

THE WORLD BANK AND THE NEW POLITICS OF AID

[Part One]

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The 1980s and 90s have been a period of significant change in the international development assistance scene. This paper attempts to sketch the main structural features of these changes and to use this as a background for examining the interrelations between some actors and issues which have been central in the period 1985-92. The actors which will be paid special attention are the World Bank and non-governmental organizations (NGOs), and the issues those of poverty, the environment and 'governance'. It will be argued that the central feature of the period has been a continuation in the rise in the influence of the World Bank, and that this is partly attributable to the institution's ability to successfully politically manage new issues while leaving underlying realities undisturbed. Finally, some structural reasons will be suggested for the success of these political management exercises.

Aid Regime in the 1980s

Prior to 1980 there was very little in the way of regulation of the aid scene—a laissez-faire situation prevailed with various actors, private and public, bilateral and multilateral more or less competing with each other to lend to the less developed countries (LDCs).

Behind this situation lay a variety of conditions including the long post-World War II boom in the developed countries, large petro-dollar deposits in northern private banks, and a common conviction amongst lenders/donors that LDCs were worth investing in. This in turn reflected rising primary commodity prices and a general conviction that LDC industrialization was sooner or later inevitable. Also important for the public donors was the international superpower conflict, which led to aid being seen as an instrument of changing or maintaining LDC political alignments.

Between 1979 and 1982 most of these conditions underwent sharp modification. The long post-war boom turned into an international recession, made deeper by a second oil price rise and the application of deflationary economic policies in the main northern countries. A decline occurred in demand for primary commodities, and the

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latter's prices began to rapidly fall. On the basis of a 40 year low in LDC terms of trade and a 50 year high in variable interest rates, a number of LDC countries with very high levels of debt threatened to default. Moreover, in the U.S., Britain and the Federal Republic of Germany governments came to power which were both unsympathetic to the recognition of aid "obligations" and which adopted more narrowly self-interested foreign policies.

A consequence of this situation was a crisis of aid generally and of multilateral project aid in particular. The latter which had been expanding rapidly, was threatened by declining contributions by northern governments, by an increasing inability of recipient countries to mobilize local 'counterpart' funds, and by the visible hostility of the incoming U.S. government to multilateral institutions in general. Probably the institution most under threat in this situation was the World Bank, a multilateral agency whose profile was almost exclusively identified with profile lending.¹

It was against this background that a (new) aid regime first emerged.

(a) Norms Regarding Levels and Forms of Assistance

The early 1980s witnessed a sharp decline in the real value of both bilateral and multilateral aid flows and also a decline in the relative value of government to government aid. The latter was eroded by a rise in aid direct to the private sector [Toye, 1987:152] and by increasing levels of aid to the NGOs. Aid channelled through NGOs was in fact one of the only categories of development assistance which registered a real increase in the 1980s (up to around 10 percent of all ODA by 1985 (Cernea, 1988:61)), although most of this was raised by private contributions.

A second form of aid which registered relative and absolute levels of increase in the early 1980s was 'programme' or non-project aid. Most of this increase was accounted for by increased volumes of World Bank lending to LDC governments for balance of Payments and commodity import support. Such aid accounted for only about 6 percent of World Bank lending in 1980 but was subsequently to double or treble in the first half of the decade.



The initial justification for greater volumes of non-project aid was that they could be disbursed quickly and with a minimum of fuss to recipients requiring sudden infusions of foreign exchange to compensate for, for example, the sharp rise in cost of oil imports [World Bank, 1980]. However, apparently as a result of a strategy devised by two senior World Bank officials, Sidney Please and Ernest Stern, non-project aid was to become the centre of a strategy to provide the institution with a secure and eventually hegemonic role in the donor community.

Please [1984] claims credit for the discoveries that the World Bank's real 'comparative advantage' in the new economic and political environment lay not in project aid at all but economic policy issues, and that non-project aid could be used to promote economic policy changes in the recipient countries. These ideas were of course not new at all, but rather were already the animating principles of operation of the World Bank's sister institution, the International Monetary Fund. Such a proposal therefore in reality involved a new division of labour between the IMF and the World Bank, with the IMF continuing to concentrate on policies related to exchange rates, foreign exchange conversion procedures and trade barriers, and the World Bank claiming expertise in the major dimensions of macro-economic policy relevant to the formulation of medium-term investment programmes.

While the official rationale behind the adoption of policy-based lending was the World Bank's supposed St. Paul-like revelation of its true vocation on the one hand and a recognition of the drastic need for recipient macro-economic policy reforms to allow new project aid to be properly utilized on the other, other motives and interests were unquestionably also in play. One was that the adoption of a policy focus would allow an assertion of ideological affinity by the World Bank to the 'new right'-dominated northern governments. Another was that non-project lending promised the private banks a mechanism for recovering their debts, via LDCs' recycling of programme funds.

IMF policy-based lending had been historically characterized by lender conditionality, and this became true of World Bank policy-based lending too. Policy-based loans were transcend and, theoretically at least, recipients could only gain access to significant levels of assistance if they could demonstrate that policy changes had actually been made. This implied a need for cross-conditionality, and aid coordination, for there was little point in the IMF and World Bank setting inconsistent conditions, nor conditions which they agreed were not observed by other important donors.

In this way the foundations were laid for aid forms in the 1980s to become characterized by the closely-related trends of policy-orientation and conditionality. The period 1980-85 was one in which both these trends became conformed and deepened. Involved in these changes was

a general redefinition of roles and relations within the donor community.

(b) Roles of the Main Players

The World Bank's original (1980-82) redefinition of its comparative advantage in terms of policy competence took place, as indicated, as a defensive manoeuvre from a position of weakness. Initially therefore its new relation with the IMF was essentially one of subordination. Only through further extension of the role of policy-based aid was the World Bank able to decisively increase its own status and influence. This did not really occur until 1985.

The main development of the first half of the 1980s was a growth in aid coordination and cross-conditionality, in which the World Bank was involved but which was basically engineered by the IMF. Essentially this involved bringing the main bilaterals into line with an agreement already reached between the IMF and the World Bank, to the effect that institutions would not make new commitments to recipients who had sought non-project funding without IMF stabilization programmes being already in place. Most leading donors went along with these proposals without argument.

From the early 1980s specific aid-coordination institutions emerged, or rather, existing institutions took on this role as a central function. Specifically, a new role for donor country consultative groups emerged. These groups, previously occasional meetings between recipients and bilaterals for purposes of coordinating pledges of new aid with donor lists of new projects, now became mechanisms for the semi-formalized review of recipient's progress with policy reforms. Meetings became regular and the World Bank's role moved from one of basically passive chairing to one of disseminating economic information (country reports) and suggesting options.

Bilaterals were disadvantaged from forming independent judgements on the issues being discussed since the great majority of them had no independent sources of economic information or means of interpreting them. Nor was there any real international forum where proposals could be made for revising IMF or World Bank recommendations, even if a will existed to do so. The new regime thus involved a decisive subordination of the bilaterals, especially evident in the case of the 'like-minded countries' (the Scandinavians, Canada and Holland).

An important change to this set of roles was unveiled in a speech by George Baker to the 1985 joint IMF/World Bank annual meeting. This announced a major extension of policy-based lending around sectoral, rather than merely macro-economic, policy reform. As a result, so-called 'structural adjustment' (SA) lending would rise to 25 to 30 percent of all World Bank disbursements.



A second major element of the 'Baker plan' was that rewards for policy reform by 15 heavily indebted middle-income countries were to be increased to include a package of private debt re-negotiation and new private credit, in other words, also private creditors were now directly brought into the cross-conditionality process. Under the 'Brady Plan' of 1988 coordination of private debt re-negotiation, new credits was further extended to most other LDCs and presumably to a wider range of commercial banks.

The application of policy-based lending to the sectoral level had perhaps more impact on the role of the main actors than changes involving the private banks. From now on the World Bank would have responsibility for a broader and more far-reaching range of policy issues than the IMF. Moreover, the more specific the areas of policy reform which were introduced, the greater disposal of the World Bank and the other donors. Most importantly, a mechanism was now achieved for firmly tying ongoing project aid to policy reform - a demand which certain donors had resisted to this point. The World Bank thus emerged by the middle of the decade as the lead institution in the new aid regime.

(c) Regime Discourses

Part of the basis of the World Bank's claim to exercise a leadership role within the aid regime rested on its elaboration of a new aid discourse, beginning in 1981. This discourse was articulated in its clearest form in relation to Africa, principally in the well-known report *Accelerated Development in Sub Saharan Africa: an Agenda for Action* [World Bank, 1981]. This report identified three main areas requiring policy reform attention: (1) trade and exchange-rate policies (held to have overprotected industry at the expense of agriculture), (2) the range of public sector functions relative to actual administrative capacities, and (3) price biases in agriculture [1981:4]. Correspondingly, its recommendations centered on 'more suitable' trade and exchange rate policies, increased efficiency of public sector resources and better agricultural prices [ibid:5]. The positions adopted by recipients on these issues, which comprised the original agenda of SA, were attributed to opposition from a series of entrenched local interests, namely "consumers and producers, parastatal managers, civil servants and industrialists..." [ibid: 7], i.e. the coalition of interests identified with urban bias by authors like Michael Lipton [1977].

On the part of the World Bank, the limited breadth of this discourse reflected less any sense of caution and more the contemporary pre-eminence of a basically technicalist form of neo-liberalism. It also suggested a high level of confidence in the power of conditionality alone to overcome local 'political obstacles.'

In the years following the adoption of sectoral-level lending, and in a context of rising problems of securing implementation and maintaining inter-donor consensus, a revised regime discourse was inaugurated by the World Bank. This contended that the central problem of LDCs was not a few (or even a series of) individual policy errors concerning prices and public investments but rather the absence of a generally-supportive context for (broadly-based) private sector-led growth. It proposed that the role of LDC governments required fundamental redefinition in the direction of providing an 'enabling environment' for free enterprise on the one hand and helping to supply certain basic solid services (principally primary education and primary health care) on the other. The 'enabling environment' comprised infrastructure, some direct assistance to private farmers and entrepreneurs, and a framework of bourgeois law. As far as social service provision was concerned, this should ideally involve various forms and degree of 'cost-sharing' between the state on the one hand and private individuals and communities on the other. The absence of an 'enabling environment' in most LDCs was attributed to flawed forms of general political management, expressed most clearly in a lack of accountability of government officials and restrictions on the availability of information and the scope of permitted debate [cf. World Bank, 1989].

This new World Bank discourse is significant in a number of ways. It reflects a major extension of the policy concerns of the aid regime. These concerns are moreover articulated in the context of a much more general exposition of neo-liberal political economy. However, there are also efforts to address issues of inter-donor and also donor-recipient consensus, by incorporating certain items from the aid agendas of the LDCs and the 'like-minded countries', albeit in a visibly subordinate way. Above all, however, it reflects a major assertion by the World Bank of intellectual leadership amongst donors.

(d) Decision Making Procedures and Rules

All the main aid players continue to maintain a high degree of autonomy in reaching decisions about aid 'philosophies' (abstract sets of aid intentions) on the one hand and about particular projects on the other. Nevertheless, the past years have seen the emergence of a tendency for the key decisions referring to medium-term aid objections and collective policies, forms and extents of cross-conditionality and the general coordination of resources behind policies to be made by a process involving discussions between World Bank and IMF staffers and representatives of the G7 countries and, as in the case of the Brady Plan, to be formally announced at G7 meetings. Meanwhile, decisions concerning particular countries are increasingly coordinated by World Bank at the



consultative groups and/or 'Clubs'. From the first of these processes some relatively important players (e.g. the like minded countries) are excluded.

(e) Investments of Recipient Enforcement

Please's [1984] manifesto for policy based lending contains a handy summary for the concrete instruments by which donors can supposedly enforce conditionality or recipients. This consists of a series of steps including obliging the recipient to formulate a statement of general objectives with regard to policy and institutional change, followed by obliging them to draw up a list of monitorable actions. Structural Adjustment loans are then released in tranches whose timing and level is tied to the attainment of specific monitored objectives. To ensure that the policies in question are appropriate in the first place, they should be drawn up by task groups including World Bank staffers and/or consultants.

Accompanying the growth of cross-conditionality was a simultaneous expansion of efforts to develop pro-adjustment consensus between them. This gave rise to certain concrete initiatives to form cadres of local technocrats and others sympathetic to structural adjustment (of the African Capacity Building Initiative). It was also associated with the promulgation by the World Bank and its partners of discourses identifying statism with traditions 'alien' to LDCs, and the free market and non-state voluntary associations with 'indigenous' or 'endogenous' LDC values and practices (cf. the World Bank's 1989 Long Term Perspective Study on Africa, which itself seems to have arisen out of a conference held in Nairobi in 1986 on *The Enabling Environment for Effective Private Sector Contributors to Development in Sub Saharan Africa* [Hyden, 1990]). Both were directed to raising the level of domestic 'ownership' of aid policies, as a counterweight to the increasingly intrusive forms of external intervention.

New World Politics 1984-92

The last seven to eight years have been characterized in world politics by a series of trends and events which have dramatically enhanced the significance of certain issues and players, especially in the northern countries. The principle of these has been the decline and disappearance of socialism in its various national and international forms.

The early 1980s already witnessed a sense of serious electoral reverses for social democratic parties in most of central and northern Europe, at the hands of conservative parties with neo-liberal orientation. Simultaneously, a political and ideological crisis of most of the prominent forms of Third World socialism emerged, particularly but not only in Africa. This was joined in 1985 by the initia-

tion of economic and political reform processes in the Soviet Union, which were to set in train a series of popular anti-communist movements, in eastern Europe and eventually the collapse of the Soviet Union itself. This turn weakened further the non-communist left world-wide, through a general shrinkage of the orthodox political space.

The initial phase of the decline of socialism was associated with relative remission in the world economic recession which had been deepening since 1979. Though unconnected, the two trends both fostered an increasing role for the 'new social movements' in the northern countries, which partially substituted for and in some cases surpassed the significance of social democracy. The most important of these were the green movement, the women's movement, and other movements (Band Aid, Live Aid, etc) focussing on the relief of Third World poverty by non-governmental (and preferably direct action) methods. Also significant were movements of ethnic minorities, particularly in the U.S., where they were instrumental in the construction of temporary national alliance of 'new social movements' (the 'Rainbow Coalition' supporting Jesse Jackson's bid for the Democratic Party Presidential nomination). These 'new social movements' and the organisations which they spawned were to develop a political challenge to neo-liberalization with which the latter had some difficulties in dealing, not least because their demands tended to directly cut across the state-market and 'general' - 'special' interest dichotomies with which the new right had appropriated political debate by emphasizing diversity, equality of opportunity, choice and the voluntary.

Each of these types of 'new' political organizations formed an echo in the LDCs. This was however on a much reduced scale, except in the case of relief/development NGOs. Connecting (albeit sometimes opportunistically) with increased levels of Governmental and popular/voluntary funding these acquired a growing importance within the LDC development space, especially at local and intermediate levels and especially as state revenue and capacity to provide services declined. The political roles of these organisations varied enormously within and between LDCs, according to their scale, social base, function, history, relation to local and national politicians and to the state, as well as to their relation with donors.

While the new right experienced a period of defensiveness in the domestic politics of the northern countries, it was to score spectacular successes globally. With first the decline of the international super power conflict and later the complete collapse of communism, time ran out not only for capitalism's classical adversary but also for international third forces (e.g. the Non-Aligned Movement) whose influence depended on their independence from both main camps. The result was 'unipolarism' - a new international relations order characterized by a



single great power and its allies on the one hand and a disorganized mass of small and/or powerless states on the other (leaving aside the increasingly politically isolationist China).

The international political agenda which the newly 'unipolar' superpower has subsequently sought to establish and advance is that of human rights (defined in terms of northern parliamentary democratic traditions) and international law and order, defined mainly in terms of control over the movement of arms and drugs, or well as maintaining the territorial integrity of U.S.allies). The prominence of these issues has been associated with a renewed U.S. interest in the United Nations, or at least in the UN General Assembly, as a vehicle for mobilizing international support for a new global security system.

A final central feature of the new world politics in the period under consideration is that of the rise of struggles for democratic rights within LDCs. The latter has been sharpened by a number of factors, including a growing loss of governmental political legitimacy in the face of international recession, structural adjustment and the intensification of corruption and other essentially extractive forms of accumulation. Also of importance have been the example of eastern Europe and an encouragement of popular opposition in certain countries by growing superpower disinterest in the maintenance of particular cold war partners.

From around 1990, when the international recession reasserted itself, the new international politics were modified in a number of ways. The most important of these was a dampening in the growth of the significance of 'new social movements' in the developed countries and a parallel and related renewed bout of international aid fatigue - extending to almost all forms of aid except that which was dedicated to NGOs or 'governance'-related. On the other hand, the slow movement of the wheels of international agencies meant that the issues which the 'new social movements' had raised were still live ones at an international level. Indeed some, especially the environment, were about to receive their first major official international airing.

There has always been a close interrelation between international political trends and the politics of aid. It is

possible to argue however that as the aid regime of the 1980s took shape, aid politics and international politics intertwined in ever more intimate ways. In particular, the aid regime underwent an increasing political sensitization. One reason for this was its increasing policy orientation, or more precisely its articulation of an increasing range of policy issues - reaching an apogee with the all-embracing doctrine of the 'enabling environment'. This meant that the articulation of almost every political issue under the sun now intersected with one aid policy issue or another.

Alongside this extension of the frontiers of aid discourse was the extension of donor coordination and cross-conditionality. This heightened the political sensitivity of the aid regime to issues of donor unity and consensus on the one hand and to the frontiers between neo-liberal economic policy conditionality and possibly cross-cutting forms on the other.

The effect of this was to push the World Bank, as the fulcrum of the new aid regime, increasingly into international politics. Because of the trends just indicated, in the past five years this has meant intervening in international debates on poverty, the environment and governance/democracy/human rights, and establishing a particular sort of relationship with the increasingly important NGO community. By the early 1990s the latter represented (among other things) the last important remaining aid constituency more or less external to and (partly) 'uncaptured' by, the aid regime. The rest of this paper will examine these interventions and try to provide some very rough explanations for their outcomes.

Notes

1. The problems confronted by the World Bank in 1980 were most pertinently displayed in Ronald Reagan's decision, shortly after assuming office, to order a U.S.Treasury Department review of American participation in the World Bank and regional development banks (U.S. Treasury Department, 1980). The review was instructed to address criticisms made by the heritage Foundation and a personal study team reporting to Reagan, which claimed that the World Bank encouraged socialism, lent without proper reference to rates of return, lent to the 'wrong' countries and insufficiently promoted U.S.business interests (Ayres, R. 1984, *Banking on the Poor: The World Bank and World Poverty*, Cambridge, Mass: MIT Press).

Chance took me to a priest's cell
And I listened to his holy talk;
From the life of the troubled world I got
Half a day's rest.

(From *Monkey*, a Chinese folk novel, translated
by Arthur Waley)