least it is beneficial for the global wealth overspill as a whole, if the processes of 'marketization and privatization' (Raxowski, 1995: 285) to continue and therefore institutional structures part of the World Bank Group such as the Multilateral Investment Guarantee Agency (MIGA) are highly relevant to ensure such future outcomes or developments (O'Brien et al., 2003).

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