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Is the World Bank Funding to the African Region Gainful or Wasteful? A Financial Management Case for Restructuring of the World Bank

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ABSTRACT

As the World Bank was essentially and originally established as a post-Second World War development – resurrection organization and as socio-economic and political conditions have changed dramatically and drastically from the mid-1940s and as the World Bank-financed developing countries' techno-economic problems have worsened, there is an urgent need for a major restructuring of the World Bank aims and objectives to tune to the realities of the present times with a view to tackle mounting and pressing problems of widening poverty gap within say a developing country by promoting grass-root economic development through self-sustainable economic development through village adoption scheme, provision of low-cost housing for low-income earners through co-operative societies and infrastructure development (mass literacy and health improvement programmes, etc.) – all geared to reduce poverty gap and bring the countries on organic development path. There is a strong financial management case for scrapping the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) in their present structure.

JEL: *I 32, I 38; F 34, F 42*

Keywords: *World Bank; Major restructuring; Scrapping; Poverty gap*

I. INTRODUCTION

Writing on this important and topical subject is a difficult assignment as there may be as many opinions/views as there are development and finance economists, policy makers and practitioners. At this point, the words of the one-time President of the U.S.A., Calvin Coolidge (1923) ring a bell when, in his message to the U.S. Congress asking for reduction in the upper income bracket tax rates, said in a burst of eloquence: "We must remember the poor."

At this point the statement made by the then Prime Minister of India, Jawaharlal Nehru is highly pertinent to recall: "Tremendous urges are coming up - - who are we to criticize if people want better food, better clothing, or better living conditions[1]." If the poor could be kept poor enough, and the rich rich enough, the poor wouldn't get any poorer: the consumption function didn't bother them. In a similar tone, Divine Sathya Sai Baba poses the following questions and provides answers to them:

> Who is the poorest man in the whole world? He who has the most desire.
>
> Who is the richest man in the world ? He who has much satisfaction.
>
> The one with satisfaction will live in peace which is the most priceless possession of man[2].

The present day world has an uneven spread of population classified by economic strata, viz., by those people who are relatively prosperous and others resourceless or in what of necessaries. Probably more than half of mankind is permanently hungry. Perhaps between 65 per cent and 70 per cent of people are illiterate, miserably poor. The gap between rich and poor countries is steadily widening to such an extent that the rich are getting richer and the poor are getting abysmally poorer, in that poor countries' share of the world GNP and exports is 4 per cent each while that of the rich countries is 84 per cent each.

It is true that developing countries which are largely rural populated are characterized by highly contented people possessing rich traditions and ruralite ethos; yet they are affected by poverty due to overemphasis on industrialization through international capital and technology transfer via multinational corporations who are 'problem solvers' and 'problem makers' in developing countries. All these have resulted in widening rural-urban poverty gap and attendant structural adjustment problems. Also, the World Bank has opined:

> "There is much about poverty and how to address it effectively is still not known, and solutions to the many causes and manifestations of poverty have yet to be found[3] . . . Absolute poverty on so massive a scale is already a cruel anachronism. But unless economic growth in the developing countries can be substantially accelerated, the now inevitable increases in population will mean that numbers of the absolute poor will remain unacceptably high even at the end of the century. To the extent these are more clearly understood the Institution itself (the World Bank Group) and all of its member governments individually will be able to cooperate more effectively is accelerating economic growth, and reducing the intolerable deprivations of massive poverty, and special action

> programs to improve the quality of life should be an integral part of development strategy[4]."

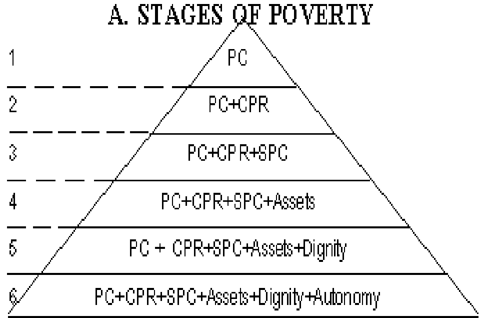
II. POVERTY IS A MISNOMER: CHRONICALLY POOR VS. TRANSITORY POOR

At this point the crucial questions posed by the renowned development economist, Dudley Seers at the Eleventh World Conference (New Delhi, 1969) of the society for International Development are pertinent to recall:

> "What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these questions have declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result development, even if per capita income doubled."

Exhibit 1

A. STAGES OF POVERTY



B. SOCIOLOGICAL STRATIFICATION

Category	Poor (Rural)	Not Poor (Urban)
Poor	1. Discontented poor (apathetic/militant)	3. Striving citizen (onwards & upwards)
Not poor	2. Contented poor "(We get by O.K.)"	4. Satisfied citizen (9 a.m. to 5 p.m.)

In this context, the expert views of the renowned financial management expert, M. R. Kumara Swamy on the catchword poverty may be noted[5]. Each letter of the word 'POVERTY' has its own significance for policy making and refers to the following:

Poor (have nots) who are forced by economic circumstances to cooperate and help in
Organizing middlemen's activities – being unaware of their selfish motives – have become
Vulnerable to
Exploitation by the
Rich (haves)
To widen the already widening
Y (income) gap making the poor poorer and the rich richer.

As agriculture is the mainstay of 'development' process, and as more than a three quarter of the population derives its income from land to satisfy 'merit wants' of a large majority of the population in developing countries (for example, according to the World Bank study[6] rural areas comprise 74 per cent of people in poverty in Pakistan who support 70 per cent of the total population) and this 'core and tradition-bound' sector does not receive any encouragement during natal and post-natal stage from financial institutions (national and international, commercial, cooperative and agriculture), the developing countries have provided special berths in the 'development' train in the form of concessionary credit to priority sector with a view to undertake comfortable and easy journey to bring about increases in agricultural production and productivity. However, scholarly research studies have revealed that the special berth accommodation provided to the agricultural sector has not been put to the right use, which have resulted in bank losses caused by misallocated and mismanaged credit flow to agricultural sector. Mere credit flow does not bring about qualitative changes - - the judicious use of credit and monitoring to avoid diversion is what matters. In recognition of the existence of this colossal problem, the World Bank has opined:

> "Though the knowledge of the problems and ways to address (poverty alleviation issues) have increased, nonetheless there is much about poverty and how to address it effectively is still not known, and solutions to the many causes and manifestations of poverty have yet to be found. The severity of poverty and its persistence require urgent and sustained action . . . Absolute poverty on so massive a scale is already a cruel anachronism[4]."

And, as the renowned development economist, Robert Chambers has described, there are many more aspects of deprivation other than 'income poverty' including vulnerability, powerlessness, isolation and humiliation[7]. Without an understanding of the needs and priorities of those who are classified as 'poor' built into the measurement of poverty, the 'poor' will continue to be seen as passive and the 'target' for poverty alleviation[8]. According to scholar, Tony Beck:

> "This (poverty) is the language of bureaucratic planning, with 'targets', 'aims' and recipients ready to be 'pushed', 'raised', accept delivery and be attended to. It is the language of control. The poor have become statistics with which statisticians can play and experiment . . . The preoccupation with measurement fits well into a system where policy is created by a centralized state and then imposed on the poor from above in order to shunt the poor above the poverty line[8]."

Evidently, the root cause of the disease of poverty has not been diagnosed by doctors of the economy, and all funding by national and international financial institutions has been watering merely the branches of the plant and not the roots causing the plants to dry up; for example, paddy crop dries up if it does not get water for a day. How is it the trees remain green even in the long period of drought? What is the reason for this? The roots of the tree have gone down to the water level, whereas the roots of the paddy crop remain on the surface – All efforts are to be geared to water the roots and branches of trees (as they grow from plant stage to small, medium and big tree stage) and strengthen development efforts in order to make the roots of development touch the surface level to reach Rostow's "take off stage".

In policy design, it is often useful to distinguish between the hard core of the chronically (or persistently) poor and transitory poor, who temporarily fall into poverty during poor cropping season or hard years. The appropriate response to transitory poverty is to promote policies such as credit, crop insurance, employment guarantee and price stabilization schemes designed to stabilize the incomes and consumption of the poor. In contrast, chronic poverty requires more costly and permanent interventions, which aim to increase the opportunities of the poor and make them more productive (e.g., basic education and training, land reforms and resettlement). Unfortunately, neither income/consumption nor participatory approach allow the chronically poor to be distinguished from the transitory poor. But approaches give essentially static picture, one-shot picture of who is poor at a given point of time.

III. IS POVERTY A CURABLE DISEASE? IS DEVELOPMENTAL ASSISTANCE GAINFUL?

Experiences relating to economic development of developing countries experiencing technological backwardness and widening of poverty (welfare) gap within a developing country (with or without external assistance combined with managerial inefficiency and/or managerial scarcity and associated problems) have revealed that, in the name of economic development in the sense of development economist J. Schumpeter, developed countries have ventured into transfer of capital, technology and manpower to developing countries all enveloped in the Seven Ms of industry, viz, Money, Men, Materials, Machine, Market, Motive power and Management. However, a major question has remained unanswered - - has the majority population (76 per cent of the population earning below subsistence level of wages in Nigeria's case according to the "M. R. Kumara Swamy Measure of Welfare Gap")[9] benefited from the fruits of development and/assistance? Or, are development efforts geared to satisfy the needs of the majority four per cent population (affluent group) with support – gainful from a short-term point of view or wasteful from a long-run view point – from multinational corporations and international financial institutions parented in industrialized countries?

TABLE
CORE SECTORAL vs NON-CORE SECTORAL FINANCING BY WORLD BANK' GROUP : AFRICAN REGION

Sector	1979-83 (Annual Average)		1984		1987		1988	
	US$ mn.	% to total	US$ mn.	% to total	US$ mn.	% to total	US$ mn.	% to total
Growth-oriented core sector to attack poverty at grass root level (short gestation period)*	1108	68.0	1412	59.7	982	46.8	1492	50.9
Development-oriented non-core sector techno-industrial development (with long gestation period)**	317	19.4	765	32.2	520	24.8	1275	43.5

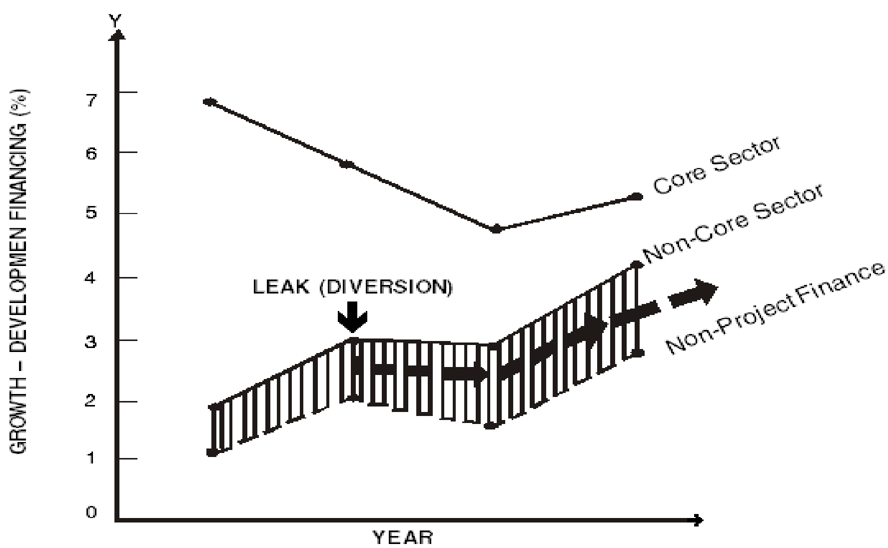
Notes :

* includes agriculture and rural development, education, transportation, energy (power) water supply and sewerage.

** includes industry, non-project assistance, technical assistance, urban development, population, health and nutrition.

Source : World Bank, (i) **Annual Report** : 1988; (ii) **World Development Report** : 1988.

FIGURE
CORE SECTOR – NON-CORE FINANCING BY WORLD BANK : AFRICAN REGION



Unfortunately, such so-called development efforts have benefited the minority four per cent population, leaving the 76 per cent population poorer and the 20 per cent moderately poor, thus, the rich are getting richer and the poor are getting poorer and tend to become vulnerable to poverty and associated chronic problems. According to the World Bank estimates[6], given current trends, the number of people living on incomes on less than one United States dollar a day will rise from 1.1 billion in 1990 to 1.3 billion in the year 1990: and to a higher figure by 2000 and beyond unless drastic measures are taken to attack poverty at grass-root level. In this context, the expert views of development economist, Robert Chambers are highly pertinent to recall:

> "Unlike poverty, vulnerability lacks a developed theory and accepted indicator and methods of measurement - - vulnerability has two sides: an external side of risks, shocks, and stress to which an individual or household is subject; and an internal side which is defenseless, meaning a lack of means to cope without damaging loss. Loss can take many forms becoming or being physically weaker, economically impoverished, socially dependent, humiliated or psychologically harmed[7]."

IV. A FINANCIAL MANAGEMENT CALL FOR A REVIEW OF THE WORLD BANK LENDING POLICY

Based on a detailed and expert financial management analysis of World Bank funding to the African countries carried out by the well-known financial management economist, M. R. Kumara Swamy, it is revealed that, though in value terms, the World Bank funding to the African countries has shown an uptrend, there has been no noticeable (appreciable) improvement in the living standards of most local people in the African countries. Instead, the multinational corporations (MNCs) dominance of the developing countries' (going by Nigeria's experiences) has created a special class of 'get rich soon tendency people', which has helped to bring about artificial economic growth from top (all based on imports of practically every item to satisfy merit and social wants) to suit the requirements of the minority four per cent of the population as in Nigeria's case at the expense of the 76 per cent population who fall below poverty line, based on the "M.R. Kumara Swamy's Measure of Welfare Gap" adopted in the Nigerian Fourth Five Year Plan[9] document, neglecting grassroot economic development path. Coupled with this unsatisfactory situation, a major factor which has hindered African development is managerial scarcity and associated problems leading to diversion or leakage of funds from a set course to wasteful and uneconomic sources and maintenance of non-productive assets (R: rent + P: profit) through non-project assistance to Africa by the World Bank which, for example, amounted to US$ 180 million (annual average during 1979-83 period) rising astronomically to US$ 472 million in 1984 and further to US$ 760 million in 1988 – the same trend has continued so far.

The crux of 'economic development' in the Schumpeterian sense lies in establishing a balanced ratio between productive and unproductive assets. When productive (producing) assets, W (wage fund) > unproductive (non-producing) assets R + P (renters and profiteers), we have, save in exceptional circumstances, a situation of 'organic' development path at gross-root level combined with fair capitalization and initiated by local entrepreneurial abilities. On the other hand, when R+P>W, we have a situation of lopsided economic growth combined with evil effects of overcapitalization and associated diseconomies of scale. Such circumstances lead to adoption of structural adjustment programmes.

V. FINANCIAL MANAGEMENT ANALYSIS OF DATA WITH REFERENCE TO AFRICAN COUNTRIES

Agriculture and rural development: No qualitative change on the part of small peasant farmers who form the bulk of population: funds are diverted to maintain unproductive assets, (R+P), i.e., those people living on rent and profit.

Result: Perennial Poverty at Grass-root Level:

- Transportation : Through this funding, there has emerged a strong class of transport contracting firms whose aim is to maximize profits at the cost of economic development of projects satisfying merit wants;
- Energy (power): Funding has to be strengthened in this sector as rural electrification and power for techno-agricultural development are prerequisites for economic development.
  Result: Gross Underutilization of Industrial Capacity combined with Shortage of Technical Manpower and Equipment;
- Water supply and sewerage: Funding has to be strengthened in this neglected sector.
  Result: Persistent Food Shortages Accompanied by Frequent Inflationary Pressures;
- Industry: Though World Bank Group funding is marginal, the MNC-related financial institutions have been instrumental in providing sizeable finance at exorbitant and variable interest rates;
- Non-project: This is a very strong area where there are leakages and funds are grossly diverted for maintaining unproductive assets, (R+P).
  Result: This has Largely Contributed for the Rich Becoming Richer and the Poor Becoming Miserably Poorer and Rural-Urban Welfare Disparities Have Continued to Widen;
- Urban Development: Any funding for this sector without preparing adequate infrastructure for real economic development in the sense of J. Schumpeter is like a train without an engine.
  Result: Gross Underdevelopment

It is self-explanatory that the World Bank Group lending to the African region has not brought about grass-root economic development; with the result, the natural resource-endowed developing countries of Africa, whose management is techno-managerially controlled by MNCs have been caught in the vicious circle of inflationary spiral, mounting external debt burden combined with lack of executive capacity and associated techno-economic problems.

VI. RECOMMENDATIONS

Based on the above research findings which has important implications for policy, M.R. Kumara Swamy has come out with a strong financial management case for a major restructuring of the World Bank and IMF aims and objectives to tune to the realities of the present times with a view to tackle mounting and pressing techno-economic development problems of widening poverty gap facing the developing countries by putting all hands on deck to promote self-sustainable economic development – agriculture and integrated rural development through village adoption scheme, provision of low cost housing linked to low income through cooperative societies and infrastructure development (mass literacy, health improvement programmes, etc) – all geared to reduce poverty gap. Thus there is an urgent need for rechristening the name of the World Bank (IBRD) as International Bank for Techno-Economic Sustainable Development and grouped into:

(i) International Bank for Sustainable Development (IBSD): to finance development projects and programmes on concessional terms (like the present International Development Association: IDA, the soft-lending associate of the World Bank Group) to get people out of poverty trap; and
(ii) International Bank for Appropriate Technology Development (IBATD): to check development "leak", and to grant loans on conventional terms to help promote techno-economic self-reliance.

Therefore, there is a strong and convincing financial management case for scrapping the World Bank Group – The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) – in their present form as they have outlived their productive lives and establish without delay the proposed restructured institutions – The IBSD and IBATD – to provide the greatest good for the greatest number.

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NOTES

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