THE WORLD BANK and the EVOLUTION of DEVELOPMENT THINKING

Abstract
The World Bank is a United Nations international financial institution that offers loans, advice, and an array of customized resources to more than 100 developing countries all around the world. The World Bank is a component of the World Bank Group, and the largest global development institution focuses exclusively on private sector ventures and projects in developing countries in partnership by financing investment, mobilizing capital in international financial markets, and providing advisory services as well as technical assistance to businesses and governments. Its institutional culture and approach to development have changed in parallel with the evolution of international development thinking over the past sixty years. This research aims to argue connection between the World Bank and development thinking. Through a review of the literature, this research attempts to clarify the ways in which the World Bank's institutional culture has both influenced and been influenced by the understanding of 'development'

Key Words: The World Bank, Development Theory, Poverty, Non-Governmental Organisations.

DÜNYA BANKASI ve KALKINMA DÜŞÜNÇESİNFİN GELİŞİMİ

Özet
Dünya Bankası, dünyanın her kesiminden çok sayıda ülkeye, krediler, danışmanlıklar ve özelleştirilmiş kaynaklar sunan, Birleşmiş Milletler bünyesinde yer alan bir finans kuruluşudur. Dünya Bankası grubunun bir parçası olan Dünya Bankası, gelişmekte olan ülkelerdeki özel sektör girişimleri ve projeleri üzerine çalışma yapan iş dünyasına ve hükümetlere, teknik yardım, kaynakça ve danışma gibi çeşitli yardımcılarda bulunan, en büyük küresel kalkınma örgütüdür. Bu kurumun örgütlenmiş yasası ve kalkınma anlayışı, 60 yıllık süreç içerisinde uluslararası kalkınma anlayışının değişimmesine paralel bir şekilde değişim göstermiştir. Bu çalışmanın temel amacı, Dünya Bankası ve kalkınma teorileri arasındaki bağlantıları irdelemektir. Bu akademik çalışmada, literatür taraması yapılarak, Dünya

1 Postgraduate Researcher, The University of Leeds, emrahylsy@hotmail.com
Bankası’nın kalkınma teorileri nasıl etkilediği ve etkilendiği açıklığa kavuşturuluma çalışılacaktır.

Anahtar Kelimeler: Dünya Bankası, Kalkınma Teorisi, Yoksulluk, Sivil Toplum Örgütleri.

1. INTRODUCTION

The World Bank was established in 1944, and its purpose was to issue long-term loans to governments for reconstruction and economic development following the Second World War. It has since become an international development agency, aiming to promote prosperity and sustainable development. Over the course of more than 50 years, its institutional culture, approach to development and priorities (along with its role in the world) have evolved from the rebuilding of infrastructure to reducing poverty and improving living conditions. New theories and economic models have deepened development paradigms and have influenced the Bank's development practices and strategies. This raises the following questions: (1) How has the Bank been influenced by development theories? (2) In what ways has the Bank shaped international development thinking?

In parallel with the evolution of its institutional culture, it has become the world's leading source of funds, ideas, and expertise for development. The Bank is centred around the goals of sustainability, ending extreme poverty and promoting shared prosperity. It raises funds for the International Development Association (IDA) through private financial markets and receives donations on a regular basis from its richer members (such as the United States, Japan and the United Kingdom). Becoming a major contributor to the World Bank's International Development Association gives a country added influence over its administration and development policies, and leverage over how money is spent in poor countries. The United States, as the largest grant donor in the most recent round, dominates and influences the Bank’s strategies and policies.

There has been general criticism from other international development agendas (i.e. NGOs and governments) of the Bank’s poverty-related projects and policies. The fact that neoliberal policies and the so-called ‘Washington Consensus’ are implemented by the World Bank in developing countries has become controversial among borrower countries, in particular those in Latin America. Moreover, after the 1980s, the Bank’s policy towards environmental and sustainable development has increasingly been criticised by local NGOs and environmental organisations. In what ways does the World Bank respond to these kind of criticisms and campaigns against its projects and policies?

In order to answer the above question, it is first necessary to analyse a mutual connection between the Bank and development thinking. It has three fundamental objectives: Firstly, to provide an analysis of the historical background of World Bank, the evolution of its organisational culture, its approach to development and relations with other development actors (such as international/non-governmental organisations). Secondly, to investigate the ways in which the Bank’s institutional culture has been influenced by an understanding of development. Thirdly, to examine the Bank’s role in developing countries and its influence on development thinking.
2. The World Bank

The World Bank is a United Nations International Institution, and a member of the United Nations Development Group. It makes leveraged loans and provides advice and research to developing nations to aid their economic advancement and for capital programs. It is one of the largest and most well-known development banks. Its loans and setting of policy conditions for developing countries makes the World Bank one of the most important development agencies globally (Peet, 2009). In order to explore the Bank’s role and influence in the understanding of development, it is important to analyse its historical background, structure and changing perspective on development, and the evolution of its institutional culture over the past decades.

2.1. Brief History of the Institution and its approach to Development

The World Bank is the general name of a number of international organisations whose original body (the International Bank for Reconstruction and Development (IBRD)) was created at the Bretton Woods Conference in July 1944, along with its sister institution, the International Monetary Fund (IMF) (Ruger, 2005; Sharma, 2013). The Bretton Woods Conference was a gathering of 730 delegates from 44 allied nations. The membership of the Bank was open to all nations. As it can be understood from its original name, its primary function was to make long-term loans to governments for reconstruction and the economic development of member territories, by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by the Second World War.

The new international development paradigm has influenced the Bank’s official goal and it has evolved from having virtually no presence in poverty reduction in low-income countries, to being the world’s largest financial contributor to development-related projects after the 1960s. In recent years, the Bank has adopted several new policies and programs which incorporate the notion that development must be inclusive and comprehensive. The main goals of the World Bank are now to end extreme poverty and boost shared prosperity across the globe by granting loans to developing countries (Sharma, 2013). On the other hand, the political aspect of the organisation on projects is examined by borrower countries, including the dominance of the Western on the Bank’s administration, and in particular the dominance of the United States (Ruger, 2005).

The Bank has always been more than an economic institution. Juan Domingo Perón (who was three times elected as President of Argentina) criticised the activities of the Bank in the following terms: Both the World Bank and IMF had come to play a dominant role in the world economy and when the conditions attached to their loans had provoked protests, especially among the debtor nations. (Kedar, 2012). According to Lesay (2012) the international development policies of the so-called ‘Washington Consensus’ (generally seen as synonymous with ‘neoliberalism’, i.e. economic liberalisation, free trade and open markets, privatisation and deregulation, and ‘globalisation’) has been implemented by the World Bank in Third World Countries. However, the Bank’s approach to development theory and practice for the past quarter-century can be seen as having been characterised as an apolitical, technocratic, and economic rationality.

2.2. Structure and Internal Culture of the World Bank

The World Bank group consists of five different specialised institutions, but two (the IBRD and IDA) can be seen to dominate (Peet, 2009), as discussed below.
• The International Bank for Reconstruction and Development (IBRD). This promotes sustainable development through loans, guarantees, risk management products, and analytical and advisory services, in order to reduce poverty in middle-income countries and creditworthy poorer countries. The IBRD was established in 1944 as the original institution of the World Bank Group. Its original goal was to rebuild Western Countries after the Second World War.

• The International Development Association (IDA). This was funded by donations from wealthy countries and was established in 1960. It aims to reduce poverty by giving loans and grants for programmes that boost economic growth, reduce inequalities, and improve living conditions. It complements the World Bank’s original lending arm. IDA loans carry no interest.

The headquarters of both the IDA and IBRD are in Washington, Dc. The Bank has the same membership as the IMF (i.e. 188 countries), with its current president being Dr. Jim Yong Kim, who was selected by the Boards of Executive Directors for a five-year renewable term. Member states and shareholders are represented by a Board of Governors, which consists of one Governor and one Alternate Governor appointed by each member country. The governors delegate specific duties to 25 Executive Directors. The Board of Directors consist of the World Bank Group President and 25 Executive Directors. Executive Directors oversee the day-to-day operations of the World Bank and approve all lending operations, strategies and policies, along with the institution’s budgets (Krever, 2011).

The five largest shareholders (France, Germany, Japan, the United Kingdom and the United States) appoint an executive director, while 20 elected executive directors represent the other member countries, i.e. 183 member states. Since not every country appoints a director, high-income countries can be seen to have more rights than low-income ones in the decision making process of the Bank, with the largest shareholders unwilling to share power with other member states. Approximately 9,000 development professionals, from more than 168 countries, work at the Bank, with a research budget in the tens of millions of dollars. As well as being economists, they are also educators, environmental scientists, financial analysts, anthropologists, engineers, etc. 3,000 work in offices in the developing world (WB, 2014). High staff numbers in poor countries demonstrates that developing countries are the highest priority of the World Bank. It plays a key role between low-income and high-income countries, in order to use the resources of rich countries to advance the growth of poorer ones. However, it remains a controversial topic, that poor countries are not given sufficient voice because of the voting system.

2.3. Voting System in the Bank

The voting system at the Bank shapes and drives both its policy and operational behaviour. Voting powers of member states are based on their economic size and International Development Association contributions. It is important to note that there has been no serious change in the voting system in sixty years. However, the voting powers have been revised in order to increase the voice of developing countries (notably China in 2013), but the Bank is still under the control of a small number of countries.

188 member states of the Bank may (in theory at least) leverage control over the institution's decisions and policies through their economic contributions. In practice, five major donor and client states control 37.24 and 39.78 percent of the votes (USA: 15.85%, Japan: 6.84%, China: 4.42%, Germany: 4.00%, UK: 3.75%, France: 3.75%, India: 2.91%) on the executive boards of the International Bank for Reconstruction and Development and the
International Development Agency (Weaver, 2007). While low-income countries now have 3.31% of the votes, high-income countries have 64.87% and middle-income countries 31.81% (Wade and Vestergaard, 2012). The question that arises is that if the official goal of the Bank is to reduce poverty in the third world countries, why do low-income countries remain passive in the administration of the Bank, and why are they not given sufficient opportunity to raise their voice? The Bank is under the control of a few high-income countries due to their voting power, which does not appear either democratic or fair. In particular, the United Stated has a unique and disproportionate power. The voting power of member states thus demonstrates the fact that third world countries have only a nominal role in controlling the policy and strategies of the Bank. The voting system is not universal in regards to standards, rule-based with objective indicators, and transparent etc., and requires reform in favour of low-income countries.

2.4. Relations with Other International Development Agendas and Non-governmental Organisations

The evolution of the Bank’s policies in the 1960s, from focussing on rebuilding infrastructure in developed countries to alleviating poverty in developing countries, led to increased cooperation with United Nations agencies (particularly its IDA component). This included working with the Food and Agriculture Organisation (FAO) and UNESCO on projects in new areas, such as water supply, education and agriculture. The Bank struggled increasingly to improve the effectiveness of development assistance through cooperation and to strengthen its collaboration with other international organisations. For example, it collaborated with donors in Brazil, Uganda and Ghana in order to fund an entire sector, something the Bank could not achieve by itself (Ruger, 2005).

In addition to donors and institutions, relationships between the Bank and the NGO community have existed for a long time (Peet, 2009). The NGO-World Bank committee was created in the early 1980s and many NGOs are funded by the Bank, due to the common goal of furthering progress in the development of Third World countries. Generally speaking, NGOs work in the implementation of World Bank projects.

Even though the Bank pushed strongly for NGO participation in national poverty alleviation projects in the late 1980s and early 1990s in low-income countries, its policy has been increasingly criticised by the NGO community, due to its non-environmental projects. One of these is the Arun III project, the first in a series of three dams in Nepal. The Bank is due to lend $175 million for the project, leading to a number of NGOs initiating an international campaign, believing that better alternatives exist that are also less expensive, and less environmentally and socially damaging (Murphy, 2010). This campaign has forced the Bank to cooperate with local development institutions to transform its sustainability policy. It is important to note that the success of this campaign was not first example of the influence of development thinking on the Bank’s policies: from its early years, its perspective has been influenced by international development understanding.

3. How Has The World Bank’s Institutional Culture Been Influenced By Its Understanding of Development?

Distinct bureaucratic characteristics (such as the ideologies, norms, language, and routines collectively defined as the Bank’s culture) have been shaped by international development thinking and practice over the past decades. Its official goals, ideologies and
policies have undergone constant evolution in parallel with new international development theories (Weaver, 2007; Alacevich, 2009). Within the institution, different views have emerged concerning the ideology of the Bank as an actor in the development process in the early years. The International Development Association (IDA) was established in 1960 as a part of the World Bank to promote development to the poorer countries of the world. The reforms in the Bank’s structure and policy (including the move from post war reconstruction to economic development) were as a result of the dominant development theories of the 1960s. The basic needs approach to development (a major approach to the measurement of absolute poverty in poor countries), influenced the Bank’s perspective on development, and particularly its president, Robert S. McNamara (Weaver, 2007). This led to the founding of the Population, Health, and Nutrition Department in October 1979 in order to promote health loans to poor countries. McNamara (who took up the post on April 1, 1968) was a forceful agent of change, redefining the institution as a bona fide ‘development agency’ and not simply a ‘financial institution’. He ensured World Bank funding was made available for building utilities and schools, hospitals, agricultural reforms and to improve literacy rates in poor countries at low, or zero, interest rates (Ruger, 2005).

In the 1960s and 1970s the theory of dependency became popular, particularly in Latin America. Economists at the Bank were influenced by the theory’s view that economic activity in richer countries often led to serious economic problems for poorer ones. The theory helped raise the profile of poor countries and of the mistakes of the existing economic system. In addition to dependency theory, this focus on issues of poverty was largely connected with the United States’ foreign policy. The U.S. Foreign Assistance Act, which called for a new approach to development that mandated the creation of an agency to promote long-term assistance for economic and social development, was passed on September 4, 1961 (Stein, 1992).

In the 1980s, the approach of the Bank to development continued to be shaped by new dominant developments. The 1973–1974 oil crisis, followed by economic recession, worsened the economic and political situation in Western countries and the United States (Roy, 2013). The theory of neoliberalism subsequently emerged as an alternative to state interventionist theories. The Bank's approach to development moved away from project-based loans toward policy-based loans, which aimed to restructure the economies of poor countries with ideological goals (i.e. neoliberal policies) during the 1980s (Ayres, 1993). Neoclassical development theory gained greater influence in the institution from the beginning of the 1980s. According to Stein (1992), the majority of the Bank’s economists were satisfied with the ideological shift toward neoliberalism, as it represented the core beliefs and values of their classical training.

In the late 1980s, non-governmental organisations began to play an increasingly important role in development projects, at a time when sustainability become the pre-condition of development theories. Sustainable development is viewed as economic development that meets human needs without undermining the sustainability of natural systems and the environment. It has had a positive influence on the Bank’s perspective on development. In order to prevent and mitigate undue harm to people and their environment in the development process, and to respond to public criticism, safeguarding policies were adopted by the Bank in the early 1980s, which have now become a mandatory mechanism for assessing bank-financed projects. These include the Bank’s policy on Environmental Assessment (EA) and further policies on the following: Cultural Property; Disputed Areas; Forestry; Indigenous Peoples;
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International Waterways; Involuntary Resettlement; Natural Habitats; Pest Management; Safety of Dams (WB, 2014). Because of the influence of sustainable development theory, sustainability has now become the Bank’s central organising principle.

At the beginning of the 21st century, the Bank has continued to transform its organisational culture and structure through modernisation. Firstly, staff numbers have increased by approximately 30%, equivalent to about 2,500 employees. Significantly, the Bank has increased its efforts to streamline its existing bureaucratic procedures, reducing the time taken to prepare, appraise, and approve projects. In 1996, the average time from project concept to approval by the Bank’s board of executive directors was twenty four months, but was reduced to around fourteen-and-a-half months by 2000 (Weaver and Leiteritz, 2005). These are important reforms to rapidly expand its development lending and expertise. While its institutional culture has been shaped by the understanding of development, the Bank has also made valuable contributions to international development thinking.

4. In What Ways Has The World Bank’s Institutional Culture Influenced The Understanding of Development?

The World Bank has clearly influenced the understanding of development due to its sixty years of experience as the world’s largest development agency. Firstly, its multidimensional task reflects, in part, a new understanding that development is more than investment and infrastructure, economic growth or macroeconomic stability. Development is recognised as being multifaceted, with a number of key elements, (including economic growth, investment in human capital and a sustainable environment) that form a pre-condition to the eradication of poverty, the improvement of human productivity and welfare, and to assist in the closing of gender gaps in education, along with health, social safety nets, and the job market in low-income countries (Ruger, 2005). It has been understood by the international development community that economic growth, or financial aid, is not sufficient to achieve development in poorer countries: those experiencing poverty also require security and justice and a clean and safe environment, along with opportunities for jobs, education and health, and the protection of human dignity and rights.

Secondly, since 1978 the Bank has published its annual ‘World Development Report’ in order to reflect its development experience. The reports outline the conditions of development in addition to prescribing a set of international and domestic interventions to promote sustainable development for the wider development community (Joshi and O’Dell, 2013). Recently, the Bank’s research departments have devoted ever-greater resources, and space in publications, to expanding the understanding of development. The Bank is the largest institution for developmental research around the globe, employing many professional economists, and having a high reputation academically for research and development. The World Bank’s annual ‘World Development Report’ is illustrative. Approximately 50,000 copies of the report in English have been printed, as well as being translated into Chinese, French, German, Japanese, Russian, Spanish, and Vietnamese (Krever, 2011). Other development agendas tend to benefit from these resources. It can be said that the World Bank not only promotes the giving of loans for development, but also makes valuable intellectual contributions to development thinking.

Thirdly, the World Bank has struggled to create a new political partnership between the state and NGOs in the development process. During the late 1980s and early 1990s, the Bank supported NGO participation in national poverty alleviation programs in three poor countries:
NGOs were contacted early by the Bank staff and given an active role in the design process (Bräutigam and Segarra, 2007). The Bank also began to cooperate increasingly with NGOs at all levels of the project cycle, including project identification and design. The Bank’s role in bringing together NGOs and the government in the process of development was a milestone in international development thinking, leading to NGOs becoming more important actors in the process.

5. Conclusion

This paper has focused on the mutual interaction between the World Bank's institutional culture and understanding of development in a historical and political context. While the World Bank has been influenced by new development theories and institutions, it has, through its sixty years of development experience, contributed to the maturation of developmental psychology.

The international development debate has influenced the Bank's development practices and policy decisions. In the 1950s and 1960s, for example, economic growth was seen as the key to development, leading to the Bank focusing primarily on large infrastructure investments. However, in the 1960s to the 1980s, development theory shifted to encompass more than economic growth. Two dominant international development approaches (basic needs development approach and dependency theory) influenced the Bank's perspective on development in the 1960s. Basic needs development strategy appealed to Bank staff, and particularly to Robert McNamara, and the Bank moved from an economic institution to a development agency. After the 1960s, poverty reduction in low-income countries became the official goal of the Bank and the International Development Association was established in order to provide loans.

After the collapse of state model development theory and Keynesian theory in the late 1970s, neoliberalism has become a dominant ideology influencing development thinking, leading the Bank to focus on open markets and economic management. As a result of the campaign of NGOs against the Bank’s lack of environmental projects, along with the emergence of sustainable development theory in the 1980s, the World Bank has been forced to shape its perspective, policy and projects in accordance with the sustainable development approach. The World Bank's focus thus began to slowly move from rebuilding Europe to the reduction of poverty, investment in family planning, nutrition, health, and education, and promoting sustainable development.

On the other hand, the Bank’s sixty years of development experience has influenced the evolution of development theory, including the realisation that economic growth and investments in infrastructure are not sufficient to promote development and reduce poverty. Development also requires a sustainable environment, and investment in human capital and security, giving opportunities for education, health and jobs. This is an important intellectual contribution to development theory. Hence, the Bank has added a new dimension to international development thinking through its experience, its funding of NGOs and its annual development reports. It therefore appears that mutual interaction between international development institutions and development theory will continue in favour of low-income countries.
REFERENCES


