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The World Bank and the post-Washington Consensus in Vietnam and Indonesia

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**The World Bank and the Post-Washington Consensus
in Vietnam and Indonesia**

**A thesis submitted in fulfilment of the requirements for the
award of the degree**

Doctor of Philosophy

from

University of Wollongong

by

Susan Engel (BA Hons, MA)

School of History and Politics, Faculty of Arts

2007

Certification

I, Susan Nicolle Engel, declare that this thesis, submitted in fulfilment of the requirements for the award of Doctor of Philosophy, in the School of History and Politics, Faculty of Arts, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

Susan Nicolle Engel

3 August 2007

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List of Abbreviations

ADB	Asian Development Bank
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CGAP	Consultative Group to Assist the Poorest
CGI	Consultative Group for Indonesia
CGV	Consultative Group for Vietnam
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
DPD	Indonesian Regional Representative's Council
DPR	Indonesian House of People's Representatives
DPRD	Indonesian Regional People's Representative Assembly
ECOSOC	Economic and Social Council of the United Nations
EFF	Extended Fund Facility
EIRTP	Eastern Indonesia Regional Transport Project
EOI	Export-Oriented Industrialisation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoI	Government of Indonesia
GoV	Government of Vietnam
HCMC	Ho Chi Minh City
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
ICSID	International Centre for the Settlement of Investment Disputes
IDA	International Development Association
IDT	Program for Villages Left Behind
IFC	International Finance Corporation
IGGI	Inter-Governmental Group on Indonesia
IMF	International Monetary Fund
IPE	International Political Economy
IPP	Independent Power Producer
IR	International Relations
ISI	Import Substitution Industrialisation
JBIC	Japan Bank for International Cooperation
KDP	<i>Kecamatan</i> Development Program
KIP	<i>Kampung</i> Improvement Program
MIGA	Multilateral Investment Guarantee Agency
MIP	Market Improvement Program
MPR	Indonesian People's Consultative Assembly
MTEF	Medium-Term Expenditure Framework

NBER	National Bureau of Economic Research (US)
NCB	National Competitive Bidding
NGO	Non Governmental Organisation
NIE	New Institutional Economics
NPE	New Political Economy
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OP/BP	Operational Policy / Bank Procedures
OPEC	Organization of Petroleum Exporting Nations
PDI	Indonesian Democratic Party
PRSC	Poverty Reduction Support Credit
PRSL	Policy Reform Support Loan
PRSP	Poverty Reduction Strategy Paper
PWC	Post-Washington Consensus
R&D	Research and Development
RE	Rural Electrification
SAC	Structural Adjustment Credit
SAL	Structural Adjustment Loan
SBA	Stand-by Arrangement
SECAL	Sectoral Adjustment Loan
SMEs	Small to Medium Enterprises
SOE	State Owned Enterprise
TEPCO	Tokyo Electric Power Company
UDC	Urban Drainage Company
UDP	Urban Development Project
UN	United Nations
UNDP	United Nations Development Program
UNCTAD	United Nations Conference on Trade, Aid and Development
UPP	Urban Poverty Project
US	United States of America
USAID	United State Agency for International Development
VBARD	Vietnam Bank for Agriculture and Rural Development
VIPs	Village Infrastructure Projects
WATSAL	Water Resources Sector Adjustment Loan
WDR	World Development Report
WSCs	Water Supply Companies
WSSLIC	Water Supply and Sanitation for Low Income Communities

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Abstract

This thesis undertakes a detailed examination of the development theory and practice of the World Bank and, in particular, its shift from the Washington Consensus to the so-called post-Washington Consensus. It does this utilising a Gramscian framework, which means that the Bank is situated as constituent part of the larger hegemonic project of the post-World War Two era. Thus, the first part of the thesis explores the origins, history and development theory of the Bank in the context of the prevailing ideas and political power.

While the Bank's move away from the Washington Consensus from the early to mid-1990s has been explored by a number of academics, this thesis is the first attempt to systematically outline the contents of the post-Washington Consensus development model. These contents are utilised in the second part of the thesis to structure a detailed analysis of the Bank's lending practices in two countries, Vietnam and Indonesia. The case studies enable the development of some empirically-based conclusions regarding the extent to which the rhetoric of the post-Washington Consensus has been incorporated into the Bank's lending practices. They also facilitate some tentative conclusions about the role of the post-Washington Consensus and its relationship to US hegemony.

Part I:

The World Bank, its History, Structure and Operations

Chapter One Introduction

Thesis Approach and Description

This project attempts to analyse the extent and nature of the shift of the World Bank from the so-called Washington Consensus to the post-Washington Consensus (PWC). It does so by evaluating the shift in the Bank's underlying development discourse, as embodied in its statements, reports and operational guidelines from its origins through to recent events. It then goes a step further by examining actual lending practices in two case studies, Vietnam and Indonesia. These detailed studies enable more empirically-based conclusions about the extent to which the shift in rhetoric to the PWC has been incorporated into lending practices, thus providing insights into its lending discourse more generally. In line with the project's Gramscian inspiration, the analysis of the form and content of the Bank's *modus operandi* is undertaken with the aim of challenging mainstream development discourse and more broadly the dominant global financial hegemony, which the Bank both reflects and propagates.

This project sits at the intersection of Development Studies and International Political Economy (IPE). IPE evolved from studies of International Relations (IR) as a result of major events in the 1970s in the arena of so-called 'low' politics. The impact of a turn-around in the US's trade account, the abrogation of the Bretton Woods' agreement by President Nixon in 1971 and the 1973 Organization of Petroleum Exporting Nations (OPEC) oil shock forced (some) IR scholars to abandon the distinction between

economics and politics or to reconceptualise their relationship.¹ Apart from an interest in 'new' issues of low politics and a resultant incorporation of neoclassical behavioural models, mainstream IPE scholarship, has as Stephen Krasner readily acknowledged generally "...accept[ed] the basic analytic assumptions of structural realist approaches."² These basic analytic assumptions include positivist epistemology, a pessimistic view of human nature, a belief in the state as the main actor in international relations and the proposition that states are focused on obtaining and maintaining power.³

This project is informed by a critical IPE approach. This approach was pioneered by scholars such as Susan George whose untiring focus on the marginalised, hungry and poor has been an inspiration, as has her work both as an academic and campaigner against the World Bank. Robert Wade has challenged orthodox explanations of development in relation to the role of the state through his detailed empirical work on East Asia. He provided an insider's understanding of the Bank's operations and ideology and insights into the development discourse more broadly. It is from Robert Cox though, that my theoretical and political position has gained particular clarity, as it was he who introduced the work of Antonio Gramsci to IPE. And it is from Gramsci's approach to the analysis of the creation of specific forms of hegemony by the dominant social forces and Cox's attempt to apply it in the international sphere, that this analysis of the World Bank draws its inspiration.

Gramsci's work is, of course, the subject of many interpretive debates and it is beyond the scope of this thesis to engage fully in these or in a comprehensive account of his

¹ Craig N. Murphy and Roger Tooze, "Introduction," in Craig N. Murphy and Roger Tooze (eds.), *The New International Political Economy* (Boulder: Lynne Rienner Publishers, 1991), p. 3.

² Stephen Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables," in Stephen Krasner (ed.), *International Regimes* (Ithaca: Cornell University Press, 1983), pp. 1-2. See also Stephen Gill, *Power and Resistance in the New World Order* (New York: Palgrave Macmillan, 2003), pp. 15-40, Craig N. Murphy and Roger Tooze, "Getting Beyond The 'Common Sense' Of the IPE Orthodoxy," in Craig N. Murphy and Roger Tooze (eds.), *The New International Political Economy* (Boulder: Lynne Rienner Publishers, 1991) and Murphy and Tooze, "Introduction."

³ The last two themes are derived from the work of Morgenthau, see Hans J Morgenthau, *Politics among Nations: The Struggle for Power and Peace* (New York: Alfred A. Knopf, 1972). An excellent overview of the impact of positivism on both International Relations and IPE is available in, Jim George, *Discourses of Global Politics: A Critical (Re)Introduction to International Relations* (Boulder, Co.: Lynne Rienner Publishers Inc, 1994). For a critique of the outcomes of positivism on the discipline see John A. Vasquez, *The Power of Power Politics: A Critique* (London: Frances Pinter, 1983), John A. Vasquez, *The Power of Power Politics: From Classical Realism to Neotraditionalism* (Cambridge: Cambridge University Press, 1998).

work. To be clear, I must acknowledge that my interpretation and reading of Gramsci is framed by the critical IPE literature and its ambition to supersede positivist IR scholarship. There are critics of the critical IPE reading of Gramsci, however, they tend to downplay the importance in both Gramsci and current critical IPE literature of engaging with, and providing an alternative to, the thinkers of his time.⁴ Thus the purpose of understanding Gramsci here is not to articulate a universal Gramscian framework, rather it is to explore concepts and ideas that are useful for understanding and analysing the forms and operations of IPE today.⁵

Why the World Bank?

Since the 1980s, the Bank has been at the centre of a new neoliberal global intellectual hegemony in development theory and practice. The Bank assumed this role because as an international organisation it had credibility and a veil of independence, yet at the same time it had demonstrated its usefulness in promoting US interests over a number of decades.⁶ US support for the Bank was also part of its attack on the United Nations (UN) development agencies, which had historically pursued a more radical development agenda.⁷ The UN agenda saw development as not merely catch up by developing economies but transformation of global economic and political structures, requiring some sacrifices from the West. Whereas, despite its dedication and rededication to poverty eradication on a number of occasions since the 1970s, the Bank remains a conservative and mainstream lender whose theory and practices support the current world US neoliberal hegemony.

⁴ A recent well known critique of the reading of Gramsci in IPE is by Randall D. Germain and Michael Kenny, "Engaging Gramsci: International Relations Theory and the New Gramscians," *Review of International Studies*, Vol. 24, (1998).

⁵ This is articulated in the responses to Germain and Kenny by Adam David Morton, "Historicizing Gramsci: Situating Ideas in and Beyond Their Context," *Review of International Political Economy*, Vol. 10, No. 1 (2003), Mark Rupert, "(Re-)Engaging Gramsci: A Response to Germain and Kenny," *Review of International Studies*, Vol. 24, (1998).

⁶ On the Bank's usefulness to American interests, see the leaked details from a US Treasury report in, Walden Bello, *Dark Victory : The United States, Structural Adjustment, and Global Poverty* (London: Pluto, 1994), pp. 32-34.

⁷ Branislav Gosovic, "Global Intellectual Hegemony and the International Development Agenda," *International Social Science Journal*, Vol. 52, No. 166 (2000), p. 454.

The World Bank is the largest and most powerful global development agency. In 2007, it added its 185th member and had offices in over 100 countries. Its development lending arms – the International Bank for Reconstruction and Development (IBRD) and the International Development Agency (IDA) – have cumulatively lent USD \$590.2 billion to the end of the 2006 financial year.⁸ In the 2004 financial year, the last year of the case studies in this thesis — it committed \$20.1 billion in new loans and it disbursed just over \$17 billion in loans and \$3.28 billion from trust funds.⁹ Co-financing of its loans by other bi- or multilateral development agencies further expands its influence. The Bank's \$20.3 billion was equivalent to 7.3 per cent of Foreign Direct Investment (FDI) flows to developing countries in 2004, which amounted to \$275 billion.¹⁰ However, over 46 per cent of FDI flows to developing countries went to just five recipients: China, Hong Kong, Mexico, Brazil and Singapore. If you deduct these flows, FDI to developing countries was \$128.7 billion and Bank assistance equalled 15.6 per cent of their total value. Bank disbursements to its 47 African borrowers in 2004 were equivalent to 26.8 per cent of the value of FDI flows to these countries.¹¹

The relative significance of the Bank's lending operations in purely financial terms has ebbed and flowed over the years,¹² but it remains at the forefront of investment decisions guiding the priorities of private investors. The *Doing Business* series of flagship publications, which started in 2004, have been “most influential” and only

⁸ All currency references are to US dollars unless specified otherwise. Data source: World Bank, *The World Bank Annual Report 2006* (Washington: World Bank, 2006).

⁹ World Bank, *The World Bank Annual Report 2004, Volume 1 Year in Review* (Washington: World Bank, 2004), pp. i and 112. The value of trust funds in 2004 was \$8.6 billion.

¹⁰ United Nations Conference on Trade and Development, *World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development* (Geneva: United Nations, 2006), p. 300.

¹¹ World Bank, *Annual Report 2004*, p. 29 and United Nations Conference on Trade and Development, *World Investment Report 2006*, pp. 299-300.

¹² After declining between 2000 and 2003, FDI started an upward trend in 2004, United Nations Conference on Trade and Development, *World Investment Report 2006*, p. 4. Even in this context of increasing FDI flows, Bank assistance remains significant despite another of the recurrent crises in the Bank about the relevance of its lending program when facing competition from FDI. The concerns can be seen in a number of testimonies to the recent House Committee on Financial Services, “The Role and Effectiveness of the World Bank in Combating Global Poverty” (Washington: 22 May, 2007), available from: http://www.house.gov/apps/list/hearing/financialsvcs_dem/ht052207.shtml, accessed: May 2007. The current crises *may* be more significant than previous ones but the fact that these crises about the relevance of Bank lending have reoccurred, suggests the need for a degree of scepticism about their importance. Further, the recent growth in FDI flows has been concentrated in “a few specific industries, rather than being broad-based sectorally. Specifically, in 2005, oil and gas, utilities (telecommunications, energies), banking and real estate were the leading industries.” United Nations Conference on Trade and Development, *World Investment Report 2006*, p. 7.

added to the Bank's relevance to the private sector.¹³ This capacity to impact on private capital markets may be of greater consequence than the dollars the Bank lends. Moreover, the authoritativeness of the Bank's analysis and model of development have only increased over the last two decades. This is because as well as offering loans and grants, the Bank provides technical assistance and advice; mobilises economic survey missions; undertakes sectoral surveys; and organises consultative groups of major donors to review the progress of particular countries development programs and policies.

The Bank is *the* largest development research organisation in the world and probably the largest development training organisations in the world. Through the World Bank Institute, it trains around 47,000 people per year. The main targets of its training programs are developing country government officials and its own staff, though in more recent years the Institute has broadened its reach to include staff from Non-Governmental Organisations (NGOs), journalists, academics and other development specialists; they even train parliamentarians, secondary school teachers and children.¹⁴ The Bank's research capacity is many times larger than any university research department. According to Nicholas Stern and Francisco Ferreira, by the early 1990s it had several hundred people working full-time on research and many more who spend part of their time on research activities.¹⁵ It is not only the main source of research for its own staff, but for other development agencies and multilateral banks and for the World Trade Organization, which initially had only limited research capacity. It is very influential in academic debate, particularly in the field of development economics.¹⁶ The Bank has a larger research and analytical capacity than many of the developing

¹³ Abhijit Banerjee, et al., "An Evaluation of World Bank Research, 1998-2005" (World Bank, September 24 2006), available from: <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/0,,contentMDK:21165468~pagePK:64165401~piPK:64165026~theSitePK:469372,00.html>, accessed: May 2007, p.49.

¹⁴ Prior to 1999, the staff training function was separated from the then Economic Development Institute, where government officials were trained.

¹⁵ Nicholas Stern and Francisco Ferreira, "The World Bank As "Intellectual Actor", in Devesh Kapur, John P. Lewis and Richard Webb (eds.), *The World Bank Its First Half Century, Volume 2: Perspectives* (Washington D.C.: Brookings Institution Press, 1997), p. 593. There are around 95 researchers in the Development Research Group but the Bank's formal definition of its research activities is very narrow and excludes most of its analytical and advisory services — its research budget is only eleven per cent the analytical and advisory services budget, Abhijit Banerjee, et al., "An Evaluation of World Bank Research, 1998-2005," pp. 24-7

¹⁶ Robin Broad, "Research, Knowledge, and the Art of 'Paradigm Maintenance': The World Bank's Development Economics Vice-Presidency (DEC)," *Review of International Political Economy*, Vol. 13, No. 3 (2006), pp. 395-396.

countries it lends to. In 1996, it set about intensifying its research strengths through the Knowledge Bank initiative, which includes a massive web presence. The Bank uses its research selectively to promote a particular view of development. This was highlighted in a recent Bank-commissioned review of its research by a group of prominent economists.¹⁷ The review highlighted the way that the Bank promoted and extensively used research by David Dollar and Aart Kray on the relationship between growth, openness and poverty reduction, which essentially argues that countries (across time and space) that are open to trade and have ‘sound’ policy settings have achieved better poverty reduction.¹⁸ The review by prominent economists found that:

...much of this line of research appears to have such deep flaws that, at present, the results cannot be regarded as remotely reliable... The problem is that in major policy speeches and publications, it [the Bank] proselytised the new work without appropriate caveats on its reliability... Nor has it corrected itself to this day.¹⁹

What is the World Bank?

What we now refer to as the World Bank Group, started with one institution — the International Bank for Reconstruction and Development (IBRD), which was established through the Bretton Woods agreements of 1944. The World Bank became a group in 1956 with the formation of the International Finance Corporation (IFC) and was further expanded with the creation of: the International Development Association (IDA) in 1960; the International Centre for the Settlement of Investment Disputes (ICSID) in 1966; and the Multilateral Investment Guarantee Agency (MIGA) in 1988.²⁰ However, as the World Bank Group itself states, the term ‘World Bank’ refers only to the IBRD

¹⁷ Abhijit Banerjee, et al., "An Evaluation of World Bank Research, 1998-2005."

¹⁸ There were a number of papers in the series of research but the most widely cited is David Dollar and Aart Kray, "Growth Is Good for the Poor," *Journal of Economic Growth*, Vol. 7, No. 3 (2002).

¹⁹ Abhijit Banerjee, et al., "An Evaluation of World Bank Research, 1998-2005," p. 53.

²⁰ The IFC invests in private enterprises via loans and guarantees and provides risk management and advisory services. MIGA was established to guarantee foreign investors against losses from non-commercial risks such as expropriation, currency inconvertibility and transfer restrictions or war and civil disturbances. ICSID's role is conciliation and arbitration of investment disputes.

and the IDA — the Bank's two development lending arms, which are the focus of this thesis.²¹

The IBRD and IDA were each established with their own Articles of Agreement but they operate as a single entity— they share the same staff, headquarters and president. A country must be a member of IBRD to be a member of IDA, as it must be a member of the International Monetary Fund (IMF) to be a member of the IBRD. The Board of Governors and Executive Directors of the IBRD are *ex officio* those of the IDA, so long as the members of each are also members of the IDA. The 24 Executive Directors of the IBRD comprise five appointees from the countries with the five largest shareholdings and 19 Directors elected by the remaining Governors. This means that the largest shareholders in the IBRD automatically have Directors in the IDA, regardless of their level of subscription. In both organisations, voting is based on the number of shares or the level of subscription.²² In the case of appointed Directors, they are able to cast the number of votes held by the member who appointed them and, in the case of elected Directors, the number of votes that were cast for them in their election.

The Bank is a “specialized agency” of the United Nations (UN), as per Articles 57 and 63 of the UN Charter. Article 63 of the Charter gives the Economic and Social Council (ECOSOC) primary responsibility for coordinating specialised agencies. However, even under the highly decentralised and “...somewhat vague co-ordinating authority”²³ of ECOSOC, the Bretton Woods institutions are “...rather ‘special’ specialized agencies.”²⁴ This relationship is discussed further in Chapter Two, which examines the establishment of the IBRD.

The principal difference between the IDA and IBRD is that IDA provides zero interest loans (called credits) to the poorest of countries, defined in 2007 as those with a per capita income of less than \$1,025, whereas the IBRD provides loans to middle income

²¹World Bank Group Website, ‘About Us’ available from: <http://www.worldbank.org>, accessed: March 2003. All references in this thesis to the World Bank or the Bank thus refer to the IBRD and IDA only.

²² The voting structure for the IBRD is outlined in Chapter One and for the IDA in Chapter Two.

²³ Paul Taylor, “Managing the Economic and Social Activities of the United Nations System: Developing the Role of ECOSOC,” in Paul Taylor and A.J.R Groom (eds.), *The United Nations at the Millennium: The Principal Organs* (London and New York: Continuum, 2000), p. 102.

²⁴ Edward S. Mason and Robert E. Asher, *The World Bank since Bretton Woods* (Washington, D.C.: The Brookings Institution, 1973), p. 58.

and credit-worthy poorer countries at current market rates. IDA loans generally are over longer terms (now 20, 35 or 40 years), have a ten years grace period but do attract three-quarters of a per cent annual service charge. IBRD loans are shorter terms (generally a maximum of 25 years), have only a five or seven year grace period and attract market-based interest rates, though at the bottom end of the market rate given the Bank's 'triple A' credit rating. The IBRD raises most of its funds from international financial markets, while the IDA requires regular replenishments from governments in developed countries plus it receives profits transferred from the IBRD. In the ten years to 2004, IBRD lending averaged 67 per cent of total new commitments, through the range varied from 55 to 75 per cent.²⁵

Understanding Hegemony

Hegemony was used by Gramsci to describe "...a relation, not of domination by means of force, but of consent by means of political and ideological leadership. It is the organisation of consent."²⁶ Gramsci was predominately interested in how the working classes can organise consent and thus hegemony within a country, however, he also analysed the nature and form of bourgeois hegemony. Anderson claimed that it was this later use of "...the concept of hegemony for a *differential analysis of the structure of bourgeois power in the West*" that "was a new and decisive step."²⁷ This later usage of hegemony is also where he conceptualised its unique combination of coercion and consent.²⁸

Hegemony operates in society across both the economic structure and the superstructural levels of civil society and political society.²⁹ According to Anderson and others, there are discrepancies in Gramsci's work in the formulation and inter-relations of these levels. He identified three different conceptions of economy, state, civil society:

²⁵ World Bank, *Annual Report 2004*, p. i and World Bank, *The World Bank Annual Report 1999* (Washington: World Bank, 1999), p. ii.

²⁶ Roger Simon, *Gramsci's Political Thought: An Introduction* (London: Lawrence & Wishart Ltd, 1991), p. 22.

²⁷ Perry Anderson, "The Antinomies of Antonio Gramsci," *New Left Review*, Vol. 100, (1976), p. 20.

²⁸ *Ibid*, p. 31.

²⁹ Enrico Augelli and Craig N. Murphy, "Gramsci and International Relations: A General Perspective and Example from Recent US Policy Towards the Third World," in Stephen Gill (ed.), *Gramsci, Historical Materialism and International Relations* (Cambridge: Cambridge University Press, 1993), p. 128.

the first involves a distinct dichotomy between civil society and the state with hegemony located in civil society and domination located in the state.³⁰ This conception is seen in the oft-quoted section from Gramsci:

[w]hat we can do, for the moment, is to fix two major superstructural 'levels': the one that can be called 'civil society', that is the ensemble of organisms commonly called 'private', and that of 'political society' or 'the State'. These two levels correspond on the one hand to the function of 'hegemony' that the dominant group exercises through society and on the other hand to that of 'direct domination' or command exercised through the State and 'juridical' government.³¹

The second conception is more of a balance between state and civil society with hegemony as a combination of coercion and consent operating in both spheres.³² The third formulation, suggests a civil society / state nexus. Anderson understood this formulation as the state encompassing political and civil society. He was suspicious of this blurring of the boundaries, suggesting that it inhibits the development of a "...scientific theory of the total articulation of capitalist social formations."³³ Randall Germain and Michael Kenny, however, argued it is most appropriate to acknowledge the presence of both positions — or the possibility of finding them — in Gramsci.³⁴ Alternatively, it can be argued that it is precisely the rejection of dichotomous modes of analysis in this third formulation that is most reflective of Gramsci's historicist approach and thus, provides a more sophisticated understanding of state / civil society relations whilst maintaining a distinction between them.

For Gramsci, hegemony is organised through leadership, alliances and networks in a context of continuous ideological and political struggle. Consent can be obtained by combining the interests of various social forces around particular populist causes such as struggles for democracy; or it can be obtained through compromise and persuasion. As Gramsci said:

³⁰ Anderson, "The Antinomies of Antonio Gramsci," p. 26. Anderson derives this usage from Gramsci's discussion of the differences in state and civil society relations between East and West.

³¹ Antonio Gramsci, *Prison Notebooks* Trans. Joesph A. Buttigieg (New York: Columbia University Press, 1996), p. 138.

³² Anderson, "The Antinomies of Antonio Gramsci," p. 31.

³³ Ibid, p. 35.

³⁴ Germain and Kenny, "Engaging Gramsci," pp. 13-14.

[o]bviously, the fact of hegemony presupposes that the interests and tendencies of those groups over whom hegemony is exercised have been taken into account and that a certain equilibrium is established. It presupposes, in other words, that the hegemonic group should make sacrifices of an economic-corporate kind; these sacrifices, however, cannot touch the essential... the decisive core of economic activity.³⁵

Here we have also the idea that each hegemonic system is organised around a set of core ideas that cannot be challenged without overturning the hegemony, which, following Richard Howson, are termed here “hegemonic principles.”³⁶ The ideological and political struggles of hegemonic groups are designed to change the theoretical, social and also cultural framework of social forces in order that they support their hegemony.

Ideology, the framing of knowledge, is one of the key terrains on which hegemonic struggles are fought. In a historically organic form, Gramsci argued that ideology organises human thought and action and it structures the practical and moral framework.³⁷ Equally though social organisation (especially work) frames ideology, producing a frequently reductionist ‘common sense.’ Ultimately, as Simon pointed out:

Gramsci considers that an ideology is not to be judged by its truth or falsity but by its efficacy in binding together a bloc of diverse social elements, and in acting as cement or as an agent of social unification.³⁸

In liberal democratic societies ideological dominance is achieved via legitimation and validation and this involves a genuine engagement with non-hegemonic discourse, bounded by hegemonic principles such as the private ownership of property and the use of markets to generally manage the production and distribution of goods and services. In other words, ideology is never mere manipulation or brainwashing.

Ideology is a difficult terrain for counter-hegemonic struggles because of “...the tendency of public discourse to make some forms of experience readily available to

³⁵ Gramsci, *Prison Notebooks*, p. 138.

³⁶ Richard Howson, *Challenging Hegemonic Masculinity* (London, New York: Routledge, 2006), p. 25.

³⁷ Simon, *Gramsci's Political Thought*, p. 59.

³⁸ *Ibid*, p. 61.

consciousness while ignoring or suppressing others.”³⁹ The working classes, in particular, tend towards passive submission to an inherited, “...uncritical and largely unconscious” common sense.⁴⁰ Equally though, Gramsci pointed out that the constructed nature of common sense makes it a fertile ground for resistance. There are tensions in the discussions of ideology in the *Prison Notebooks* that T.J. Jackson Lears explained as remnants of the concept of false consciousness in Gramsci’s work and which, he suggested, tend to obscure ‘subjective’ needs (family, community, religion, etc) that are not underpinned by class. Thus, a Gramscian approach can be reproached for ignoring the fact that “...most radical anticapitalist protests have been rooted not in Marxist universalism but in local traditions undermined by industrialization.”⁴¹

The efficacy of ideology is partly the product of specific agents, ‘organic intellectuals’, who enunciate, organise and reform its components. As Gramsci put it, every social force “...creates one or more strata of intellectuals who give it homogeneity and an awareness of its own function not only in the economic but also in the political and social fields.”⁴² These intellectuals are the organisers of the superstructure:

[t]he intellectuals are the dominant group’s ‘deputies’ exercising the subaltern functions of social hegemony and political government. These comprise: 1. The ‘spontaneous’ consensus given by the great masses of the population to the general direction imposed on social life by the dominant fundamental group; this consent is ‘historically’ caused by the prestige (and consequent confidence) which the dominant group enjoys because of its position and function in the world of production. 2. The apparatus of State coercive power which ‘legally’ enforces discipline on those groups who do not ‘consent’ for the whole of society in anticipation of moments of crisis of command and direction when spontaneous consent has failed.⁴³

³⁹ T.J. Jackson Lears, "The Concept of Cultural Hegemony: Problems and Possibilities," *The American Historical Review*, Vol. 90, No. 3 (1985), p. 577.

⁴⁰ Simon, *Gramsci's Political Thought*, pp. 64-65.

⁴¹ Lears, "The Concept of Cultural Hegemony," pp. 578-582.

⁴² Antonio Gramsci, *Selections from the Prison Notebooks of Antonio Gramsci* Trans. Quintin Hoare and Geoffrey Nowell Smith (London: Lawrence and Wishart, 1971), p. 4. Also quoted in Simon, *Gramsci's Political Thought*, p. 60.

⁴³ Gramsci, *Selections from the Prison Notebooks*, p. 12.

Gramsci's belief in the power of organic intellectuals to transform the working class is somewhat difficult to understand in today's social and political circumstances, at the same time there is little doubt that intellectual production has played a significant role in the ascent of neoliberalism, which is a crucial element of the current international hegemony. Gramsci's discussion and analysis of ideology is a useful antidote to mainstream IPE, which generally remains silent on this issue.

If dominant forces are successful, meaning that they predominate for a long duration, Gramsci labelled this ensemble of interests as an 'historic bloc.'⁴⁴ Historic blocs are not always hegemonic. The concept of historic blocs is important because it is linked to the economic base, through the decision-making framework, thus historic blocs craft the production and distribution of goods and services. Equally, the concept enables analyses to go beyond the traditional Marxist focus on class, promoting an analysis of social forces that is not limited to ownership of the means of production. Analysis can incorporate issues of culture, populism, religion, theory and ideology.⁴⁵ For a critical IPE approach, historic blocs provide a concrete means to overcome mainstream closure on the content of the state by adding analysis of economic, social and cultural relations to structural realist assumptions about the basis of international relations. Viewing states as historically contingent and constructed historic blocs involving economic, political, social and cultural influences, produces a very different understanding of global processes.

Historic blocs are not static — social forces are constantly shifting, influenced by counter-hegemonic movements as well as shifting groupings within the dominant social forces. Gramsci highlighted two types of change in his analysis, one is short-term and non-structural, whilst the other is significant, structural and often long lasting. Structural change generally results in re-shaping all elements of the historic bloc — institutions, alliances and ideology.⁴⁶ Gramsci did not dismiss either form of change because: "...a social form 'always' has a marginal possibility for further development and

⁴⁴ Simon, *Gramsci's Political Thought*, pp. 32-33.

⁴⁵ Lears, "The Concept of Cultural Hegemony," p. 571.

⁴⁶ Simon, *Gramsci's Political Thought*, p. 39.

organisational improvement.”⁴⁷ However, he had a particular interest in the response of dominant social forces to significant changes in socio-economic systems and concluded that they normally employ a strategy of ‘passive revolution’ or ‘revolution from above.’ Passive revolution is a way that dominant social groups manage social change to ensure their dominance is maintained and, at the same time, the possibility of oppositional change is minimised or indeed, excluded.⁴⁸ The primary form of this strategy is utilisation of the institutions of the state to achieve structural changes in the economy to shape a new historic bloc.⁴⁹ This analysis is very relevant to understanding the role of an international institution like the World Bank.

Gramsci saw that the advance to socialism required labour and other emancipatory movements to combine to build counter-hegemony. This requires a prolonged strategy of moral and ideological reform, which Gramsci labelled ‘war of position’ to distinguish it from the ‘war of movement’ of the Russian Revolution where power was seized through a frontal attack on the state. This later strategy, he suggested, was not suitable for liberal capitalist societies with complex state—civil society formations, which can easily overcome direct attacks. It is, however, a difficult strategy as there is a constant danger that acceptance of incremental gains within the existing hegemony will capture a movement and negate its long-term revolutionary potential.

Hegemony, for Gramsci, was not just an organising concept it also has epistemological value.⁵⁰ While noting the debates around his epistemological (ontological and methodological) position, this work is informed by an understanding of Gramsci as a historicist. As Adam Morton and Andrea Bieler contended, this demanded research: “...based on critical reflection which involved acknowledging the role played by existing forms of thought and their relation to the actual world which produced them and in which they were received.”⁵¹ This project then, takes practical inspiration from

⁴⁷ Gramsci, *Selections from the Prison Notebooks*, p. 222. Also quoted in Simon, *Gramsci's Political Thought*, p. 39.

⁴⁸ Anne Showstack Sassoon, "Globalisation, Hegemony and Passive Revolution," *New Political Economy*, Vol. 6, No. 1 (2001), p. 8.

⁴⁹ Simon, *Gramsci's Political Thought*, p. 50. On the sometimes competing uses of the terms ‘state’ and ‘civil society’ in Gramsci see Anderson, "The Antinomies of Antonio Gramsci," pp. 10-13.

⁵⁰ Gramsci, *Prison Notebooks*, p. 187.

⁵¹ David Adam Morton, "On Gramsci," *Politics*, Vol. 19, No. 1 (1999), p. 4. See also Stephen Gill and David Law, "Global Hegemony and the Structural Power of Capital," in Stephen Gill (ed.), *Gramsci*,

Gramsci.⁵² That is, whilst engaging with the significance of theoretical and philosophical debates around hegemony, it uses them to undertake a detailed and concrete analysis of the day-to-day operations of the World Bank, the aim of which is to contribute to the political struggle against the operations of the Bank and other international institutions whose existence, in the final analysis, does little to improve the lives of millions in the developing world. However, this approach does not reduce all development efforts to a capitalist conspiracy or claim that organisations like the World Bank always operate consistently. Rather, it paints a complex picture of ideologies, social formations and relations of production that generate compromise, conflict and change.

Hegemony and World Order

There remains, however, a problem in the theoretical approach for this project; hegemony for Gramsci, is organised and analysed at the national level — understanding the specific social, historical and cultural organisation within a country is seen as essential to an emancipatory project.⁵³ Indeed, Gramsci wrote at a time when nation-states dominated Europe and North America but in other parts of the globe colonial relations intersected with local traditions and structures in diverse ways. That is, it was not yet certain that the international system would, to a large extent, be structured by nation-states. However, Gramsci was aware that social forces were driving the creation of nation-states and regional and international levels of action. In one of his key notes, “Analysis of Situations. Relations of Force” he stated that “...international relations intertwine with these internal relations of nation-states, creating new, unique and historically concrete combinations.”⁵⁴ The acknowledgement in Gramsci’s work of the existence of an international or global level of action extends to the possibility of “combinations of States in hegemonic systems.”⁵⁵ The “Analysis of Situations” note asks the question: “Do international relations precede or follow (logically) fundamental

Historical Materialism and International Relations (Cambridge: Cambridge University Press, 1993), pp. 17-20.

⁵² Morton, “On Gramsci,” pp. 5-6.

⁵³ Simon, *Gramsci’s Political Thought*, p. 35.

⁵⁴ Gramsci, *Selections from the Prison Notebooks*, p. 182. That this is a key note is also the position of Howson, *Challenging Hegemonic Masculinity*, p. 13.

⁵⁵ Gramsci, *Selections from the Prison Notebooks*, p. 176.

social relations?" The answer: "There can be no doubt that they follow... However, international relations react both passively and actively on political relations."⁵⁶ In his notes on economic trends and developments, Gramsci noted that "...the world is a unit, whether we like it or not..."⁵⁷ This world is made up of states, which are structurally differentiated — there are "hegemonic states" and "subaltern states" and the history of the latter needs to be understood at least partly in relation to the history of the former.⁵⁸ Moreover, in a discussion on international trade and tariff barriers, he pointed out that states have made "...various attempts at organising the world market and establishing the most favourable position in it..."⁵⁹ Here too, is the idea that domestic hegemonic social forces can exert their influence internationally.

Other examples in his work of analysis of the simultaneous operation of social forces in national and international arenas include his critique of the Comintern, the impact of Fordism on Europe and his writing on the structure and organisation of the Catholic Church.⁶⁰ Susan George and Fabrizio Sabelli's 1994 book on the World Bank drew significantly on Gramsci's analysis of the organisation and moral/intellectual project of the Catholic Church.⁶¹

From Gramsci's somewhat sketchy comments on the international realm, Cox attempted to construct an explicit Gramscian analysis of hegemony at the international level or, as Cox called it, the level of world orders. He has done this in an age where the world is more interconnected than ever through a whole series of international institutions. Cox's schema involved analysis of hegemonic and non-hegemonic forces in three interrelated spheres of historically current activity, namely social forces, states and world orders. Relations of production fundamentally shape social forces and this, for him, was the

⁵⁶ Ibid.

⁵⁷ Antonio Gramsci, *Further Selections from the Prison Notebooks* Trans. Derek Boothman (London: Lawrence and Wishart, 1995), p. 221.

⁵⁸ Ibid, p. 222.

⁵⁹ Ibid, p. 232.

⁶⁰ On Fordism see Gramsci, *Selections from the Prison Notebooks*, pp. 279-318. Much of the analysis of the Catholic Church is in Gramsci, *Further Selections from the Prison Notebooks*, pp. 1-137. See also Gramsci, *Selections from the Prison Notebooks*, p. 340 and Gramsci, *Prison Notebooks*, especially the Fifth Notebook. For an analysis of the international nature of this analysis see, Augelli and Murphy, "Gramsci and International Relations," pp. 129-130 and 144. Anderson also points out the "...terrain of discourse is manifestly universal," Anderson, "The Antinomies of Antonio Gramsci," p. 20.

⁶¹ Susan George and Fabrizio Sabelli, *Faith and Credit: The World Bank's Secular Empire* (London: Penguin Books, 1994).

starting point for analysing hegemony.⁶² His focus on production has led to critiques from Gramscian inspired scholars and others, of an overemphasis on economic relations at the expense of ideology, culture, etc. While the critique does have some substance, Cox noted that for him production:

...is to be understood in the broadest sense. It is not confined to the production of physical goods used or consumed. It covers the production and reproduction of knowledge and of the social relations, morals and institutions that are prerequisites to the production of physical goods.⁶³

Understanding the social relations of production, which are not restricted to the boundaries of states, facilitates analysis of dominant groups both across states and world orders.

In contrast to much mainstream IPE theory, Cox does not accept the unity of the state. Forms of state need to be explained via the analysis of state and civil society (social forces) connections.⁶⁴ They can be influenced by the structure of the world order and can influence the structure. Cox utilised the Gramscian idea of an historic bloc to analyse the development of forms of states and their underlying dominant social forces as well as their movements towards hegemony. And following Gramsci too, the purpose of this was always a practical one — only through such mediations can an understanding of the potentials for resistance and transformation be developed.⁶⁵

In the final sphere of world orders, Cox retained (as in Gramsci) the national sphere as the foundation of the hegemonic historic blocs. He proposed that a "...world hegemony is thus in its beginnings an outward expansion of the internal (national) hegemony

⁶² Andreas Bieler and Adam David Morton, "A Critical Theory Route to Hegemony, World Order and Historical Change: Neo-Gramscian Perspectives in International Relations," *Capital & Class*, Vol. 82, (2004), p. 89, Robert W. Cox, "Social Forces, States and World Orders: Beyond International Relations Theory," in R Keohane (ed.), *Neorealism and Its Critics* (New York: Columbia University Press, 1986), pp. 220-225.

⁶³ Quoted in Bieler and Morton, "A Critical Theory Route to Hegemony, World Order and Historical Change," p. 89.

⁶⁴ Cox, "Social Forces, States and World Orders," p. 223. See also Augelli and Murphy, "Gramsci and International Relations," pp. 129-130.

⁶⁵ Cox, "Social Forces, States and World Orders," p. 230.

established by a dominant social class.”⁶⁶ However, a national hegemony can form the basis of a world order if the hegemony is universalist and the national state can ensure its development and protection. As Bieler and Morton explained:

[h]egemony can therefore operate at two levels: by constructing an historical bloc and establishing social cohesion *within* a form of state as well as by expanding a mode of production *internationally* and projecting hegemony through the level of world order.⁶⁷

As important as the internationalisation of production, is the internationalisation of the state. Cox perceived the current hegemony as an outwards expansion of the dominant American historic bloc and he labels this: *pax americana*. The legitimating ideology of *pax americana* is neoliberalism. Reconciliation of the world economy and domestic pressures under it involves practices of policy harmonisation, varied roles for key state agencies and active international institutions.⁶⁸ Cox also identified a range of ways in which hegemony is expressed by international organisations as both the products of the hegemonic world order and institutions that facilitate the expansion of the rules of that order, in this case neoliberalism. Institutions function to legitimate rules, engage social forces in developing countries in an order and they serve to “absorb counter-hegemonic ideas.”⁶⁹ To Cox’s schema highlighting international order, I would add that hegemony can have regional dimensions and that regional structures and relations can mediate the impact of national and international historic blocs.

Randall Germain and Michael Kenny (1998) questioned the accuracy of Cox’s (and other critical IPE scholars’) reading of Gramsci. But, as Morton argued, this critique represents a kind of “austere historicism,” which suggests that the ideas of writers in the past are not relevant to analysis today.⁷⁰ Further, as Morton demonstrated, austere historicism is not consistent with Gramsci’s theoretical or political project, which was a transformative one.⁷¹ Thus the purpose of understanding Gramsci in critical IPE is not

⁶⁶ Robert W. Cox, "Gramsci, Hegemony, and International Relations: An Essay in Method," in Robert W. Cox and J. Sinclair (eds.), *Approaches to World Order* (Cambridge: Cambridge University Press, 1996), p. 137.

⁶⁷ Bieler and Morton, "A Critical Theory Route to Hegemony, World Order and Historical Change," p. 93.

⁶⁸ Cox, "Social Forces, States and World Orders," pp. 230-232.

⁶⁹ Cox, "Gramsci, Hegemony, and International Relations," p. 138.

⁷⁰ Morton, "Historicizing Gramsci," p. 120.

⁷¹ Ibid. See also Rupert, "(Re-)Engaging Gramsci."

to articulate a universal Gramscian framework, rather it is to explore concepts and ideas that are useful for understanding and analysing the forms and operations of IPE today.

The historian Giovanni Arrighi explained world hegemony somewhat differently from Cox, as "...the power of a state to exercise governmental functions over a system of sovereign states." However, his analysis of the shift from the previous period of hegemony, which he called 'Free-Trade Imperialism' to the current period of US hegemony, also highlights the importance of institutions and rules and norms. Arrighi argued that in:

...comparison with Free-Trade Imperialism, the institutions of US hegemony have considerably restricted the rights and powers of sovereign states. The principles, norms, and rules to which states must submit have increased in number and have become tighter, while a growing number of supranational organisations have acquired autonomous power to overrule the interstate system.⁷²

The strength of this system is demonstrated by that fact that it is very difficult to operate outside of the network of institutions, norms and transnational corporations, except at enormous cost.⁷³ With the increasing incorporation of the former Soviet Union and communist states into the global economy, this argument is more salient today than when it was written over a decade ago.

While taking the work of Cox as my starting point, I hope through this case study of the World Bank in Vietnam and Indonesia to more effectively incorporate Gramsci's framework and example by building a deeper understanding of the relationship between *pax americana* and the World Bank. Thus, this interrogation considers that the Bank should be studied as an institution that serves the interests of the dominant hegemony, *pax americana*, by promoting its dominant ideology — neoliberalism. It is important to make the proviso that hegemony is both historically contingent and never complete — there are always challenges, complexities and counter-hegemonies. This study of the Bank explores not just how and where the Bank has successfully legitimised rules or

⁷² Giovanni Arrighi, "The Three Hegemonies of Historical Capitalism," in Stephen Gill (ed.), *Gramsci, Historical Materialism and International Relations* (Cambridge: Cambridge University Press, 1993), p. 182.

⁷³ Ibid.

supported particular social forces and ideologies but also where it has not been successful, that is where the gaps or tensions have surfaced.

One particular complexity is that the World Bank is an international bureaucracy and Gramsci noted that bureaucracies are subject not just to the will of competing states but have their own dynamics that results in the development of their own interests and logics.⁷⁴ International institutions also operate differently in different locations, they utilise what Gramsci called democratic centralism to allow adaptation to different local social, political and economic realities.⁷⁵ This adaptive capacity is central to the survival of the organisation and the social forces they represent. Studying what can be modified and, more pertinently, what can never be challenged regardless of location sheds much light on the nature of neoliberal ideology. A Gramscian framework also directs attention to how World Bank policies and programs are best understood in the coercion/consent dialectic and whether the post-Washington Consensus has seen a significant shift in this balance. The framework points to questions about whether the post-Washington Consensus represents structural and fundamental transformation or whether it involves utilising the state to shape the current historic bloc.

Chapter Outline

The theoretical assumptions used in this thesis suggest that an analysis of the World Bank should start by examining it as part of the larger hegemonic struggle of the post-Second World War period. This is essential background for any project attempting to deconstruct the Bank's current practice. Further, as Gramsci suggested it is important to examine how organisations and ideas, "...adjust to different historical epochs and different countries" thus the thesis starts with a history of the Bank.⁷⁶ Chapter Two explores the origins of the Bank, that is the postwar economic planning culminating in the Bretton Woods conference in 1944. In line with the Gramscian approach, the foundations of the Bank are explained with reference to two major changes of the era —

⁷⁴ Gramsci, *Selections from the Prison Notebooks*, p. 175.

⁷⁵ Ibid, p. 188.

⁷⁶ The remark was specifically a recommendation to examine religious doctrine as an insight into the way Protestantism and Catholicism have adapted to different eras, Gramsci, *Further Selections from the Prison Notebooks*, p. 11.

first, the major shift in power that took place in the first half of the Twentieth Century, which resulted in the decline of British hegemony and the rise of *pax americana*. Second, the ‘revolution’ in economic theory influenced by the economist John Maynard Keynes that led to changed ideas about the role of the state in the economy and civil society that changed the ideological terrain of the post-Second World War period. In this light, the Bank’s Articles of Agreement developed at Bretton Woods are analysed as not simply the product of debates between the British and Americans, rather, and more profoundly, as reflections of the postwar compromise between classical/neoclassical commitments to free trade and markets and the Keynesian commitments to planning and welfare. Ben Fine has labelled the outcome of this compromise: the Keynesian, welfare, modernisation model of development.⁷⁷

Chapter Three explores the evolution of the World Bank from the first meeting of its Executive Directors at Savannah in 1946 through to the introduction of structural adjustment lending at the end of the reign of long-term Bank President Robert Strange McNamara in 1981. The Bank started out as a small, hard-nosed and conservative lender to only a handful of mostly medium income countries. It simply ignored the welfare component of the ‘Keynesian, welfare, modernisation model’ and focused largely on infrastructure. Its growth in the 1950s and 1960s was hampered by the ambivalent attitude of the then US administrations; nevertheless the Bank’s size and development agenda gradually expanded. Just after McNamara took over as Bank president, the Nixon Administration set out to reorganise US hegemony by restructuring the international monetary system and placing the US dollar and US private capital at its centre.⁷⁸ This plan provided a boost to the World Bank as expanding its lending was a way of encouraging private US banks in the same direction.⁷⁹ This shot in the arm, combined with McNamara’s obsession with size and expansion, made the Bank by the end of the 1970s, *the* leading international development agency. McNamara’s term ended as neoliberalism swept the West, thus the chapter explores the theoretical development of neoliberalism and its first impact on the Bank — structural adjustment lending.

⁷⁷ Ben Fine, *Social Capital Versus Social Theory: Political Economy and Social Science at the Turn of the Millennium* (London: Routledge, 2001), p. 133.

⁷⁸ Peter Gowan, *The Global Gamble: Washington's Faustian Bid for World Dominance* (London: Verso, 1999), pp. 19-23.

⁷⁹ *Ibid.*, p. 22.

Chapter Four explores how the Bank's commitment to a set of core principles known as the Washington Consensus was consolidated. The Washington Consensus centres on commitment to macroeconomic stability, outward orientation and domestic liberalisation. In the 1980s, Washington Consensus policies are implemented fairly simplistically and often with high social costs to the poor in developing countries. This made the policies unpopular and too difficult to implement. Even the Reagan Administration realised that the Bank's efforts were frequently counter-productive and they replaced the strict neoliberal Alden W. Clausen with the more politically astute Barber B. Conable in 1986. However, the supremacy of the Washington Consensus in the Bank was not really challenged until the early 1990s. In fact, the Bank's shift away from it is most strongly associated Clinton Administration appointee, James D. Wolfensohn. The Bank's post-Washington Consensus is the political product of the slightly more state-friendly international atmosphere with a 'liberal' government in power in the US. Theoretically, it reflects the increasing prominence of New Institutional Economics as a challenge to some components of neoclassicism. It also reflects the incorporation of aspects of the critique of the World Bank's development model from NGOs, in particular regarding its weak focus on poverty reduction and a lack of local participation in framing development agendas. The chapter identifies the key differences between the Washington Consensus and the PWC that are more fully explored in the case studies.

Part Two of the thesis commences with a brief description of the rationale for selection of the case study countries — Vietnam and Indonesia — and the methodology used in examining Bank lending practices. The periods selected for the case studies are 1993 to 1997 to examine Washington Consensus lending and 2000 to 2004 to examine post-Washington Consensus lending.

The case studies follow a similar structure starting with an overview of political, social and economic developments in each country focusing on the post-1990 period as an essential context for the analysis of Bank lending. They then explore the history of provision of development assistance to each country and the specific role of the World Bank within them. The Bank's key planning documents for each country are analysed to identify change between and within the case study periods. Then an analysis of Bank

lending to each country in each case study period is undertaken. The analysis is organised using the Bank's sectors of lending, for example, water supply and sanitation or agriculture, forestry and fishing. The thesis conclusion provides the opportunity to contrast the experiences in each case study using the key differences between the Washington Consensus and post-Washington Consensus outlined in Chapter Four.

Chapter Two

Creating a World Bank

Most histories of the World Bank focus on the relative contributions (and power) of the United States and Great Britain at the Bretton Woods Conference and/or their two principal negotiators, John Maynard Keynes and Harry Dexter White.¹ This chapter analyses the Bretton Woods' negotiations in the context of the broader social, political, economic and theoretical developments of the Second World War era. In Gramscian terms, it explores shift from British to American hegemony through analysis of their associated historic blocs. The Articles of Agreement of both the IBRD and IMF, finalised at Bretton Woods, New Hampshire in July 1944, are revealed as the product of the change in global hegemony and the shift in thinking about international economic management. This latter shift was the outcome of a range of challenges including the Great Depression, the seeming success of Russian economic planning, the New Deal and the 'revolution' in liberal economic thought known as Keynesianism.

The chapter commences with a brief exploration of the shifts in the historic blocs that led to the end of British international hegemony and the rise of *pax americana*. It also explores in some detail the economic ideas connected to these hegemonic forces, as they are the basis of the ideas about development implicit in the IBRD's Articles of Agreement. They also underpin the early operations of the Bank. Finally, it explores the IBRD's Articles of Agreement and the debates that took place in finalising them in order to shed light on the hegemonic principles underlying the Bank's role and mission.

¹ See George and Sabelli, *Faith and Credit*, Devesh Kapur, John P. Lewis and Richard Webb, *The World Bank Its First Half Century, Volume 1: History* (Washington D.C.: Brookings Institution Press, 1997), Mason and Asher, *World Bank since Bretton Woods* and Robert W. Oliver, *Early Plans for a World Bank* (Princeton, New Jersey: Department of Economics, Princeton University, 1971). Equally many of the general histories of the Bretton Woods negotiations have a similar focus, see: Richard N. Gardner, *Sterling-Dollar Diplomacy in Current Perspective: The Origins and the Prospects of Our International Economic Order* (New York: Columbia University Press, 1980) and Armand Van Dormael, *Bretton Woods: Birth of a Monetary System* (London: Macmillan Press Ltd, 1978).

The Changing International Order from the First World War

Where to commence analysing the hegemonic shift that took place in the first half of the twentieth century is a fraught question. Giovanni Arrighi, using a Marxist model of capital accumulation, traces the origins of the rise of the United States and the decline of Great Britain to the mid-nineteenth century, linked by the rise of the German state.² However, the First World War is a useful starting point for this discussion as it sealed the fate of the British Empire and fundamentally reordered the debtor/creditor relationship between Great Britain and the United States — the two key players in the establishment of the Bretton Woods institutions. The First World War also saw the ‘birth’ of Russian and international communism and the war’s settlement initiated the Great Depression. Both communism and the Great Depression were central to the changing view of the role of the state that led to new ideas and practices in economic planning at an international level. The liberation movements in the former colonial dependencies are also touched upon, because they are part of the overall global shifts central to the argument of the thesis.

If the First World War disrupted Britain’s hegemonic position in the international economy, the Second largely ended it.³ During the First World War, Britain’s imports increased at an unprecedented rate — mainly armaments and basic goods, primarily from the US. This reduced the large US foreign debt, which had been mostly owed to Britain, and reduced Britain’s foreign investments by one quarter. Britain’s losses were compounded by the Russian revolution followed by its abrogation of war debts, many of which were owed to British investors. Britain as well as other European industrial countries lost traditional export markets, including those centred on colonial empires as most of the colonies became increasingly self-sufficient during the war.⁴ Finally and importantly, Britain lost its capacity to organise the international monetary system in its own interests. On the positive side, at the end of the war Britain still had significant (though reduced) gold reserves, considerable claims on foreign incomes, German war reparations and an extensive and profitable colonial empire, which the war in fact

² Giovanni Arrighi, *The Long Twentieth Century: Money, Power, and the Origins of Our Times* (London: Verso, 1994), p. 269. See also Arrighi, "Three Hegemonies of Historical Capitalism," pp. 175-177.

³ Arrighi, *Long Twentieth Century*, p. 270.

⁴ François Crouzet, *A History of the European Economy, 1000-2000* (Charlottesville and London: University Press of Virginia, 2001), p. 177.

expanded.⁵ By the end of the First World War, the US had purchased many British owned assets in the US and had accumulated large war credits. It had increased its invisible earnings, becoming a net creditor and developed a large trading surplus leading to a significant net current account surplus.⁶ From the First World War, the US integrated itself into the world economy and assumed an unprecedented dominance; one upshot of this was that the US dollar became a major international reserve currency. Russia suffered enormous losses during the First World War and economic and social chaos continued during and after the revolution through to 1921. Thereafter, economic growth rapidly took off, in part, because the chaos destroyed much production and growth started from such a low base.⁷

The inter-war years saw the re-establishment of the gold standard and a fixed exchange rates system, which, by the mid to late 1920s, included US and most European countries. European efforts at creating an international financial system were rebutted by the US government, which was not yet hegemonic and thus did not have the institutional capability or the interest to organise it.⁸ The fixed exchange rate system made adjustments to shocks difficult. The tendency to overvalue exchange rates and deflationary monetary policy resulted in frequent balance of payments crises.⁹ Even during the years of relative prosperity, 1925 – 1929, the whole system was ultimately reliant on large capital flows from the US, especially to Germany, which used these flows for reparation payments and investment. In the 1920s, US productivity grew significantly faster than in debtor countries, making it very difficult for them to service, let alone repay, their debts. Dependence on the US dollar increased and the US acquired foreign assets at an unparalleled rate.¹⁰ When the flow of US dollars slowed in 1928 and further in 1929, the effects across the entire West were extensive and severe.

⁵ Arrighi, *Long Twentieth Century*, p. 271.

⁶ Ibid. See also G. John Ikenberry, "A World Economy Restored: Expert Consensus and the Anglo-American Postwar Settlement," *International Organization*, Vol. 46, No. 1 (1992), p. 306.

⁷ Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Vintage Books, 1989), p. 323.

⁸ Arrighi, *Long Twentieth Century*, pp. 271-272, Richard Peet, *Unholy Trinity: The IMF, World Bank and WTO* (London: Zed Books, 2003), pp. 30-32.

⁹ Crouzet, *History of the European Economy*, p. 176.

¹⁰ Arrighi, *Long Twentieth Century*, p. 273.

With the drying-up of short-term capital flows, most governments put in place a range of protectionist measures to stabilise their currencies.¹¹ They turned inwards looking for solutions, leading to a structural collapse in world trade and finance. The scale of the disaster was extraordinary: in Europe from 1929 to 1932/3 industrial output fell by 27 per cent, in the US it fell by 45 per cent.¹² Unemployment was on “...an unimagined and unprecedented scale,” in 1932-33 unemployment in Britain was 22-23 per cent and in most of Europe it exceeded 24 per cent reaching a staggering 44 per cent in Germany.¹³ In the US, unemployment was around 27 per cent and, as in much of Europe, it remained high (over 20 per cent) for the rest of the 1930s.¹⁴ The full scale of the Great Depression is beyond the scope of this work but there were two important outcomes. First, the Depression persuaded policy-makers that the unprecedented rate of unemployment could produce social and political chaos or indeed revolution. The growth in organised labour in the West and the Russian Revolution were further proof of this possibility. Second, it provided concrete evidence of the inadequacies of ‘free markets’ in achieving optimal economic and social outcomes, let alone maintaining political stability.

Commitment to planning was strengthened by the example of Russian communism from the late 1920s — workers and policy-makers looking to Russia saw an economy unaffected by the Depression. Rapid industrialisation took place under the Five Year Plans, industrial production tripled between 1929 and 1940 and there was no unemployment, though the social and personal costs of Stalinism were immense. The economic achievements “...impressed foreign observers of all ideologies...”¹⁵ Equally, Nazi Germany utilised strong state planning models to eliminate unemployment by the end of the 1930s. Thus, as Hobsbawm notes, “...‘Plan’ and ‘Planning’ became buzz-words in politics.”¹⁶

¹¹ Ibid, p. 274. See also Eric Hobsbawm, *Age of Extremes: The Short Twentieth Century 1914 - 1991* (London: Abacus, 1999), pp. 98-99.

¹² Crouzet, *History of the European Economy*, p. 179.

¹³ Hobsbawm, *Age of Extremes*, p. 92.

¹⁴ Ibid.

¹⁵ Ibid, p. 96. Kennedy notes the considerable human toll of Russian industrialisation especially during the 1933 famine. Only 51-2 per cent of GNP went to private consumption, which left substantial resources for investment in production and education. But this was achieved through a large degree of coercion, particular towards peasants and it left severe deficiencies in agricultural production, Kennedy, *Rise and Fall of the Great Powers*, pp. 321-325.

¹⁶ Hobsbawm, *Age of Extremes*, p. 96.

Politicians, intellectuals, policy-makers and citizens in the US and other Western liberal capitalist countries had overwhelming evidence that ‘free markets’ did not necessarily achieve full employment and that state planning could work.¹⁷ The case for government planning (utilising the knowledge of experts) and an expanded role for the state, solidified when economic theory caught up with practice via ‘Keynesianism’, which developed from John Maynard Keynes’s, *General Theory* (1936).¹⁸ The economic theory is discussed in some detail in the following section. However, the point here is that there was a profound change in the approach of liberal capitalist states to the role of government intervention in the economy — there was a new openness to the idea of economic planning and of state participation in the economy. This receptiveness to national economic planning at a state level also influenced thinking about the possibilities for economic cooperation at an international level — a development that eventually resulted in the establishment of the World Bank. Keynesianism thus underpinned the Bank’s development theory and practice for decades.

The Great Depression was also a “...landmark in the history of anti-imperialism and Third World liberation movements.”¹⁹ Although Britain had already been dealing with independence movements in some of its colonies, especially those with large expatriate populations, it was really only with the large-scale economic dislocation of the Depression that these movements became widespread.²⁰ The effects of the Depression were even more profound in many of the dependent economies than in the Western liberal states because given their fixed exchange rate regimes and their reliance on exports of primary products, their terms of trade deteriorated dramatically.²¹ Some industrialisation did take place in settler colonies during the First World War and again

¹⁷ Ikenberry, "A World Economy Restored," p. 292.

¹⁸ Keynesianism here is used as per John Davis’ definition — a tradition arising from reformulation and translation (Keynes’s *The General Theory* is notoriously difficult to read) of Keynes’ key ideas and concepts in the domains of economic theory and government policy. John B. Davis, "Introduction: The Interpretation of Keynes’s Work," in John B. Davis (ed.), *The State of Interpretation of Keynes* (Boston: Kluwer Academic Publishers, 1995), p. 1. This definition acknowledges the vital contribution of both economists (e.g. Alvin H. Hansen in the U.S.) and policy-makers in developing the Keynesian tradition. It also helps to separate the renewed proliferation of interest from the mid-1980s in Keynes’s life and writings and the interpretation of his thought *per se*. For examples of these later trends see, D.E. Moggridge, *Maynard Keynes, an Economist’s Biography* (London: Routledge, 1992), R. Skidelsky, *John Maynard Keynes, Volume I Hopes Betrayed 1883 - 1920* (London: Macmillan, 1983), R. Skidelsky, *John Maynard Keynes, Volume II the Economist as Saviour* (London: Macmillan, 1992).

¹⁹ Hobsbawm, *Age of Extremes*, p. 204.

²⁰ Ibid, p. 211. Canada, New Zealand, Australia and South Africa already had dominion status and the southern counties of Ireland achieved home rule. There were also sizeable movements in Egypt and India.

²¹ Ibid, p. 213.

during the protectionist era of the Depression, nevertheless, most colonies remained or, were reduced to, overwhelmingly agrarian and rural societies. The severe impacts radicalised many local elites, who had previously supported and had been implicated in colonial rule. The independence movements already underway in Egypt and India expanded and, by the mid-1930s, there were powerful movements organising in French North Africa and Indochina and in Dutch controlled Indonesia.²²

In the US, the commitment to planning was taken up in the mid-1930s with the New Deal policies of the Roosevelt administration. However, these policies were only partially implemented and “...were insufficient to stimulate the economy and take advantage of this underutilized productive capacity.”²³ Further, in 1937 when the US finally seemed to be undergoing a slow recovery from Depression, Department of Treasury economists (the “men of sound judgement” as John Kenneth Galbraith ironically labelled them) successfully convinced the Roosevelt administration to follow classical economic prescriptions — spending was cut and taxes increased in order to bring the Federal budget into balance.²⁴ This led to a new slump and a renewed increase in unemployment. The 1937 recession made Keynesianism respectable in Washington. However, as Galbraith argues, policy actions continued to be “half-hearted” and in 1939 unemployment was still at 17 per cent, until “[t]he war then brought the Keynesian remedy with a rush.”²⁵

The shift in hegemony that was heralded by the First World War was solidified by the Second. The Keynesian “rush” provided by the Second World War unleashed a massive expansion in US productive capacity:

[i]ts standard of living was higher than any other country's, but so was its per capita productivity. Among the Great Powers, the United States was the only country which became richer — in fact, much richer — rather than poorer because of the war.²⁶

²² Ibid, p. 215.

²³ Kennedy, *Rise and Fall of the Great Powers*, p. 331.

²⁴ John Kenneth Galbraith, *The Age of Uncertainty* (London: British Broadcasting Company, 1977), p. 218.

²⁵ Ibid, p. 221. See also Kennedy, *Rise and Fall of the Great Powers*, p. 331.

²⁶ Kennedy, *Rise and Fall of the Great Powers*, p. 358.

US gold reserves at the end of the war were around two thirds of the world's total. It had half of the world's manufacturing production and a third of all production; it was also the world's greatest exporter.²⁷ For the first time, the US had a net current account surplus that was significantly larger than its trade surplus. It had near complete control over international liquidity and world financial power became centralised in the city of New York.²⁸

Along with enabling the US to become the hegemonic economic power in the postwar world, the Second World War changed its internal political alliances (as Gramsci would say, its historic bloc), by the blow it dealt to the isolationist element in the US Congress. It was clear that US security was no longer inviolable. As Arrighi puts it: "US political isolationism had reached the point of diminishing returns."²⁹ Many policy-makers felt that the failure of the US to take a leadership role in the interwar period had encouraged the turn to protectionism that they identified as the prime cause of the war. Further, they considered that the level of mal-distribution of income across the (liberal capitalist) globe would hurt US foreign trade and investment. As Franz Schurmann highlights, Roosevelt administration foreign policy was fundamentally an extension of the New Deal philosophy:

[t]he essence of the New Deal was the notion that big government must spend liberally to achieve security and progress. Thus, postwar security would require liberal outlays by the United States in order to overcome the chaos created by the war.... Aid to ... poor nations would have the same effect as social welfare programs within the United States — it would give them the security to overcome chaos and prevent them from turning into violent revolutionaries. Meanwhile, they would be drawn inextricably into the revived world market system.³⁰

The debates and discussions in the US Administration and Congress are returned to below, when postwar planning and the ratification of the Bretton Woods agreements are

²⁷ Ibid.

²⁸ Arrighi, *Long Twentieth Century*, p. 275.

²⁹ Ibid, p. 276.

³⁰ Franz Schurmann, *The Logic of World Power: An Inquiry into the Origins, Currents, and Contradictions of World Politics* (New York: Patheon, 1974), p.67. Quoted in Arrighi, *Long Twentieth Century*, p. 277.

discussed. Initially the chapter explores the ideological terrain of the period especially the shift in economic thinking that took place prior to and during the Second World War. Starting with a brief description of neoclassical economics, to which Keynes was reacting, this analysis aims to locate Keynesianism as the theoretical justification for the Keynesian, welfare, modernisation model of nation-state development.³¹

Changing Economic Theory: Neoclassical Economics and Keynesianism

Economics was well established as a discipline by the inter-war period. Neoclassical economics largely superseded classical economics in the 1870s and had developed a set of central assumptions, concepts and theories, which formed the basis of its teachings.³² However, many of the underlying assumptions of neoclassical economics still bore the direct impact of classicism. When John Bates Clark identified the key postulates of neoclassical economics as:

...private property, individual freedom, a limitation of government activity to those fields which Adam Smith had laid down as proper to it, the mobility of capital and labour according to the stimulus of varying remuneration, and, finally the desire of the individual to satisfy certain objective wants³³

he could equally have been summarising the key postulates of classical economics. However, neoclassical economics was clearly a break from classicism, starting with its more individualistic approach to society, through to its consequent emphasis on consumption, demand and utility (of conglomerations of individuals), which replaced classical economics' emphasises on production, supply and costs.³⁴

The operational form of the new individualism was a psychological and subjective approach to value, 'utility,' which replaced the classical Labour Theory of Value. The utility approach, in both its hedonistic and more common utilitarian version posited that

³¹ Fine, *Social Capital Versus Social Theory*, p. 133.

³² Eric Roll, *A History of Economic Thought* (London: Faber and Faber Ltd, 1973), p. 369 and 455.

³³ As summarised by *ibid*, p. 427.

³⁴ *Ibid*, p. 368.

value is determined by a subjective estimate of utility, tied to quantity. The focus on utility went hand-in-hand with the so-called ‘marginal revolution,’ which focused economics on measuring small changes in economic quantities. The research agenda was formed by Gossen’s Law on diminishing returns and the theory of marginal utility, which provides a measure of the “...alteration in the subjective conditions which would be occasioned by either the disappearance or the addition of some object.”³⁵ Thus the focus was on deriving optimal utility by examining marginal increases in consumption.

The other main element of the neoclassical research agenda was its focus on equilibrium, at the level of individual and markets and at the aggregate social level. With the neoclassical basis in individualism, general equilibrium is simply the sum of individual equilibriums, thus the key question for economists was: is there theoretically a price configuration for commodities at which supply equals demand? And if “...there is such a theoretical price configuration, can general equilibrium be obtained... and would the general equilibrium state be stable?”³⁶ One of the first neoclassical economists to deal with this issue was Léon Walras (1834 – 1910). Walras’s solution built on the work of Jean-Baptiste Say, in particular, Say’s Law, which posits that supply creates its own demand, and therefore there is no oversupply or undersupply of commodities. Examining general equilibrium, Walras theorises that every demand, or desire to purchase something at a particular price, involves giving up money in order to do so; thus when consumers realise demand they supply someone with money of equal value. Every realised demand is also, effectively, a supply. At the aggregate level, therefore, the aggregate of all demand equals the aggregate of all supply at the general equilibrium price. This is the point of general equilibrium.³⁷ Walras demonstrated that a general equilibrium price theoretically exists, however, the problem of demonstrating whether general equilibrium can be attained in the real world remained.³⁸ Walrus’s model posited that it could occur via an auctioneer who, taking bids on commodities, could adjust prices so that supply equals demand. General equilibrium models rely on the following assumptions: individuals are price takers implying perfectly competitive

³⁵ Ibid, p. 426.

³⁶ J.M. Alec Gee, "The Neoclassical School," in Douglas Mair and Anne G. Miller (eds.), *A Modern Guide to Economic Thought: An Introduction to Comparative Schools of Thought in Economics* (Aldershot: Edward Elgar, 1991), p. 83.

³⁷ Or as economists today put Walrus's Law, “...the sum of the value of all excess demands for both individuals and firms equals zero.” Ibid, pp. 84-85.

³⁸ Ibid, p. 85.

commodity markets; all firms make the same ‘normal’ rate of profits implying perfectly competitive factor markets; and there is freedom of entry.

This brief introduction to neoclassical economics highlighted the key neoclassical ideas necessary to understanding both the Keynesian critique of general equilibrium and the work of later neoclassical economist who became such powerful voices in development economics and practice. As James Meade and others have pointed out, the ‘Keynesian revolution’ needs to be seen as a two headed animal — “...first, the theoretical revolution in economic analysis; and, second, the practical revolution in governmental policies.”³⁹ In terms of economic analysis, Keynes’s *magnum opus* was *The General Theory*, it provided both an extensive critique of neoclassical economics and developed an alternative framework for analysing liberal capitalist economic relations.⁴⁰ Keynes was interested in macroeconomic analysis, however, neoclassical economics at this stage was mainly focused on microeconomic analysis.⁴¹ Thus his critique of classical macro-economics was based on assumptions he deduced from its microeconomics, starting with an analysis of the labour market and determinants of output that propound a supposed natural tendency towards full employment (and the associated level of full-employment output).⁴² Keynes accepted the neoclassical views on the operation of markets but suggested that certain premises of its theories about output and employment were wrong.⁴³ He agreed with the neoclassical proposition that increases in aggregate demand would lead to price rises relative to money wages but charged that workers with increasing job opportunities would not resist an associated fall in real wages.⁴⁴ He disagreed with the neoclassical view on the supply of labour, namely that labour is

³⁹ James Meade, "The Keynesian Revolution," in Milo Keynes (ed.), *Essays on John Maynard Keynes* (Cambridge: Cambridge University Press, 1975), p. 82.

⁴⁰ James Love, "The Orthodox Keynesian School," in Douglas Mair and Anne G. Miller (eds.), *A Modern Guide to Economic Thought: An Introduction to Comparative Schools of Thought in Economics* (Aldershot: Edward Elgar, 1991), p. 147. Its continuing influence is demonstrated by a 1995 survey and analysis of macroeconomic textbooks, which concluded that "...virtually all macroeconomic textbooks" are organised around the key points of *The General Theory* and that the monetarist revolution is still to normalise its place in the discipline. However, what is taught is the "bastard" Keynesian model or "Keynesian Economics not the Economics of Keynes." Kerry A. Pearce and Kevin Hoover, D., "After the Revolution: Paul Samuelson and the Textbook Keynesian Revolution," in Allin F Cottrell and Michael S. Lawlor (eds.), *History of Political Economy: Annual Supplement to Volume 27* (Durham and London: Duke University Press, 1995), pp. 184-185. Keynesianism is generally taught in economic texts via the statistical work of J.R Hick's (1937), despite that fact that Keynes himself seems to have (at times) rejected predictions of economic phenomena based on statistical probability.

⁴¹ There was a substantial body of monetary economics, which could be classified as macroeconomics.

⁴² Love, "Orthodox Keynesian School," pp. 147-149.

⁴³ Ibid, p. 149.

⁴⁴ Ibid, p. 150.

focused on the acquisition of commodities and is not subject to the ‘money illusion.’ He suggested rather, that workers do not necessarily withdraw their labour when the price of wage-goods increased and that they could not establish real wages through their money wage agreements.⁴⁵

On Say's Law that supply creates its own demand, Keynes argued that it is not necessarily the case that incomes from production are spent at rates that result in market clearing and that various agents in the economy have differing and incompatible interests.⁴⁶ Next, he examined the neoclassical theory of interest that complements Say's Law. This posits that income not used for consumption is saved at an interest rate that, in the short-run, is at the level at which the demand for capital equals the supply of loanable funds. In the long run though, interest rates are determined by the preference for current consumption over future goods.⁴⁷ Keynes demonstrated that the interest rate does not, in fact, provide a simple connection between the decisions of savers and investors as they have differing interests.⁴⁸ Overall, as James Love points out:

[t]he importance of Keynes's comments on the classical theory is that once the nexus between savings and investment is broken, Say's Law no longer serves to avoid the possibilities of ‘overproduction’ and the possibility is admitted of having unemployment due to a deficiency of effective aggregate demand.⁴⁹

The neoclassical quantity theory of money holds that money is exogenous to the economy — it is a medium of exchange and has no features that make its acquisition valuable *per se*, therefore people only hold the amount of liquid money required for transactions. Keynes and other Cambridge economists had earlier challenged this theory by demonstrating that cash holdings fluctuate with people's confidence in the economy.⁵⁰ In *The General Theory*, Keynes added a further dimension to the properties of money via an analysis of speculation driven by the profit motive. The main determinants of the amount of speculative liquidity held are the actual interest rate, the

⁴⁵ Ibid.

⁴⁶ Ibid, p. 151.

⁴⁷ Roll, *History of Economic Thought*, p. 492.

⁴⁸ Love, "Orthodox Keynesian School," p. 151.

⁴⁹ Ibid.

⁵⁰ Ibid, p. 152.

degree of uncertainty about future interest rates and the extent to which expectations parallel actual interest rates.⁵¹ From this, Keynes concluded that money and monetary policy does impact on the rate of interest and the level of aggregate demand in the economy.

Building on this critique, Keynes developed an alternative framework whose key concept was effective demand — this is defined as the point at which aggregate demand and aggregate supply intersect and, as such, represents the point at which entrepreneurs' expectations of profits are maximised at an equilibrium rate of employment.⁵² The aggregate supply function is determined by firms' short-term expectations plus input costs, which produces a derived demand for labour. Aggregate demand is a function of employment derived from its relationship to expenditure and income. The key outcome of this formulation is that the level of employment, particularly in the short-term, is dependent on the level of aggregate demand:

Moreover, since decisions on spending and on employment and production level are taken by different groups with different motivations, the level of employment resulting from the interaction of the aggregate demand and supply functions is not automatically a position of full employment.⁵³

Putting aggregate demand at the centre of his framework led Keynes to an extensive analysis of the forces determining demand, indeed, a large part of *The General Theory* examined factors influencing consumption and investment spending. Three key factors were identified. First, the propensity to consume — for Keynes, real income was the main influence on consumption. Short-term consumption was presented as largely a stable, increasing function of real income with the proviso that people do not spend all of any increase in real income, instead they save an increasingly greater portion.⁵⁴ This is Keynes's famous Multiplier Theory, which in J.R. Hicks's statistical formulation became very influential in the teaching of economics. Second, consumption and investment spending were influenced by the marginal efficiency of capital theory. This

⁵¹ Ibid, p. 153.

⁵² Roll, *History of Economic Thought*, p. 486.

⁵³ Love, "Orthodox Keynesian School," p. 156.

⁵⁴ Ibid, pp. 157-158.

was a function of expectations and confidence, investment and the fact that information on the likely yields and the marginal efficiency of assets does not determine interest rates.⁵⁵ The new development here was the key role that business confidence plays in determining the level of aggregate demand. The third influence on consumption and investment spending was interest rates — here Keynes' theory was built around the relationship between the preference for liquidity and nominal cash holdings, which introduced money as a factor in determining output and employment.⁵⁶ Supplementing his critique of the neoclassical theory of money, Keynes's Liquidity Preference Theory held that people choose to hold liquid assets in preference to capital assets as they are safer or when they believe the current price of capital assets is too high.⁵⁷ The preference for holding cash, combined with the argument that it is difficult to lower interest rates beyond a certain point, meant if people saved more,

... this wouldn't necessarily mean lower interest rates and a resulting increase in investment. Instead, the total demand for goods might fall, along with employment and also investment, until savings were brought back into line with investment by the pressure of hardship which reduced savings in favour of consumption. The economy would find its equilibrium not at full employment but with an unspecified amount of unemployment.⁵⁸

The General Theory contrasted to neoclassical economics of the time because it functioned as a theoretical tool to understand economic and social problems.⁵⁹ This gave it great contemporary resonance. It provided not only a comprehensive critique of neoclassical economics and an alternative, but also one which remained broadly within the liberal capitalist tradition — Keynesianism maintains the neoclassical and classical commitment to markets and private property. Keynes's critique was written with the purpose of saving liberal capitalism (and economics as a discipline) and making it function more effectively not replacing it.⁶⁰ This rationale gives Keynesianism its capacity for diverse theoretical and policy-oriented interpretations that range from

⁵⁵ Ibid, p. 159.

⁵⁶ Ibid, p. 160.

⁵⁷ Meade, "Keynesian Revolution."

⁵⁸ John Kenneth Galbraith, "How Keynes Came to America," p. 134.

⁵⁹ On this theme see the discussion in Roll, *History of Economic Thought*, pp. 455-458.

⁶⁰ See E.K Hunt, *History of Economic Thought: A Critical Perspective* (New York: M.E. Sharpe, 2002), p. 404, Joan Robinson, *Contributions to Modern Economics* (Oxford: Blackwell, 1978), p. 65.

relatively conservative market-oriented one to interventionist and welfare-statist positions. As we shall see, in the World Bank's Articles of Agreement this tension is resolved in favour of a more conservative market-oriented approach.

Keynesianism and the later growth of development economics, helped consolidate the nation-state as *the* way to organise society and it gave the state a central role in development.⁶¹ It both coincided with and contributed to, changes in civil and political debates in most capitalist societies regarding the appropriate role and reach of the state. This was the revolution in practical governmental policy that Meade and others argued was "...of much greater importance and significance for the welfare of mankind" than the revolution in macroeconomics.⁶² Writing in 1975 when the 'revolution' seemed permanent, Meade was confident that Western governments were still committed to demand management to maintain near full employment. Where demand was insufficient, governments were not afraid to implement policies and programs to stimulate investment, government expenditure and/or exports, or to discourage leakages. When demand was excessive, the appropriate government response was to restrain investment and government expenditure and/or to encourage savings and maintain taxation levels.⁶³ These became the core components of the Keynesian, welfare, modernisation model.

Concurrently with Keynes's contribution, major advances in the statistical sophistication of national income accounting measures occurred. Pioneering work started in the 1920s, however the theoretical developments of Keynesianism provided a significant stimulus to statistical methods. By the time of the war, statisticians had developed time series data using a Keynesian scheme of income/consumption and savings/investment.⁶⁴ By the mid-1940s, "...a very large measure of agreement on the general techniques to be employed in this field was quickly reached and virtual

⁶¹ Mark T. Berger, *The Battle for Asia: From Decolonization to Globalization* (London and New York: RoutledgeCurzon, 2004), see especially Chapter 1.

⁶² Meade, "Keynesian Revolution," p. 87.

⁶³ Ibid, pp. 87-8. According to Pearce and Hoover, Abba Lerner was the key translator of Keynesianism into policy, he: "pioneered the macroeconomics of rigid wages and prices. He showed that for a decrease in wages to stimulate employment, wages and prices would have to fall instantaneously and to the full extent needed to return the economy to full employment. Lerner points out that this perfect flexibility is incompatible with a monetary economy." Pearce and Hoover, "After the Revolution," p. 189.

⁶⁴ Roll, *History of Economic Thought*, pp. 506-507.

unanimity as to the purpose for which these statistics are designed.”⁶⁵ The purpose was to measure goods and services available for national consumption or wealth creation and development of social accounts for use in “both diagnosis and prescription in economic policy.”⁶⁶ As we shall see later, the World Bank utilised these agreed techniques and purposes from early on and, via various training programs, became a key disseminator of them across the developing world. Indeed, statistical representations of economic concepts remain their primary instrument for assessing the life quality of people in developing countries.

Early Post-war Economic Planning

(Non-communist) Post-war political and economic planning was dominated by the administrations in the US and Great Britain and by the compromises they made to organise an international system to meet their interests. Given US global production and military hegemony, it was not surprisingly the US which, on the whole, set the agenda for economic planning even providing drafts plans to which Great Britain and the other allies responded. Later, it hosted the key international conferences that created the post-war international structure — Bretton Woods, New Hampshire, July 1944; Dumbarton Oaks Conference, Washington State, from August 1944; and San Francisco Conference, April 1945. The Dumbarton Oaks Conference established “...the basic principles that would underlie and infuse the future United Nations Charter” and the San Francisco Conference developed the UN Charter in a mere two months.⁶⁷ However, it is notable that the first conference on post-war planning was concerned with the international economic order — Bretton Woods. The story of economic planning leading up to and during Bretton Woods provides the context to understand the character and nature of the institutions thus created.

Given US pre-war isolationism, it could be seen as remarkable that the Administration, in particular the State Department, began economic and political planning as early as

⁶⁵ Ibid, p. 507.

⁶⁶ Ibid, p. 508.

⁶⁷ A.J.R Groom, "Getting to 'Go': The Birth of the United Nations System," in Paul Taylor and A.J.R Groom (eds.), *The United Nations at the Millennium: The Principal Organs* (London and New York: Continuum, 2000), p. 14.

the autumn of 1939 — prior to becoming directly involved in World War II.⁶⁸ Peter Gowan explained this phenomena as the product of a US project “...to penetrate existing capitalist states and reorganize their internal arrangements to suit US purposes...”⁶⁹ However, a Gramscian approach suggests that hegemony requires more than coercion, which may be why the focus of postwar economic negotiations in the US shifted from the State Department to Treasury: in contrast to the State Department’s sometimes aggressive tactics to push a controversial trade agenda, Treasury shared a growing consensus with the British and others regarding the need for organisation of a postwar monetary system.⁷⁰

The State Department and other parts of US political and civil society remained dominated by a *laissez-faire* philosophy that opposed government action and thought that the (supposedly) efficient allocation of world resources should be left to the international economic ‘market.’⁷¹ The *laissez-faire* approach was reinforced by the US political structure, which tended to subordinate international considerations to domestic ones; but it was these elements of the historic blocs that reasserted themselves shortly after the war.⁷² Fred Block labels this group as “business internationalists” and notes their key representatives in the State Department were Cordell Hull, Dean Acheson and William Clayton.⁷³ In contrast, the Treasury Department and other sections of political/civil society were influenced by the inter-war ‘lessons’ and the Depression and as a result were committed to early, detailed planning for the postwar world, US involvement in postwar international institutions and adequate planning for post-war economic management.⁷⁴ Block calls this group national economic planners; they were represented in Treasury Department by Henry Morgenthau and Harry Dexter White.⁷⁵

⁶⁸ Gardner, *Sterling-Dollar Diplomacy*, p. 5. As Scammell notes, this *volte face* occurred a mere six years after the US withdrew from the London Economic Conference, W.M. Scammell, *The International Economy since 1945* (London: Macmillan Education Ltd, 1983), p. 11.

⁶⁹ Peter Gowan, "US : UN," *New Left Review*, Vol. 24, (2003), p. 25. See also Peet, *Unholy Trinity*, p. 33.

⁷⁰ Ikenberry, "A World Economy Restored," pp. 295-298.

⁷¹ Gardner, *Sterling-Dollar Diplomacy*, pp. 2-3.

⁷² Ibid.

⁷³ Fred L. Block, *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present* (Berkeley: University of California Press, 1977), pp. 38-42.

⁷⁴ Gardner, *Sterling-Dollar Diplomacy*, p. 4.

⁷⁵ Block, *The Origins of International Economic Disorder*, p. 35.

The Treasury view predominated during the later war years partly because of its capacity to cooperate with the British.⁷⁶ But Treasury plans required Congressional approval and the Bretton Woods institutions were significantly shaped by the trade-offs made in negotiating approval from a Congress dominated by those committed to *laissez-faire*.⁷⁷ Nevertheless, the degree of autonomy given the US (and British) technical experts to develop plans and negotiate was remarkable.⁷⁸ So, it was Harry Dexter White from the US Treasury who drafted the *Suggested Plan for a United and Associated National Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations* in 1941. By 1943, White had:

...abandoned the ambitious design of the international bank ... and the fund became the major focus of his attention. When the plan for the fund was published in mid-1943 it was without a design for the bank. When the bank proposal was finally made public it had been stripped of the trappings of an international central bank, for the bank had been reduced to a more traditional international lending agency.⁷⁹

The British only really commenced detailed post-war planning in 1943.⁸⁰ Keynes' plan for an International Clearing Union, produced largely as a response to the White plans, allowed expansion to add a body for postwar relief, rehabilitation and reconstruction, in other words an equivalent of the Bank, if it was not provided for elsewhere.⁸¹ However, no specific plans were drafted. White's plans became the basis for negotiations but it was strongly Keynesian even if it was significantly less expansionary than Keynes' plan.

⁷⁶ Ikenberry, "A World Economy Restored," p. 310.

⁷⁷ Gardner, *Sterling-Dollar Diplomacy*, p. 77 and Scammell, *International Economy since 1945*, p. 13.

⁷⁸ Ikenberry, "A World Economy Restored," p. 297.

⁷⁹ Block, *The Origins of International Economic Disorder*, p. 46. Interestingly Raymond Vernon made a strong case that there was a discernible trend in US international economic policy-making during the 1940s, which encouraged creativity early in the process but these provisions "...eventually melted away in the movement towards closure." Raymond Vernon, "The U.S. Government at Bretton Woods and After," in Orin Kirshner (ed.), *The Bretton Woods - GATT System: Retrospect and Prospect after Fifty Years* (Armonk, New York: M.E. Sharp, 1996), p. 56.

⁸⁰ Possibly because of the singular focus on the war and a concurrent wish not to distract the government or public with an issue as controversial as future national economic planning, Gardner, *Sterling-Dollar Diplomacy*, p.24.

⁸¹ On this theme see, Block, *The Origins of International Economic Disorder*, Gardner, *Sterling-Dollar Diplomacy*, Mason and Asher, *World Bank since Bretton Woods*, Oliver, *Early Plans*. George and Sabelli argue that the World Bank's greatest founding father and creative force was John Maynard Keynes. However, this interpretation seems to focus exclusively on a reading of the Bretton Woods proceedings and to take little heed of the preparatory work done by White, see George and Sabelli, *Faith and Credit*, pp. 21-36.

During the course of these negotiations the Bank came to be known as the International Bank for Reconstruction and Development. This chapter turns to examine the key features of the IBRD's Articles of Agreements, incorporating an exploration of the key debates prior to, and at, Bretton Woods. It attempts to show the flavour of the debates between the US and Great Britain and between US policy makers, whilst highlighting the broader influences of the Keynesian, welfare, modernisation model.

Key Features of the IBRD's Articles of Agreement

Purposes

The purposes of the Bank are:

- (i) To assist in the reconstruction and development of territories of members by *facilitating the investment of capital for productive purposes*, including the restoration of economies destroyed or disrupted by war... and the encouragement of the development of productive facilities and resources in less developed countries.
- (ii) To *promote private foreign investment* by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to *supplement private investment*...
- (iii) To promote the *long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments* by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.
- (iv) To arrange the loans... so that the more useful and urgent projects, large and small alike, will be dealt with first.

(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members....⁸²

It is clear from the *Purposes* that the Bank was an institution designed to operate within, and indeed support the expansion of a liberal capitalist international order and one clearly structured around nation-states. Three themes in the *Purposes* stand out: the relative commitment to reconstruction versus development; the emphasis placed on private investment and private markets for capital; and the Keynesian commitments to planning and labour conditions.

From White's early drafts to the discussions at Bretton Woods, there is little doubt that reconstruction rather than development was at the forefront of the planners' minds. White's April 1942 draft did not mention development *per se*, rather the main objective of the Bank was: "...to provide capital for relief and reconstruction and otherwise facilitate a smooth postwar transition."⁸³ Victor Urquidi, a member of the Mexican delegation to the Bretton Woods conference, confirmed that in the April 1942 draft, "...‘development’ of the less developed nations was not to be one of the primary purposes of the Bank as outlined by White, though some recognition was give to the role of private direct investment."⁸⁴ Urquidi argued that the Mexican delegation was responsible for furthering the interests of economic development at Bretton Woods, highlighting the amendment the Mexican delegation submitted to Article III, Section 1(a) on Use of Resources. The amendment added to the clause that Bank's resources were "exclusively for benefit of members," the statement "with equitable consideration to projects for development and projects for reconstruction alike."⁸⁵ However, the following Section, 1(b), gives "special regard" to the costs of reconstruction and thus, to an extent, negates the focus on development.

The priority given to reconstruction was also evident in the way US bureaucrats used it to 'sell' the Bank to Congress. They indicated to Congress that the alternative to support

⁸² IBRD Articles of Agreement, Articles 1, available from: World Bank Group Website, emphasis added.

⁸³ In Oliver, *Early Plans*, p. 27.

⁸⁴ Victor L. Urquidi, "Reconstruction Vs. Development: The IMF and the World Bank," in Orin Kirshner (ed.), *The Bretton Woods - GATT System: Retrospect and Prospect after Fifty Years* (Armonk, New York: M.E. Sharp, 1996), p. 39. Urquidi received the draft directly from White on a visit to Washington.

⁸⁵ Ibid, pp. 40-42.

for the Bank would be a loan to the British.⁸⁶ Further, as Edward Mason and Robert Asher, in the Bank's first official history, pointed out, the members with the most shares were largely concerned about issues of reconstruction and that was reflected in the early loans of the Bank.⁸⁷ While the creation of the Bank can be seen as a remarkable step in international cooperation, it is clear that the Western liberal states at the core of its establishment were concerned with furthering their interests rather than with broad-scale international 'development.'

Clause (ii) of the *Purposes* on promoting private foreign investment is not simply neoclassical theory and practice as it points to the system's hegemonic principles — markets and private investment. This clause focused the Bank on guaranteeing private investments rather than loans, a notable shift from White's 1942 draft, which placed equal emphasis on the Bank making loans out of its own capital.⁸⁸ According to Robert Oliver, the increased emphasis on guaranteeing private loans was one of the major contributions of the Europeans — the British and Dutch in particular. Mason and Asher confirmed that it: "...was all but the universal expectation of the founders of the Bank that its primary function would be to guarantee private investments."⁸⁹ In reality, direct lending has been the major focus of the Bank. This clause on private investment also highlights the "...appeal to economics rather than ethics" palpable in the Bretton Woods negotiations. As the Bank's second official history by Devesh Kapur, John Lewis and Richard Webb, pointed out, this pragmatism "...has colored the Bank's development efforts" ever since.⁹⁰

With regard to the influence of Keynesianism in the Bank's Articles of Agreement, it is plausible that without the innovations proposed by Keynes and his colleagues in economic theory and practice, White's proposals for international bodies to regulate international economic relations would not have been conceived.⁹¹ The connection to

⁸⁶ See Gardner, *Sterling-Dollar Diplomacy*, p. 139.

⁸⁷ Mason and Asher, *World Bank since Bretton Woods*, p. 23. See also Oliver, *Early Plans*, p. 49.

⁸⁸ Oliver, *Early Plans*, p. 28.

⁸⁹ Mason and Asher, *World Bank since Bretton Woods*, p. 26.

⁹⁰ Kapur, Lewis and Webb, *World Bank*, p. 70.

⁹¹ The point here is that White is both influenced by the Keynesian 'revolution' and part of it, in particular, in the revolution in government policy, as opposed to the revolution in economic theory. In 1935 White travelled to England, he was in his second year in Treasury and already concerned about restoration of international monetary stability. He met with Keynes and other contemporaries with similar concerns. James M Boughton, "Harry Dexter White and the International Monetary Fund," *Finance &*

Keynesianism is visible in the Bank's underlying premise that the (liberal capitalist) international economy would not, left to its own devices, provide the capital required for reconstruction and development at a level that achieves near full employment. As discussed above, this was precisely what *The General Theory* argued theoretically and what the Great Depression had so potently demonstrated. Clause (iii) of the *Purposes* promoting "...the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments" potently combines classical commitments to free trade with Keynesian concerns of growth and adjustment.⁹² The belief in the capacity of government planning and management by experts demonstrated in the *Purposes* also reflects Keynesian influence. The (limited) commitment to counter-cyclical investment on both a country and world scale in clause (v) is a clearly Keynesian remedy, however, this is an area where, perhaps unfortunately, the Bank has never dared to subsequently tread.

Bank Membership and Capitalisation

Membership of the Bank is only open to countries that are members of the IMF. The final size and structure of capitalisation, as outlined Article II, largely followed the model in the White plan. The initial capital stock of the Bank was \$10 billion, made up of 100,000 shares worth \$100,000 each. Increases in the capital stock must be agreed to by 75 per cent of the IBRD's total voting power. As of 30 June 2002, it had 1,570,895 shares and a total capital stock of \$189,505 million.⁹³

The British were successful in influencing the amount of subscribed capital that was paid in to the Bank. White's 1942 draft specified 50 per cent be paid in initially, whereas the final agreement was only 20 per cent; the remaining 80 per cent can only be called in to meet losses.⁹⁴ Richard Gardner posited that the conservative British position was because they themselves neither expected to use the Bank to obtain a loan, nor to be able to make a large contribution for lending to others, thus giving them limited

Development, Vol. 35, No. 3 (1998). On the recruitment of Keynesians in the US administration more generally see, Ikenberry, "A World Economy Restored," pp. 300-301.

⁹² Interestingly, the general statement on adjustment implies a commitment to adjustment for surplus as well as deficit countries, which was a dispute that Keynes lost with US in relation to the IMF.

⁹³ Pearce and Hoover, "After the Revolution."

⁹⁴ Mason and Asher, *World Bank since Bretton Woods*, p. 20.

influence.⁹⁵ Of the 20 per cent paid-in subscription, only two per cent must be paid in gold or US dollars and the remaining 18 per cent in the member's currency. Given that, during the early years of Bank operations, the US dollar was the only convertible currency, the Bank's early loanable funds were in effect limited to the US contribution plus the contribution of other members in US dollars or gold.⁹⁶ The small initial capital stock and even smaller paid-in component made the Bank reliant on financial markets for capital, which profoundly shaped its subsequent operations.

Lending Capacity and Conditions

White's early plan for the Bank included provisions for issuing its own international bank notes, which he assumed would be 'as good as gold.' This would have made its lending capacity many times the paid-in capital.⁹⁷ However, despite White's protests and the initial support of the US delegation, the Bank emerged from the Bretton Woods negotiations with a conservative lending capacity — as per Article III, Section 3 the Bank can only lend or guarantee amounts equal to a maximum of 100 per cent of its capital subscriptions, reserves and surpluses. Given Bank reliance on borrowed funds (which initially meant the New York capital market), this may have been a necessary strategy to gain investment support during an unstable period, however, it has significantly constrained the Bank ever since. The conservative debt-to-lending ratio reinforced the idea of a "businesslike Bank" that came out of Bretton Woods.⁹⁸

White considered that the Bank's below market interest rates would result in a high demand for its funds and thus his 1942 draft included "...several provisions to ensure that the Bank's loans would be productively employed and would be repaid."⁹⁹ Many of these provisions are in the Bank's Articles. Article III, Section 4 on conditions requires, amongst other things, that: (i) member governments guarantee loan repayments; (ii) loan funds must not be able to be borrowed on the market in the prevailing conditions; (iii) a "competent committee" (i.e. experts) study each proposal and submit a written report of recommendation; (iv) the Bank should, using a prudent assessment (that is, examination of national accounts), be confident of the capacity of the borrower to repay

⁹⁵ Gardner, *Sterling-Dollar Diplomacy*, p. 118.

⁹⁶ Mason and Asher, *World Bank since Bretton Woods*, pp. 23-24.

⁹⁷ Oliver, *Early Plans*, p. 32.

⁹⁸ Kapur, Lewis and Webb, *World Bank*, p. 70.

⁹⁹ Oliver, *Early Plans*, p. 39.

the funds; and (v) “Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction and development.” The overall impression is of a cautious lending program, centred on market strictures and ‘disciplined’ by (Western) experts.

Interestingly, Section 5 of Article III specifies that loans are to be untied, in other words they can be spent in the territory of any Bank member. Since 1951, this commitment has been linked to requirements in loan agreements for international competitive bidding where possible.¹⁰⁰ More recently, the establishment of Trust Funds under the Bank’s auspices has give donor countries a way around this clause. This section also contains anti-corruption measures, specifying that loans must be used “only for the purposes for which the loan was granted” with due regard to “economy and efficiency and without regard to political or other non-economic influences or considerations.”

Operations

Article IV returns to the issue of the source and types of Bank lending touched on in the Purposes. As noted earlier, at Bretton Woods there was a shift in “...the emphasis of Bank operations away from lending its own paid-in subscriptions and toward the lending of borrowed funds or the guaranteeing of private loans.”¹⁰¹ This not only reflected the British influence to limit paid-in amounts but also anchored the Bank to Western capitalist financial markets. Section 3, Article IV specifies that Bank loans are generally denominated in the currencies of members, “other than the member in whose territories the project is located” and only in “exceptional circumstances” cover the local currency components of loans. Exceptional circumstances has been the subject of differing interpretations by the Bank over the years — the interpretation has become increasingly liberal and the tendency to allow funding for local currency components of projects has grown. Section 4 gives the Bank “complete discretion” over the terms and conditions of loans and guarantees.¹⁰² Combined with the requirements under Article III, Section 4, the Bank is given extraordinary capacity to set conditions on loan agreements — a major concern of this thesis.

¹⁰⁰ Mason and Asher, *World Bank since Bretton Woods*, p. 26.

¹⁰¹ Oliver, *Early Plans*, p. 49.

¹⁰² Mason and Asher, *World Bank since Bretton Woods*, p. 27.

Section 10 of Article IV says the Bank shall:

[n]ot interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purpose stated in Article I.

It is clear that the distinction made between politics and economics is an artificial and theoretical one and the Bank over its history has made decisions that show how blurred this line frequently becomes. For example, for most of its history, the Bank did not make loans to public enterprises engaged in the manufacturing sector arguing that such enterprises were not likely to be efficiently managed — is this an economic or political judgement?¹⁰³

Organisation and Management

Little time was spent at Bretton Woods on the Bank's organisational structure — Article V is "...nearly an exact copy of the Fund's Articles XII and XIII."¹⁰⁴ The Article covers the issues of voting rights, management structure and office location. The agreement on voting rights points to the 'realist' heart at the centre of what has, at times, been portrayed as a somewhat 'idealist' attempt to create international organisations to manage postwar international economic relations at Bretton Woods. Voting rights are linked to the amount of shares held — each member has 250 votes plus one additional vote for each share of stock held. The largest shareholders — the countries that provide the main guarantee behind the Bank's bond issues and loans on money markets — are Organization for Economic Cooperation and Research (OECD) countries. Indeed, there is little incentive for developing countries to have large subscriptions to the Bank because subscriptions are independent of borrowing rights, in contrast to the Fund, where subscriptions are linked to drawing rights.¹⁰⁵

The voting formula, derived from White's 1942 draft for the Bank, was completed with only minor changes. White initially proposed each member only receive 50 votes plus

¹⁰³ Ibid.

¹⁰⁴ Ibid, p. 29.

¹⁰⁵ Ibid, p. 30.

one additional vote for each share of stock held.¹⁰⁶ The increase to 250 basic votes was a compromise to ideals of equal representation over the power-based formula. However, as capital increases have occurred there has been no matching increase in the basic votes; thus the value of these has significantly declined.¹⁰⁷

White also proposed that no one country should have more than 25 per cent of the total votes. This formula came from his belief that subscriptions should be linked to national incomes and assessment that the American Congress could only be induced to a subscription of around \$2.5 billion. If, as he assumed, the US subscription was to be 25 per cent, this gave a figure for total capitalisation of \$10 billion. The 25 per cent was important as it gave the US an effective veto on most key decisions, as these would, in his draft, require a four-fifths majority vote.¹⁰⁸ The final voting formula for Bank decisions (other than amendment of the Articles, see below) was fifty per cent of the vote's cast, thus somewhat reducing direct US influence. However, with the Soviet Union's refusal to ratify the Bretton Woods agreement, the US initially had 35.07 per cent of votes and the US and European countries combined controlled 74 per cent of votes.¹⁰⁹ Despite the influx of new members in the 1960s, by June 1971 the US and Europeans still held 61 per cent of the vote. As of March 2007, the US controlled 16.84 per cent of the votes and the combined voting power of Western Europe, North America, Japan, Australia and New Zealand was over 56 per cent.¹¹⁰

A Board of Governors, consisting of representatives appointed from each member country, oversees the Bank. The Board's responsibilities include: admitting or suspending members; increasing or decreasing the capital stock; and adjudicating appeals on interpretations of the Articles made by the Executive Directors. Nominally, most of the formal power in decision-making lies with the Executive Directors who are responsible for the "...conduct of the general operations of the Bank." In reality the President and senior management control the Bank. Directors are elected for a two-year

¹⁰⁶ Oliver, *Early Plans*, p. 27.

¹⁰⁷ Dennis Leech and Robert Leech, "Voting Power in the Bretton Woods Institutions," in Alberto Paloni and Maurizio Zanardi (eds.), *The IMF, World Bank and Policy Reform* (London and New York: Routledge, 2006), p. 33.

¹⁰⁸ Oliver, *Early Plans*. White had also calculated what the likely votes of the British (17 per cent) and the Soviet Union (8 per cent) would be.

¹⁰⁹ Mason and Asher, *World Bank since Bretton Woods*, pp. 800-2 and pp. 64-5.

¹¹⁰ World Bank Group Website, "About Us", available from: <http://www.worldbank.org>, accessed: March 2007.

terms and are paid by the Bank, not by member governments. There were originally twelve Executive Directors but that was expanded to 24 through a series of increases, the last in 1995.¹¹¹ Five Executive Directors are appointed directly by those member countries with the largest number of shares (US, Japan, Germany, UK, France) and the remainder are elected by the Board of Governors. Smaller states generally pool their votes in relatively stable groups with the job of Executive Director often passed around members of a group.

Directors are able to cast the same number of votes at meetings that they received at their election. These groups have often resulted from historical or colonial relationships or from geographic factors. There are a number of groups with one member (generally a developed country) who dominates the group.¹¹² At Bretton Woods, the British and US disagreed about the role of the Executive Directors. Keynes and the British felt that the Directors should see themselves as international civil servants. This was not what the US had in mind; they wanted and achieved "...close governmental control" of their representative.¹¹³ But this is not the case for group-elected Directors, who can be voted in by a group comprising more than 20 states, yet there are no rules about whose interest they are there to represent.¹¹⁴ Theoretically, the Executive Directors select the President of the Bank, however, an informal agreement between the US and Europeans means the US selects the head of the Bank and the Europeans the head of the IMF (see following chapter for details). The President is the chief of operating staff of the Bank and controls its ordinary business "under the direction of the Executive Directors."

Article VIII specifies the requirements for amendments to the Articles — most amendments require three-fifths of the members with 85 per cent of the voting power. This was increased from 80 per cent in 1989, leaving the US (16.41 per cent of voting power) with an ongoing veto on amendments. One hundred per cent of members are

¹¹¹ Kapur, Lewis and Webb, *World Bank*, p. 1205.

¹¹² Australia for example, formed a group in 1953 with the Union of South Africa that Vietnam joined in 1957 and New Zealand joined in 1965. In 1971, the group was (not surprisingly) without Vietnam. In 2003, Australia has an Executive Director on the Bank via voting with New Zealand, Cambodia, Republic of Korea, Mongolia, Palau and seven Pacific Island nations. The Australian Director and Korean alternate have a voting power of 3.45 per cent.

¹¹³ Mason and Asher, *World Bank since Bretton Woods*, p. 30. See also Oliver, *Early Plans*, pp. 44-45.

¹¹⁴ Leech and Leech, "Voting Power in the Bretton Woods Institutions," pp. 40-41 and Ngaire Woods, *The Globalizers: The IMF, the World Bank, and Their Borrowers* (Ithaca and London: Cornell University Press, 2006), pp. 190-192.

required for amendments that modify: the right to withdraw from the Bank; rights to subscribe to increases in the authorised capital stock; and limitations on liability.

The British compromised on the location of the principal offices of the Bank (and Fund), which were to “be located in the territory of the member holding the greatest number of shares.”¹¹⁵ Undoubtedly the Bank’s location in the US has had a profound influence on the Bretton Woods twin. The controversy surrounding their precise location continued at the first meeting of the Bank and Fund in Savannah, a matter discussed in Chapter Three.

Selling the Bretton Woods Agreements to Congress

President Roosevelt did not forward the Articles of Agreement of the Bank and Fund to Congress until January 1945. Beforehand, there was both a major publicity campaign to gain support for the institutions and the formation of an opposition, which although not broadly based, created some difficulties for the US Administration.¹¹⁶ The opposition was largely focused on the operations of the Fund, however, contrary to the commonly held position that the Bank “...escaped practically unscathed”, the debate had a significant impact on the Bank.¹¹⁷ Without going into the detail of the discussion about the Fund, there was an attack on the (supposed) relative lack of control by the US, particularly in relation to the Fund’s provision of liquidity. This resulted in the Administration tightening its national control over the Fund and Bank by subordinating American Executive Directors to a National Advisory Council and increasing the commitment to conditionality.¹¹⁸ These issues were further played out in Savannah.

The US Administration claimed, to rebut criticism, that the Bank and Fund could deal with postwar transition and reconstruction problems. They argued that if the institutions were not ratified, special reconstruction aid for Britain would be imperative.¹¹⁹ As

¹¹⁵ IBRD Articles of Agreement, Article V, Section 9.

¹¹⁶ Gardner, *Sterling-Dollar Diplomacy*, p. 129. See also Block, *The Origins of International Economic Disorder*, pp. 53-55.

¹¹⁷ See for example, Mason and Asher, *World Bank since Bretton Woods*, pp. 33-34.

¹¹⁸ Gardner, *Sterling-Dollar Diplomacy*, pp. 135-135. This was done through the *Bretton Woods Agreement Act*.

¹¹⁹ *Ibid*, p. 139.

Garner notes, the enthusiastic atmosphere of the time also contributed to the tendency “...to claim all good things for the Bank and Fund.”¹²⁰ At the end of the day the ideas behind the Bretton Woods agreement played enough of a politically integrating role to ensure their passage through the US Congress, as well as garnering to achieve broader international support. As John Ikenberry notes, the Bretton Woods Agreements: “...allowed political leaders and social groups across the political spectrum to envisage a postwar economic order in which multiple and previously competing objectives could be met simultaneously.”¹²¹ It was, in Gramscian terms, a change in the intellectual terrain that helped shape changing national historic blocs and, in a time of crisis and hope, facilitated a change to the underpinnings of international (but US led) capitalist hegemony.

The Soviet Union did not take part in the ceremony in Washington to deposit the ratifications for the Bretton Woods twins on 27 December 1945. Documents released from the Russian foreign ministry in the mid-1990s show that, until shortly before this ceremony, Soviet officials were in fact preparing to join the institutions.¹²² It seems that the Soviet Union postponed its decision, in part, to improve its leverage on the US for greater postwar financial assistance, but growing Cold War tensions resulted in an end to discussions about US loans.¹²³

The death of Roosevelt in April 1945, had already tipped the scales of power in Washington. Even as the Bretton Woods Agreements were passed, the State Department was reasserting its control over US foreign policy.¹²⁴ The State Department, dominated by business internationalists, opposed the Bretton Woods agreements and pursued an alternative strategy, based on the Key Currency Plan of John Williams which meant “...offering Britain a substantial loan in exchange for British cooperation in restoring an open world economy.”¹²⁵ The resurgent nationalism, the “...tense and critical atmosphere” of the loan negotiations with the British, where the US tended to coercive

¹²⁰ Ibid, p. 140.

¹²¹ Ikenberry, "A World Economy Restored," p. 316.

¹²² Harold James and Marzenna James, "The Origins of the Cold War: Some New Documents," *The Historical Journal*, Vol. 37, No. 3 (1994), p. 616.

¹²³ Ibid, p. 617. The Soviets also seemingly believed the West was divided by internal conflicts and the long and the sometimes heated debates about ratification of the Bretton Woods agreements was an indication of the wartime alliance breaking down, *ibid*, p. 618.

¹²⁴ Block, *The Origins of International Economic Disorder*, pp. 55-56.

¹²⁵ Ibid.

tactics and the developing Cold War tensions, provided the backdrop to the meeting at Savannah.¹²⁶

Conclusion

Following its Gramscian framework, this chapter covered ideological, theoretical and political territory in explaining the origins of the IBRD. It explored the transfer of international hegemony from the British to the US, which originated from a structural crisis linked to the Depression and war. It was equally associated with the development and implementation of new ideas about the international organisation and management of capitalism. Nevertheless, the establishment of the Bretton Woods institutions was dependent on a small window of opportunity for change that was quickly closed by shifts in the US historic blocs and by rising Cold War tension.

Considering the role of White and Keynes, this chapter placed the Bretton Woods negotiations in the context of the broader hegemonic developments of the Second World War era. In particular, it examined the increasing acceptability of government planning provoked by the Depression and the impact of Russian communism, which was given theoretical expression in Keynesian economic theory. In practice this became the Keynesian, welfare, modernisation model, which provided the intellectual and practical backdrop for the founding of the World Bank at Bretton Woods. This contextualisation allows for a different interpretation of the Bank's Articles of Agreement highlighting its ongoing classical/neoclassical commitment to free trade overlaid with Keynesian commitments to state investment and planning. It positions White and Keynes as fundamentally committed to the same project, the Keynesian, welfare, modernisation one. Their differences in approach are attributed to commitments to the perceived needs of their respective countries and governments, rather than a reflection of fundamental ideological differences.

The chapter stressed the importance of analysing the Articles and the debates between Keynes and White, as here the hegemonic principles underlying the system are most

¹²⁶ Gardner, *Sterling-Dollar Diplomacy*, p. 207.

visible. For example, White's voting system linked to countries' capital subscriptions to the Bank, was designed to give the US a dominant role and it was approved at Bretton Woods with only minor modification. Analysis of the Keynes/White debates also gives an insight into the tensions within this hegemony, for example Keynes wanted the Bank to have a more international focus that he believed would be friendlier to British capitalism. He attempted unsuccessfully to achieve this in his challenges over the role of Executive Directors and location of Bank offices. Thus the changing structures of global economic, financial and military power coincided with a theoretical and institutional realignment. The Bank's origins and purpose reflect these major transformations.

Chapter Three

From Savannah to Structural Adjustment

This chapter reviews the Bank's growth from a small, relatively conservative lender, which had difficulty finding a president, to the leading international development agency. As President throughout the 1950s, Eugene R. Black oversaw the slow growth of a hard-nosed banking organisation that lent to a handful of mostly medium income countries. It was a Bank focused on infrastructure project, in particular power and transportation. The 1960s was a decade of two halves for the Bank, the first half saw a notable expansion not just of the organisation but of its mission through the creation of the IDA in 1961. The presidency of George D. Woods from 1963-1968 saw further expansion in the Bank's mission. Despite this expansion, the second half of the 1960s was a difficult time for the Bank both fiscally and politically as the problems of the US economy limited its budget and as US foreign policy turned inward and became more conservative, slowing the Bank's expansion. Nevertheless, the expansionary vision of Woods set the tone for the presidency of one of the Bank's most well known presidents, Robert Strange McNamara, as it was Woods who lobbied for McNamara's selection.

McNamara's tenure had two distinct phases: 1968-1973 and 1974-1981. During the first phase, the key development was the rapid growth in the Bank's lending portfolio. The second phase was marked by McNamara and the Bank's 'discovery' of poverty and a strategy to address it — integrated rural and later urban development programs. McNamara's tenure ended as neoliberalism became the intellectual force behind *pax americana*. In the Bank, neoliberalism made its first appearance with the introduction of structural adjustment lending. It was the Black and Woods' presidencies that established much of the Bank's organisational and operational structure, but it was the McNamara reign that transformed the Bank from a reflection of *pax americana* to an institution that was a key force in establishing and reproducing that hegemony.

The Inaugural Meeting of Bank and Fund at Savannah

The Inaugural Meeting of Board of Governors of the IMF and World Bank took place from 8 March 1946, in Savannah, Georgia. Keynes, again leading the British delegation, was determined to ensure the organisations were both internationalist and expansionary. However, as noted in the previous chapter, the atmosphere in Washington had changed and US political views had shifted again, this time towards a preference for coercive tactics in pursuit of its national interests. The US delegation opposed Keynes' lobbying to appoint White as the first managing director of the Fund. The delegation, led by the relatively conservative Fred Vinson, Secretary of the Treasury, wanted the Bretton Woods twins subject to relatively close (i.e. US) government control. Vinson did not have a good relationship with White and, one month prior to Savannah, had been given a FBI report by President Truman naming White as a probable Soviet spy.¹ To block White, the US delegation persuasively argued it was necessary for the Bank to be headed by an American in order to gain the confidence of Wall Street and that it would be unseemly for an American to be head of both the Bank and Fund, therefore a European should be head of the Fund.² This led to informal agreement that the US selects the head of the Bank and the Europeans the Fund. This agreement continues to this day.

To ensure the internationalism of the institutions, Keynes — having agreed at Bretton Woods that they be located in the US — wanted to see them in New York near to the UN rather than in Washington, where they would be more directly subject to pressures from the US Administration.³ Vinson stepped in again and had the US President instruct

¹ Van Dormael, *Bretton Woods*, p. 287. In his doctoral dissertation utilising recently opened US and Soviet archival sources, Bruce Craig concluded that White was not a formal spy but did "...hold some special status within the hierarchy of Soviet intelligence," Bruce Craig, "Treasonable Doubt: The Harry Dexter White Case, 1948-1953," (A thesis submitted for the degree Doctor of Philosophy: American University, Washington D.C., 1999). His clear commitments to US hegemony in the decision making of the Bretton Woods institutions confirms the view of Craig that White did "...not seek to harm U.S. interests but sought only to advance Soviet/American cooperation... and thereby bolster the cause of world peace." This contrasts to the frequent simplistic presentations of White as a communist traitor Craig, "Treasonable Doubt," p. iii.

²Block, *The Origins of International Economic Disorder*, pp. 74-75, Mason and Asher, *World Bank since Bretton Woods*, pp. 39-40.

³ Block, *The Origins of International Economic Disorder*. The British position, on this issues, was supported by the French and Indian delegations Mason and Asher, *World Bank since Bretton Woods*, p. 37. For a general discussion of Keynes's view of the Savannah meeting see R.F. Harrod, *The Life of John Maynard Keynes* (London: Macmillan, 1966), pp. 629-640.

the delegation that no compromise on location was acceptable.⁴ As Gardner highlights, this “...decision was an important victory for the idea of close [US] national control of the Bretton Woods institutions. It was to have a profound effect on their future development.”⁵ With a view to insulation from the US Administration, Keynes wanted the executive directors to be part-time positions paid at medium levels. The US insisted on full-time executive directors with high salaries by contemporary international standards. Thus, the US view of close control by national governments prevailed at all levels, indeed, the decisions at Savannah strengthened US government control.⁶

The First Meeting of Executive Directors of the IMF and World Bank took place in Washington on 7 May 1946 but there was no president. The US had difficulty in finding a suitable candidate prepared to assume the role.⁷ They needed a person with high level experience, contacts and standing — preferably in the banking sector as the Bank would be reliant on finance markets (Wall Street in particular). However, the US finance industry was suspicious of international schemes, given the experience of the Great Depression, and indeed suspicious of the IBRD proposal. Only on 4 June, was Mr. Eugene Meyer (previously editor and publisher of *The Washington Post*) elected as the first President. The Bank formally opened for business on 25 June 1946.⁸

Early Bank Operations: 1946 -1949

There was relatively little lending activity from 1946 to the end of 1948 and that which did occur was primarily for postwar reconstruction projects. The Bank started to develop a business-oriented, technocratic model for lending. This model had its origins in the Bank's Purposes but was reinforced by new appointments to the Bank (mostly bankers and technical experts) and its difficulty in raising capital. These factors and the priority given to infrastructure projects shaped the Bank's 'character' for over a decade.

⁴ Gardner, *Sterling-Dollar Diplomacy*, p. 258. See also Mason and Asher, *World Bank since Bretton Woods*, p. 37, Van Dormael, *Bretton Woods*, pp. 294-295.

⁵ Gardner, *Sterling-Dollar Diplomacy*, p. 259.

⁶ Block, *The Origins of International Economic Disorder*, p. 74 and Mason and Asher, *World Bank since Bretton Woods*, pp. 38-40. The Americans successfully cultivated votes on this issue and in the end, Keynes's vote was the only one opposing the high salary levels, Van Dormael, *Bretton Woods*, p. 301.

⁷ Catherine Caufield, *Masters of Illusion: The World Bank and the Poverty of Nations* (London: Macmillan, 1998), p. 50.

⁸ Oliver, *Early Plans*, pp. 1-2.

Without having raised capital or committed any loan funds, Meyer resigned as President — he spent only six months in the job. His resignation is generally attributed to frustrations with the Bank structure, which gave the Executive Directors a large degree of formal control and the President, responsibility without authority.⁹ The US Administration had difficulties finding a replacement; John J. McCloy was asked twice and was only convinced to take up the position after he gained a commitment that the Executive Directors would interfere less with day-to-day operations.¹⁰ This was an important development as it pushed the Bank towards a hierarchical structure with strong central control by a single individual — a model that continues to this very day. This structure also reinforced US influence over the Bank with an American President, selected by the current US administration and the Bank being close to the US both physically and politically.

McCloy started work in March 1947 bringing with him Robert L. Garner as Vice-President and Eugene R. Black as US Executive Director. These appointments started another tradition in the Bank — a preference for senior management with commercial backgrounds. McCloy was a Wall Street lawyer who, as was common at the time, had had administration experience as Assistant Secretary of War (1941-1945). Garner had been a banker and vice president of the General Foods Corporation. Black had been a vice president of the Chase National Bank of New York.¹¹ It is not surprising that the “...faith of the new trio in private investment as a panacea for the economic ills of the world was almost boundless.”¹² Thus none of the senior management of the Bank had development backgrounds, yet another tradition that continues to this day. Not surprisingly, when the Bank was being established, this situation was the norm. As early Bank staff member, Davidson Sommers (Legal Department, later a vice president) explains:

...when the Bank started, people in the West didn't know much about the developing world except as colonies. They didn't know much

⁹ Mason and Asher, *World Bank since Bretton Woods*, p. 47.

¹⁰ Ibid, pp. 49-50, and Davidson Sommers, "An Institution Emerges," *Finance & Development*, Vol. 21, No. 2 (1984), p. 31.

¹¹ Mason and Asher, *World Bank since Bretton Woods*, pp. 49-50.

¹² Ibid, p. 51.

about development lending, didn't know much about development economics.¹³

Another factor that shaped the Bank's operations was the initial difficulty it had in raising capital. The Great Depression led to a high degree of suspicion amongst Americans about international bonds. Investors, big and small alike, had become involved in international speculation in bond markets often with limited knowledge of the countries they were investing in. They discovered, at significant cost, that many of the bonds were not worth the paper they were printed on. Nevertheless, at the end of the Second World War, the US was the only country with surplus funds to purchase bonds. In fact, many individual US states still had bans on the sale of foreign bonds and some actually "...imposed new bans specifically aimed at the World Bank."¹⁴ The difficulty in raising capital contributed to the Bank's early cautiousness in offering loans and its close scrutiny of proposals to ensure they were sound, and appeared to be so to Wall Street investors.

In April 1947, the first of the Bank's early reconstruction loans was finalised. The loan to France was followed by three further reconstruction loans to Western European countries — the Netherlands, Denmark and Luxembourg. However, the IBRD was nowhere near large enough to meet Europe's need for finance. Thus, when the Lend-Lease arrangements ended, Britain could only meet its foreign exchange requirements for a matter of weeks. The Anglo-American Loan of December 1945 was meant to solve its transition problems but when the British made sterling convertible in July 1947, as per the loan conditions, its reserves were quickly exhausted.¹⁵ Even before the sterling crisis, George Marshall, Secretary of the State Department, made a speech at Harvard University acknowledging the scale of the transition problem, which resulted in a massive US balance of payments support program for Europe between 1948 and 1952.¹⁶ By late 1948, the Bank had committed just \$497 million in loans, whereas the Marshall

¹³ Cited in Kapur, Lewis and Webb, *World Bank*, pp. 82-83. Indeed economists at the time were simply not interested in the subject of development.

¹⁴ Caufield, *Masters of Illusion*, p. 50.

¹⁵ Scammell, *International Economy since 1945*, p. 29.

¹⁶ Ibid, pp. 31-32. It is interesting to note that the Treasury and State Departments in a way reversed their war time roles, Treasury was pushing for full implementation of the Anglo-American Loan conditions, while State took a broader view of the political and social situation in Europe and a softer line towards Britain.

Plan disbursed over \$12.7 billion in three years.¹⁷ But the Marshall Plan was not just “magnificent philanthropy” it was also “...the price to the United States of building a ring of containment to Soviet territorial ambition.”¹⁸ Equally, it was the price of building an economic sphere that was sympathetic to US needs, it was in a number of ways the price of hegemony.

Although the IBRD continued to lend to developed countries, reconstruction lending essentially ended with the loan to Luxembourg in August 1947. McCloy understood that once the Marshall Plan was operational, IBRD reconstruction aid would be redundant.¹⁹ As William Ascher points out, the Plan may have ended much of the flow of funds to Europe but it did not change the Bank’s underlying rationale of facilitating, predominately US, private capital investment to the world.²⁰ Indeed, the growing Cold War gave a new urgency to that mission. It was now a question of where to focus loan funds and the search for a new target took some time. With its only loan during 1948, a development loan to Chile, the Bank started out in its new market — developing countries.²¹ In January 1949, President Truman’s famous four points speech not only underlined the growing Cold War threat, but gave legitimacy to the Bank’s focus on developing countries through its hastily added final point, which Gilbert Rist argues “...inaugurated the ‘development age.’”²² It is worth quoting from the speech because not only was it part of the inspiration for the formation of the IDA,²³ but the similarities with what was to become the Bank’s development model are striking.

Fourth, we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of the underdeveloped areas....

The United States is pre-eminent among nations in the development of industrial and scientific techniques. The material resources which we

¹⁷ Kapur, Lewis and Webb, *World Bank*, p. 71. Indeed the Bank’s total capitalisation was only \$10 billion and paid in resources in hard currency only \$20 million.

¹⁸ Scammell, *International Economy since 1945*, p. 31.

¹⁹ Kapur, Lewis and Webb, *World Bank*, p. 74.

²⁰ William Ascher, “The World Bank and U.S. Control,” in Margaret P. Karns and Karen A. Mingst (eds.), *The United States and Multilateral Institutions* (Boston: Unwin Hyman, 1990), p. 117.

²¹ Mason and Asher, *World Bank since Bretton Woods*, p. 53.

²² Gilbert Rist, *The History of Development: From Western Origins to Global Faith* Trans. Patrick Camiller (London and New York: Zed Books, 1997), p. 71, emphasis in original.

²³ Peet, *Unholy Trinity*, p. 116.

can afford to use for assistance of other peoples is limited. But our imponderable resources in technical knowledge are constantly growing and are inexhaustible.

I believe that we should make available to peace-loving peoples the benefits of our store of technical knowledge...

And, in cooperation with other nations, we should foster capital investment in areas needing development.

The old imperialism – exploitation for foreign profit – has no place in our plans. What we envisage is *a program of development* based on the concepts of democratic fair trading.²⁴

The Bank itself commenced research to determine what its “productive purposes” were and which types of key investments would not receive financing from private sources as stipulated in the Articles of Agreement. In contrast to the Bretton Woods agreements, which were largely composed by technical experts, the Bank’s purposes were developed by practitioners resulting in a more pragmatically informed approach. The Bank’s senior managers considered that light manufacturing and export industries in developing countries should be funded from private sources, so they were excluded from consideration. Further, McCloy, Garner and Black were ideologically opposed to investment in state-run enterprises, other than utilities. The consensus that dominated Bank lending for over a decade was reached fairly quickly, namely that public utilities, especially electricity, transport and communications were the key prerequisites for achieving economic growth via private investment.²⁵ Despite being designed by practitioners, the impact of the ‘Keynesian, welfare, modernisation consensus’ remained visible, though the disappearance of the welfare component — the most controversial element for business internationalists was simply dropped.²⁶ So, the consensus extended

²⁴ Cited in Rist, *The History of Development*, p. 71, emphasis added.

²⁵ Mason and Asher, *World Bank since Bretton Woods*, pp. 150-151. See also Mason and Asher, *World Bank since Bretton Woods*, pp. 458-461. The focus on financing of certain types of public utilities stimulated Bank theorising on the role of infrastructure in economic growth and the Bank became a leading proponent of infrastructure as essential precondition for development.

²⁶ Keynes focus on aggregate output was transferred into development economics through the Harrod-Domar model, which later led critics to (probably incorrectly) suggest that Keynes was overly focused the fixed investment component of aggregate output, John Toye, *Dilemmas of Development* (Oxford:

to avoiding public investment in welfare-related areas such as sanitation, education, and health care as their contribution to economic growth was “...less measurable and direct than that of power plants.”²⁷ In determining which public utilities to fund, Urquidi, an early Bank staffer, notes the “...Bank's ‘bottom line’ in judging a project was the ‘times earned column’ on a spreadsheet...”²⁸ This is a clear example of the privileged status of newly available economic data and national accounting. However, it is equally important to note that the Bank’s public focus on individual projects could be misleading — it was just as interested in a lender’s overall creditworthiness and thus in its overall economic policy priorities and settings.²⁹

By 1949, Bank assessment of loans had turned into a program that involved the Bank essentially managing the development of loans proposals and providing technical assistance to that end. Here is the Keynesian, modernisation model’s emphasis on (Western) ‘experts.’ The Bank’s assessments covered development, assessment and supervision of projects and the planning and management of economies utilising data on monetary, fiscal and balance of payments positions to determine policy. The model of the ‘fly-in, fly-out’ Western expert became the norm. The economist, Albert Hirschman, described how, to assist planning in Columbia, the Bank expected him to formulate within a few weeks:

...some ambitious economic development plan that would spell out investment, domestic savings, growth and foreign aid targets for the Columbian economy over the next few years. All of this was alleged to be quite simple for experts mastering the new programming techniques: apparently there now existed adequate knowledge, even without close study of local surroundings, of the likely range of savings and capital-output ratios, and those estimates, joined to the country’s latest national income and balance of payments accounts, would yield all the figures needed...³⁰

Blackwell Publishers, 1993), p. 50. Nevertheless, many subsequent Keynesians were focused on physical capital formation.

²⁷ Mason and Asher, *World Bank since Bretton Woods*, p. 151.

²⁸ Urquidi, “Reconstruction Vs Development,” p. 48.

²⁹ Kapur, Lewis and Webb, *World Bank*, p. 125.

³⁰ Cited in Bruce Rich, *Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development* (Boston: Beacon Press, 1994), p. 74.

This level of confidence in both the newly available economic data and the methods of econometric analysis are quite remarkable. Although data on government revenue and expenditure and on national trade had been collected for a long time and attempts to estimate national income were made in the 1860s, it was not until the Second World War that the first attempts were made in the West to produce reliable national accounts.³¹ The quality of data collection in many developing countries was questionable to say the least and the decisions about the composition of national accounts impacted on economists' understanding of the situation in these countries. In particular, the decision not to include household production in national accounts discounted its importance in the economy and its role in balancing activity during economic downturns.³² It particularly skews comparisons against economies with significant peasant or subsistence economies. The new programming models in which the Bank expressed so much faith were also in their early stages of construction and tended to (and still do) stress parsimony.³³ This faith in numbers remains a feature of the Bank's lending and analytical activities.

Along with providing experts, the Bank assisted developing countries to build local autonomous planning agencies.³⁴ Staff in such agencies were trained by the Bank and had close intellectual relationships with Bank staff. They were often central to organising and managing Bank-funded projects but more importantly, promoted Bank favoured macro- and micro-economic policies and influenced components of domestic historic blocs.

³¹ Alec Cairncross, "The Development of Economic Statistics as an Influence on Theory and Policy," in Duncan Ironmonger, J.O.N. Perkins and Tran Van Hoa (eds.), *National Income and Economic Progress: Essays in Honour of Colin Clark* (London: Macmillan Press, 1988), pp. 17-19. Keynes oversaw the first attempts in Britain at producing national accounts, Duncan Ironmonger, "Statistical Perspectives and Economic Stability," in Duncan Ironmonger, J.O.N. Perkins and Tran Van Hoa (eds.), *National Income and Economic Progress: Essays in Honour of Colin Clark* (London: Macmillan Press, 1988), p. 39.

³² Ibid, pp. 41-42. Further, national accounts do not include illegal activities or leisure as productive activities yet they do include the military, the police and private security services. The dominance of neoclassical economics led to the "...classical distinction between production and non-production activities [being] displaced by the notion that all socially necessary activities, other than personal consumption, resulted in a product." Anwar M Shaikh and E. Ahmet Tonak, *Measuring the Wealth of Nations: The Political Economy of National Accounts* (Cambridge: Cambridge University Press, 1994), pp. 2-3.

³³ Marcel Boumans, *How Economists Model the World into Numbers* (London and New York: Routledge, 2005), p. 180. Boumans concluded that economists, "...after a century of mathematical modelling, now prefer very simple mechanisms with the faith that they will be calibrated in the future."

³⁴ Rich, *Mortgaging the Earth*, p. 75. On Bank missions and national development agencies in Columbia see Caufield, *Masters of Illusion*, pp. 58-61.

The Bank took its role in loan supervision to greater depths than mainstream banks (partly in order to win the trust of finance markets) and the loan to Chile already included most of the key conditions that *still* characterise Bank lending. These include:

...close scrutiny and discussion of proposals; conditionality related to monetary, fiscal, and balance of payments policies that would bear on a country's capacity to repay; supervision of these funds; and a negative pledge.³⁵

The principal condition on the loan to Chile was that it settled with owners of prewar bonds, on which the government had earlier defaulted. Settlement of outstanding debt became (and remains) a core condition for access to Bank funds.

In 1948, the Bank had commenced a research program, producing and publishing estimates of incomes in various countries.³⁶ From these humble beginnings the Bank became the largest development research organisation in the world (see Chapter Four). Already by the end of the 1940s, and despite limited lending activity, most of the elements that dominated the Bank's management of lending through the 1950s and beyond were in place: strong centralised bureaucratic structure; a conservative approach to lending that resulted in strong loan conditionality; a strong focus on infrastructure; and a belief in technocratic expertise to provide solutions to development problems.

The 1950s

Lending really got going after January 1949 and grew steadily during the presidency of Eugene Black, which commenced on 1 July 1949. Ultimately though, lending remained at rather modest levels throughout the 1950s: from 1949 until April 1961 (when the IDA was founded) the Bank made 280 loans in 56 countries, to the value of \$5.1 billion.³⁷ Up until 1957 annual commitments averaged only \$307 million per annum; though they jumped to \$600-700 million per annum in 1958-60 due primarily to

³⁵ Kapur, Lewis and Webb, *World Bank*, p. 81. The negative pledge is a commitment by borrowers that prohibits the establishment of a priority for other debts over debts due to IBRD. It ensures the IBRD proportionally shares in security created in favour of other creditors. *The World Bank Operational Manual Volume II*, available from: World Bank Group Website.

³⁶ Kapur, Lewis and Webb, *World Bank*, p. 83.

³⁷ *Ibid*, p. 85.

increased assistance to India as it confronted a balance of payments crisis.³⁸ World Bank lending remained dwarfed by US bilateral assistance, which averaged more than \$1.8 billion per annum in the early 1950s. The focus on financing public utilities and infrastructure remained: power and transport accounted for over half of lending in the 1950s and over 78 per cent of loans to developing countries.³⁹ Dams were also a major activity, they are included under various Bank sector classifications but made up a quarter of lending during Black's tenure.⁴⁰ Some 43 per cent of Bank loans in this period went to countries with already high levels of income (e.g. Japan and Australia) and a further ten per cent went to loans for colonial development — for projects that were largely designed to meet the raw materials needs of Europe.⁴¹

During the 1950s, the strength of the influence of Western, and in particular US, foreign policy concerns and priorities on the Bank became discernible. Anti-communism was more than a little visible in the Bank. President McCloy publicly and repeatedly stated that the Bank would "create markets for U.S. trade... [and] stop Communism."⁴² In 1948, a loan to communist Poland was not submitted to the Board because it may have been approved even with the US voting against it.⁴³ Loans to encourage anti-communism were made to India (from 1949), Ethiopia and Nicaragua (from 1951) to cite just a couple of examples. As Kapur, Lewis and Webb state:

...political priorities were common knowledge and inevitably exerted an influence on lending decision. In any case, the meeting of minds was helped along by routine meeting with State Department officials, in which the Bank was often urged by State to 'support' specific countries.⁴⁴

There are a few instances where the Bank has supported left-wing regimes (Tanzania and Romania for example), just as there are a few instances where the Bank has made

³⁸ Ibid, pp. 90-92. By this time, India had become a higher priority in US foreign policy too; see Berger, *The Battle for Asia*, p. 68.

³⁹ Catherine Gwin, "U.S. Relations with the World Bank, 1945-1992," in Devesh Kapur, John P. Lewis and Richard Webb (eds.), *The World Bank Its First Half Century, Volume 2: Perspectives* (Washington D.C.: Brookings Institution Press, 1997), p. 86. During Black's presidency, one-third of the total lending went to only 21 large-scale infrastructure projects, Caufield, *Masters of Illusion*, p. 87.

⁴⁰ Ibid, p. 73.

⁴¹ Kapur, Lewis and Webb, *World Bank*, pp. 93-99.

⁴² Cited in Caufield, *Masters of Illusion*, p. 53.

⁴³ Ibid, p. 197.

⁴⁴ Kapur, Lewis and Webb, *World Bank*, pp. 102-103.

loans despite the objections of its largest donors (e.g. 1978 to the Socialist Republic of Vietnam), but these were notable exceptions. They were made, it seems, to demonstrate the Bank's notional independence, which even the US government has acknowledged is necessary for a Bank promoting capitalism sympathetic to *pax americana*.⁴⁵

The Bank's development model firmed during this period but, as the Bank expanded, its need to influence potential lenders grew and a more sophisticated and academic approach was required. One of the consequences of this was the establishment of its own training institute and 'think tank' in 1956, the Economic Development Institute. Three features stand out about the Bank's development model during this time: it was never systematically described in Bank documentation;⁴⁶ it selected elements from academic discourse to fit its ideas; and its model was quite different from that of UN development agencies and bilateral donors who focused more on basic needs. Whilst it may have been a small player amongst UN agencies in its early years, it was and remains the organisation with access to sufficient resources to implement its development agenda.⁴⁷

So how did the Bank's development model fit with the blossoming field of development economics during the 1950s? One of the most significant academic propositions put forward in the 1950s was the Prebisch-Singer thesis. This was derived from work published separately by Raúl Prebisch and Hans Singer on first-third world trade in 1950, which reached similar conclusions. Their work challenged the neoclassical theory of comparative advantage first formulated by David Ricardo but refined by Eli Heckscher and Bertil Olin in the 1930s. Ricardo's version of comparative advantage found that trade would provide benefits to countries with differences in labour productivity. The Heckscher-Olin model based gains on different factor endowments (land, labour, capital) in different countries but assumed constant access to technology.⁴⁸ Its implication is that countries should specialise in products in which they have relatively abundant factor endowments.

⁴⁵ The US Treasury produced a report for the Reagan Administration in 1982 admitting as much. More details on this are contained in Chapter Four.

⁴⁶ Mason and Asher, *World Bank since Bretton Woods*, p. 467.

⁴⁷ Caufield, *Masters of Illusion*, p. 62.

⁴⁸ Michael P. Todaro, *Economic Development in the Third World: An Introduction to Problems and Policies in a Global Perspective* (London: Longman, 1977), pp. 279-280. The model is sometimes also

The Prebisch-Singer model directly challenged the idea that countries should concentrate on exports based on their relative factor endowments. They found that over time, the terms of trade for primary commodities actually declined. This decline was the consequence of capital concentration and higher profit margins from industrialisation not occurring to the same extent in competitive primary product markets as with manufactured goods.⁴⁹ Declining terms of trade for primary commodities would further exacerbate the propensity of prices in industrialised countries to rise more quickly than in less industrialised countries. This trend would be strengthened by differences in the income elasticity of demand, in other words by consumer's tendency to increase demand for manufactured goods as their incomes rise. The implication is that trade between industrialised nations and those dependent on primary products — generally developing nations — involves unequal exchange.⁵⁰

The Prebisch-Singer thesis concluded that, over the long-term, developing countries would have to export ever increasing quantities of primary commodities just to maintain their levels of imports from the industrialised world. Furthermore, to increase their imports, developing countries would have to increase exports even further. As John Rapley notes, the consequences were that developing countries needed to "...alter the structure of the economy's production otherwise they would sink deeper into poverty."⁵¹

The Prebisch-Singer thesis was a key impetus in the development of Dependency Theory, which set out to explain the empirical failure of 'trickle down' growth in Latin America.⁵² Dependency Theory went beyond the Prebisch-Singer thesis and posited that the world trading system, in concert with section of the indigenous bourgeois, acted to shift wealth from traditional to the modern sectors. This occurs both within a developing society (the periphery) and between it and an already industrialised (the centre) one, contributing to a process of underdevelopment. In other words, wealth, via

referred to as the Heckscher-Ohlin-Samuelson model or the Heckscher-Ohlin-Vanek model, to acknowledge the contributions of the economists Paul Samuelson and Jaroslav Vanek to the modern model.

⁴⁹ John Rapley, *Understanding Development: Theory and Practice in the Third World* (Boulder, Colorado: Lynne Rienner Publishers Inc., 2002), p. 13.

⁵⁰ Rist, *The History of Development*, p. 115.

⁵¹ Rapley, *Understanding Development*, p. 14.

⁵² Rist, *The History of Development*, p. 116.

exploitation, moves from the underdeveloped periphery to the developed core and, importantly, the core is *responsible* for the process of creating underdevelopment and impoverishment of the periphery.⁵³

The Prebisch-Singer thesis and Dependency Theory were quite influential in many developing countries. In practice, the main policy proposals that derived from them were promotion of state-led development and import substitution industrialisation (ISI). State-led development led to policy proposals ranging from promotion of autarky to the more common proposition that the state has a key role in the distribution of investment and mediation of inequality.⁵⁴ ISI is a way of promoting industrialisation by restricting imports of manufactured goods using tariff or non-tariff barriers as protection for local industries. State-led development and ISI became developmental doctrine in much of Latin America, India, parts of Africa and it was influential in East Asia too. Its outcomes were not always as planned. Where it was one part of an overall development program and used strategically (e.g. East Asia) it showed promise but in many countries it became associated with inefficiency and corruption.⁵⁵

Many mainstream economists believe the Prebisch-Singer thesis would not occur under free market conditions. Alternatively they argued, as per Paul Rosenstein-Rodan, that a “big push” in infrastructure investment and careful development planning would combat declining terms of trade.⁵⁶ The World Bank’s evolving development paradigm drew significantly on this idea, but it was equally informed by Modernization Theory, which was more in line with its founding fathers’ ideas regarding development. Evolving from the behaviouralist turn in mostly US social science, Modernization Theory aimed to duplicate the conditions that had promoted development in the industrialised world in developing countries. As Mark Berger notes, it had “....an emphasis on Fordist pay and production arrangements, Taylorist forms of labor

⁵³ The key authors on Dependency Theory are, of course, Andre Gunder Frank and Immanuel Wallerstein. For an overview of their ideas Walter L. Goldfrank, "Paradigm Regained? The Rules of Wallerstein's World-System Method," *Journal of World-Systems Research*, Vol. VI, No. 2 (2000) and Andrew Webster, *Introduction to the Sociology of Development* (Basingstoke: Macmillan, 1984), pp. 84-92.

⁵⁴ Rist, *The History of Development*, p. 115.

⁵⁵ For an overview see, Rapley, *Understanding Development*, pp. 25-46.

⁵⁶ Ibid, p. 14.

organization, and a ‘paternalistic and protective’, but modernizing state.”⁵⁷ Its main conclusions about the reasons for underdevelopment were a shortage of capital (thus the prescription to increase savings)⁵⁸ and an inappropriate value system (prescription: education in capitalist values). At the end of the day, Modernization Theorists saw that underdevelopment was an initial phase and that developing countries would ‘catch up’ with some assistance from the West, which was under this prescription assumed to be relatively benign.⁵⁹ It complemented the Bank’s ideas about the necessity of ‘trickle down’ growth, with industrialisation starting in specific sectors and, thanks to comparative advantage, spreading across the economy.⁶⁰ In the Bank’s version, light industry was the key sector and borrowing governments were encouraged to promote this sector, rather than heavy industry, which was promoted by UN bodies, some academic analysis and, of course, many developing country governments.⁶¹ The Bank’s role was to provide the infrastructure necessary for ‘take off’ whilst social welfare would be dealt with in due course, as a result of development. It need not form a specific part of the lending program. For Berger, Modernization Theory like much subsequent development economics:

...conflated capitalist development with national development and turn nation-states that flowed from complex and contested histories into unproblematic units to be developed and modernized, equating the governments of those nations with the nations themselves. This is directly linked to the way in which development economics and the idea of national development rested on an elitist and technocratic approach that conceived of development as a technical problem outside of history and politics.⁶²

The Bank’s paradigm was not inconsistent with some aspects of the work of development economists of the period from different sides of the fence and this contributed to its legitimacy. For example, the structuralist work of Prebisch emphasised the need for large-scale industrialisation, though apart from infrastructure,

⁵⁷ Berger, *The Battle for Asia*, p. 47.

⁵⁸ This component of Modernization Theory was supported by Keynesianism and in particular the Harrod-Domar model of growth though on different grounds.

⁵⁹ Rapley, *Understanding Development*, p. 15.

⁶⁰ Kapur, Lewis and Webb, *World Bank*, p. 115.

⁶¹ Mason and Asher, *World Bank since Bretton Woods*, p. 466.

⁶² Berger, *The Battle for Asia*, pp. 61-2.

the Bank saw that this should be achieved through the market.⁶³ The classically shaped work of W. Arthur Lewis was also influential. Lewis saw that the rural sector was inefficient and that labour would have to be transferred to more productive industrial uses to achieve development.⁶⁴ Lewis' recasting of poverty as an employment problem facilitated debate amongst classically trained economists on addressing poverty and influenced the Bank's understanding of development during the McNamara years.⁶⁵ Yet its approach remained at odds with many bilateral donors, in particular the US, whose aid program had a strong focus on winning the 'hearts and minds' of third world peasants and thus funded social programs in health, water supply and education.⁶⁶

The main change to the Bank's development thinking during the 1950s was in regard to the absorptive capacity of developing countries. Initially, Bank management firmly believed that absorptive capacity was very limited and that developing countries must raise the local currency requirements for projects domestically.⁶⁷ By the mid-1950s, it saw much higher needs in developing countries. By the end of the 1950s, the Bank faced the problem of net negative transfers in some countries, that is, where borrowers pay more money back to it (typically in interest) than it disburses in new loans.⁶⁸ It became clear to some at the Bank that, given a limited number of borrowers, continued lending may create a debt crisis: it would need to close its door once it had lent a certain amount or to continue to lend at a higher level. Thus, it was not coincidental that the Bank's revised understanding of absorptive capacity fitted with the reality of its need to continually increase lending to maintain fund flows and to avoid being dwarfed by large, predominately bilateral, capital flows.

The IBRD's lending jumped in the late 1950s and, not surprisingly, its sectors of lending expanded too: education, industry and agriculture were the main beneficiaries. The 1973 official history of the Bank applauded this expansion and was quite critical of the Bank's early conservatism regarding countries' debt service capacity, though this was almost a decade before the first debt crisis. Despite the expansion in agenda and

⁶³ Kapur, Lewis and Webb, *World Bank*, p. 119.

⁶⁴ Todaro, *Economic Development in the Third World*, pp. 188-191 and Toye, *Dilemmas of Development*, p. 52.

⁶⁵ Kapur, Lewis and Webb, *World Bank*, pp. 226-227.

⁶⁶ The US also funded agriculture projects, which the Bank largely avoided in the 1950s, *ibid*, p. 112.

⁶⁷ Mason and Asher, *World Bank since Bretton Woods*, p. 480.

⁶⁸ Rich, *Mortgaging the Earth*, p. 79.

lending, the outlook for the IBRD by the end of the 1950s was not great – its developed country borrowers were becoming too ‘developed’ to meet the criteria in the Bank’s Articles of Agreement that countries should not be able to access commercial credit. Further, many of the big borrowers were already facing problems with their levels of debt according to the Bank’s existing conservative debt servicing ratios and least-developed countries were not considered creditworthy enough to access IBRD funds.⁶⁹ Thus, the establishment of the IDA in 1960, which expanded the Bank’s lending capacity, was a godsend to the Bank, yet one with a sting in the tail — the IDA’s need for regular replenishments by its big donors gave those donors new capacity to influence the Bank.⁷⁰

The IDA and the 1960s

Bank President Black welcomed the establishment of the IDA despite his reservations about its potential impact on the IBRD’s standing in financial markets. Further, Black acknowledged that the IDA was in part the product of Cold War politics increasingly being played out in developing countries.⁷¹ The IDA was a multilateral channel for soft loans to promote anti-communism but also part of a second wave of building development institutions that occurred between 1958 and 1962.⁷² Developing countries had called for a new large development fund under UN control (called the Special United Nations Fund for Economic Development). A World Bank controlled-fund was, for the Eisenhower Administration, preferable to a UN agency because the Bank’s weighted voting structure gives significant control to the US and West, whereas UN agencies (the Security Council aside) have a one country one vote system and by the end of the 1950s the UN was numerically dominated by developing countries. The US also preferred the Bank’s business-like approach to development compared to the operations of other agencies.⁷³ Moreover, the US initially envisioned the IDA as a way

⁶⁹ Mason and Asher, *World Bank since Bretton Woods*, p. 380.

⁷⁰ Woods, *The Globalizers*, pp. 27-28.

⁷¹ Kapur, Lewis and Webb, *World Bank*, p. 136.

⁷² *Ibid*, p. 151.

⁷³ *Ibid*, p. 137.

to deal with its excess holdings of non-convertible currencies, though at the end of the day this was not the case.⁷⁴

The IDA was created under separate Articles of Agreement rather than by amendment of the IBRD Articles. This was due to Black's concerns to protect the IBRD's standing in financial markets but it also served to prevent attempts to revise the IBRD's Articles.⁷⁵ The IDA's Articles are largely a duplication of the IBRD's, with three exceptions, first, they specify which countries are developed (Part I) and which are developing (Part II) and link contributions to this status. This division was a way of rationing access to IDA resources, which were likely to be over-subscribed. The Articles of Agreement refer to balance of payments constraints on overseas borrowing as the condition for access to IDA funds but relative poverty, as measured by per capita income, became the main criteria for access.⁷⁶ Second, the voting structure is marginally more favourable to developing countries — in March 2007, Part I countries controlled 62.77 per cent of the IBRD's votes while they controlled only 58.44 per cent of the IDA's votes.⁷⁷ Third, despite misgivings of the Bank's senior management, the Articles allow the financing of social projects.⁷⁸ This was not only the product of the demands of developing country members — the US and other developed countries saw social expenditures as essential to combating communism. The focus remained on project financing to the chagrin of some members. However, the definition of a 'specific project' was enlarged to include sectoral efforts. In this way, the IDA paved the way for greater program lending.⁷⁹

The first IDA credit — as they are called to distinguish them from IBRD loans — was in a social sector, a water supply project in Jordan. This project was actually made to support a pro-Western regime in the Middle East and in an implicit acknowledgement of this, Bank management wished to ensure that it did not set a precedent for future IDA

⁷⁴ Mason and Asher, *World Bank since Bretton Woods*, pp. 386-393.

⁷⁵ Ibid, pp. 389-390.

⁷⁶ Kapur, Lewis and Webb, *World Bank*, p. 194.

⁷⁷ World Bank Group Website.

⁷⁸ The Articles of Agreement states the IDA can fund projects of 'high developmental priority,' there was a more explicit reference to social sector projects in the Accompanying Report to the Articles, Kapur, Lewis and Webb, *World Bank*, p. 159 and Mason and Asher, *World Bank since Bretton Woods*, p. 393.

⁷⁹ Kapur, Lewis and Webb, *World Bank*, p. 168 and Mason and Asher, *World Bank since Bretton Woods*, pp. 391-394.

lending.⁸⁰ The Bank's expansion into social areas proceeded slowly in the 1960s. It was constrained by the initial IDA capitalisation of only \$1 billion (of which only around \$750 million was in useable funds). Generating enough quality proposals was always a problem for the IBRD whereas IDA resources, given their concessional nature, were and continue to be oversubscribed. Their allocation is an ongoing issue of Board and public debate. Interestingly, 60 per cent of IDA commitments from its formation until June 1971 went to India and Pakistan and overall one third of Bank Group lending in 1960s went to them.⁸¹

In 1962, new Bank lending commitments jumped to over \$1 billion per annum for the first time and they exceeded this level for the rest of the decade with two exceptions.⁸² This was the product of increased Bank membership – it jumped from 68 in 1961 to 110 in 1969⁸³ – as well as a combination of new IDA resources and a gradual expansion in IBRD loans. Lending to developed countries from the IBRD slowly declined throughout the 1960s, by 1968-69 it accounted only for seven per cent of new commitments, however, the last loan to a developed country (Greece) was not until 1979.⁸⁴

Much of the expansion during the 1960s was due to George D. Woods who became president in January 1963. Another ex-banker, Woods was familiar with the Bank as he had been on a number of missions in the decade or so prior to his appointment.⁸⁵ He came into the role with the Bank in a unique situation of increased resources from the IDA and significant retained earnings from IBRD loans yet limited investment opportunities for IBRD resources. His first major role as president was to make a recommendation to the Board on how to deal with the excess IBRD reserves. As Kapur, Lewis and Webb note, rather:

...than passively accept the curtailment of lending opportunities and deal with the Bank's embarrassment of riches by cutting interest charges, paying dividends, or building up liquid reserves, Woods

⁸⁰ There were also many early IDA loans to Latin America, which had just witnessed the Cuban revolution and had many other nations in 'crisis,' Kapur, Lewis and Webb, *World Bank*, pp. 161-163.

⁸¹ Mason and Asher, *World Bank since Bretton Woods*, p. 401. See also Caufield, *Masters of Illusion*, p. 88 and Kapur, Lewis and Webb, *World Bank*, p. 140.

⁸² Mason and Asher, *World Bank since Bretton Woods*, p. 192.

⁸³ Kapur, Lewis and Webb, *World Bank*, p. 187.

⁸⁴ *Ibid*, p. 192.

⁸⁵ *Ibid*, pp. 175-176.

recommended an aggressive and costly plan to create investment opportunities through new types of lending and new clients. Wood's agenda implied riskier lending, a larger staff, more hands-on development assistance, and in general, a relative increase in the Bank's nonfinancial role.⁸⁶

This expanded agenda was not actually focused on poverty alleviation but it allowed lending in what had previously been regarded as 'soft' sectors, such as water supply, agriculture, health and education. The case for lending in these sectors was a business one – they were now seen as profitable investments, a case which was assisted by developments in calculating economic rates of return in these areas. The expanded loan agenda did not start to show effects until the late 1960s — agriculture went from two per cent of lending in the 1950s to 11 per cent across the 1960s, but water, education and health expenditures remained minimal.⁸⁷

Despite facing notable resistance from a number of Board members, Woods did see some of his agenda implemented. His success was most visible in the growth of the organisation: "...the number of employees, level of administrative spending, and, most notably, the size of the professional staff all grew explosively."⁸⁸ Indeed, it is notable that professional staff and the administrative budget both grew at higher percentage rate than during the McNamara reign, with which Bank growth is most closely associated. However, lending did grow more rapidly under McNamara. Many of the new professional staff were economists, who Wood's saw as 'agents of change.' Yet they were not as interested in expanding the Bank's approach as he had hoped. At the end of the day, the increase in the number of economists relative to the number of technical specialists significantly contributed to greater overall intervention in borrowing countries' general economic policy settings.⁸⁹ They increased the Bank's research output too – of particular note is a 14 volume attack on the Indian approach to economic development (in particular, ISI) published in the mid-1960s.⁹⁰

⁸⁶ Ibid, p. 197.

⁸⁷ Ibid, pp. 140-141.

⁸⁸ Ibid, p. 187.

⁸⁹ Caufield, *Masters of Illusion*, p. 91 and Kapur, Lewis and Webb, *World Bank*, p. 212.

⁹⁰ Broad, "Research, Knowledge, and the Art of 'Paradigm Maintenance'," pp. 390-391.

Wood's expansionary plans were slowed dramatically by the middle of the decade. The US balance of payments difficulties, which began in 1960 but were serious by 1965, led the Treasury to deny the Bank access to US markets in 1966. This limited IBRD loan funding in 1967-68. At the same time, US foreign policy once again became more conservative and inward looking; a general negativity regarding the outcomes of aid prevailed. This atmosphere, combined with bad relations between Woods and the then US Secretary of Treasury, contributed to a lengthy three-year negotiation for the second IDA replenishment. It did not take place until 1968, which constrained IDA disbursements. By mid-decade too, debt problems were clearly visible in many of the Bank's borrowers, though this did not greatly impact on the Bank's lending. As Catherine Caufield explains, on debt restructuring:

...the Bank felt that this was a task for other lenders not itself, and it should be achieved not by cutting back on lending, but by rescheduling existing loans... Between 1957 and 1969, international creditors, often with the Bank acting as mediator, carried out twenty-one reschedulings...⁹¹

Woods' final legacy was his choice of Robert McNamara as a successor and his attempt to influence his directions, in particular focusing him on poverty alleviation. Woods' concern about poverty was apparent in the diversification and expansion of Bank projects, most notably in agriculture. However, Bank staff were more focused on increasing output rather than on poverty alleviation.⁹²

The McNamara Years: 1968 — 1981

Much has been written about the McNamara years at the Bank, both supporters and critics alike see him as having a missionary zeal, as the man who introduced a poverty focus to the Bank and as the real founder of the modern Bank. McNamara did talk about issues of poverty from the start of his presidency, though for most of what can be

⁹¹ Caufield, *Masters of Illusion*, p. 93. 1970 was the first year of net negative transfers overall for the Bank though some countries had net negative years earlier, Rich, *Mortgaging the Earth*, p. 80. Woods was personally concerned about issues of debt and development outcomes, he called for review of these issues that led to the creation of the influential Pearson Commission. The Commission, reporting in 1969, called the then debt situation "explosive." Caufield, *Masters of Illusion*, p. 89.

⁹² Kapur, Lewis and Webb, *World Bank*, pp. 198-199.

regarded as its first phase, 1968-1973, there was little action to specifically address poverty other than increases in lending volume. In the second phase, 1974-1981 McNamara 'found' integrated rural development and to a lesser extent urban development schemes as a way to transfer rhetoric into action. Ultimately, his increase in the size of the organisation contributed most to putting the Bank at the forefront of international development and thus making it a core player in the reproduction of *pax americana*.

With hindsight, it is possible to be a little more dispassionate about McNamara's role in the Bank's growth into a hegemonic development institution. It was Woods who played the pivotal role in the Bank shift toward social issues and in broadening its lending agenda. McNamara was as much a reflection of the trends and beliefs of his generation as the iconic figure he became. As an example, take McNamara's challenge, early in his presidency, to one of the Bank's core tenets — that growth would 'trickle down.' This was important because the distinction between growth and poverty reduction was central to the focus by McNamara and the Bank on poverty. In the academic debate on development, Modernization Theory, which was intimately associated with 'trickle down' growth, was already under attack by the 1950s and outdated by the early 1970s.⁹³ Part of its downfall was thanks to Dependency Theory — as Björn Hettne noted, the most important impact of dependency critiques was "the undermining of the idea of progress as a more or less automatic and linear process."⁹⁴ Even in classical economics, Lewis's casting of poverty as an 'employment problem,' enabled economists to analyse poverty because it was transformed from an issue of politics into one of price distortions. So the "proxy notion of an 'employment problem' thus became a bridge from orthodoxy to interventionism in development policy, much as cyclical unemployment had legitimized Keynesian fiscal policy."⁹⁵ Thus, by the time of McNamara's presidency, the assumption that growth would trickle down was no longer universally held and there was a strong focus on poverty in both mainstream and radical economics.

⁹³ Björn Hettne, *Development Theory and the Third World* (Helsingborg: Schmidts Boktryckeri AB, 1982), p. 37.

⁹⁴ Ibid, p. 51. In a way, the failure of import substitution industrialisation policies in a number of developing countries, especially when combined with proposed autarky, demonstrated too the limitations of 'trickle down.'

⁹⁵ Kapur, Lewis and Webb, *World Bank*, p. 227.

Kapur, Lewis and Webb claimed that the “...sudden upgrading of poverty alleviation under McNamara was an exceptionally personal decision.”⁹⁶ Yet this downplays Woods’ influence on the direction of the Bank and on McNamara regarding the importance of poverty reduction, noted in their earlier chapter. It has also been convincingly argued that McNamara’s concern for poverty and meeting people’s basic needs grew, at least initially, largely derived from his concern about the spread of communism.⁹⁷ Further, McNamara was raised in a generation in which welfare was an accepted part of social compromise (even in its limited US form) and he entered government as a member of the Kennedy team promising a Great Society. In this sense, McNamara was simply re-inserting welfare into the ‘Keynesian, welfare, modernisation model’ that existed at the Bank’s origins. The focus on McNamara also ignores the growing international concern regarding poverty which resulted in the formation of the IDA; the new academic interest in poverty; popular worries about poverty; and the focus on basic needs in the American aid program from the 1950s. This focus operated during the campaign in Vietnam (even if it was more concerned with winning the ‘hearts and minds’ of peasants than with their well being), which of course McNamara had directed as Secretary of Defence.

McNamara was obsessed with statistics, measurement, size and scientific management and in this field he was a pioneer.⁹⁸ He was one of the first generation trained at the Harvard Business School in control accounting.⁹⁹ During the war, McNamara was part of a team from Harvard that were seconded to run the Statistical Control Unit for the US Air Force and teach them the benefits of new control and management techniques.¹⁰⁰ After the war, he went to the Ford Motor Company as part of a team recruited from Statistical Control to help turn the ailing company around. Here, he led the replacement of the traditional ‘Fordist’ culture with centralised management practices and statistical

⁹⁶ Ibid, p. 219. Kapur, Lewis and Webb also claim his distinction between economic growth and poverty reduction was ahead of academic discourse, but this is really quite nonsensical as this idea goes back at least to Marx and was an idea developed in academic discourse and amongst leftist political and social movements in various places around the globe in the 1950s and 1960s.

⁹⁷ Walden Bello, David Kinley and Elaine Elinson, *Development Debacle: The World Bank in the Philippines* (San Francisco: Institute for Food and Development Policy and Philippine Solidarity Network, 1982), pp. 24-25 and George and Sabelli, *Faith and Credit*, pp. 47-52.

⁹⁸ Caufield, *Masters of Illusion*, pp. 97-99 and George and Sabelli, *Faith and Credit*, pp. 41-44.

⁹⁹ Deborah Shapley, *Promise and Power: The Life and Times of Robert McNamara* (Boston: Little, Brown and Company, 1993), pp. 17-21.

¹⁰⁰ Ibid, pp. 31-32.

control of inputs and production.¹⁰¹ These were techniques that swept across American industry and in the longer term had seriously detrimental effects on the quality of American manufacturing.¹⁰²

Coming to the Bank from the Department of Defense, McNamara's reliance on managerialism and data in his leadership of the Bank was probably reinforced by the reality that he "was notably uninformed about the developing world..."¹⁰³ Much of his focus on data came down to an interest in scale and from his earliest days in the Bank, McNamara was determined to increase the size of the Bank. As Deborah Shapley, McNamara's biographer notes, "McNamara knew he wanted a big Bank before he knew for certain what to do with it."¹⁰⁴

After 1969, the Bank also received encouragement to expand lending from the Nixon Administration. According to Gowan, the Administration saw that increasing World Bank lending would encourage private US banks to follow — enlarging the role of private American financial operators was central to its strategy to maintain US hegemony through centralising the role of the US and the US dollar in the international financial system.¹⁰⁵ This strategy was operationalised with the abrogation of the Bretton Woods agreements in 1971/73, which made the US dollar *the* international currency through removing the discipline and alternative of the gold standard.¹⁰⁶ It also made the US the only country in the world that: could change the relative value of its currency without great domestic cost; could direct international interest rates via its domestic policy; and faced only a limited balance of payments constraint.¹⁰⁷ Gowan concludes that the post-1971 international financial arrangements more effectively promoted *pax americana* than the Bretton Woods arrangements did.¹⁰⁸

¹⁰¹ Ibid, p. 522.

¹⁰² Ibid, pp. 62-67. Shapley notes that "Ford's management controls made McNamara's language of numbers universal in the firm and require that others use it, too." Shapley, *Promise and Power*, p. 64.

¹⁰³ Kapur, Lewis and Webb, *World Bank*, p. 217. McNamara said in 1962 that "...running the Department of Defense is not different from running Ford Motor Company or the Catholic Church, for that matter, Once you get to a certain scale, it's all the same." Shapley, *Promise and Power*, p. 515 and pp.469-70.

¹⁰⁴ Shapley, *Promise and Power*, p. 471.

¹⁰⁵ Gowan, *The Global Gamble*, p. 22.

¹⁰⁶ Ibid, pp. 19-23.

¹⁰⁷ Ibid, pp. 24-28.

¹⁰⁸ Ibid, p. 4.

It is not surprising that the most significant outcome of McNamara's presidency was the expansion of lending. In the first phase of McNamara's presidency, there was a 131 per cent increase in new loan commitments; they averaged over \$2.8 billion per annum.¹⁰⁹ During the second phase of his presidency, lending averaged over \$9.9 billion per annum.¹¹⁰ Sometimes pressures to lend mitigated policy influence but size increased the Bank's influence and extended it into new areas of government action, particularly social areas.

The number of staff continued on the growth trajectory started under Woods. More than one thousand new staff were appointed in the first three years and this growth transformed the Bank more and more into a large bureaucracy.¹¹¹ The vast majority of the new (professional) staff had an economics or finance background.¹¹² At the end of the day, the Bank often had more and better trained professional economists working for it than developing countries — size does matter. Further, McNamara "...truly grasped the overall importance of broader economic research for the bank..."¹¹³ During his tenure, research became one of the Bank's vice-presidencies and the research that was carried out was increasingly neoclassical and neoliberal. This research became the basis of the policy conditionality in the Bank's structural adjustment lending.¹¹⁴

McNamara believed that to be a leader in the development industry the way projects are administered actually matters, thus he gave much attention to administrative reform in the first phase of his presidency. Country Program Papers were introduced in 1968, which as Rich pointed out, represent an extraordinary "...vision of global central planning" based on belief in Bank technocrats.¹¹⁵ In 1970, McNamara added the

¹⁰⁹ Kapur, Lewis and Webb, *World Bank*, p. 217. The data starts in 1969 because McNamara would not have had much influence over earlier approvals already in the pipeline. Interestingly, the increase in World Bank lending covered the decline in US bilateral economic and military assistance, see Bello, Kinley and Elinson, *Development Debacle*, p. 37.

¹¹⁰ Kapur, Lewis and Webb, *World Bank*, p. 234.

¹¹¹ George and Sabelli, *Faith and Credit*, p. 118.

¹¹² *Ibid*, p. 115.

¹¹³ Broad, "Research, Knowledge, and the Art of 'Paradigm Maintenance'," p. 392.

¹¹⁴ The economist Bela Balassa played a big role in promoting neoliberalism in the Bank's research, see *ibid* and Toye, *Dilemmas of Development*, pp. 105-109.

¹¹⁵ Rich, *Mortgaging the Earth*, p. 85. Both the Bank and its staff are renown for their beliefs in their own capacity, often seen as verging on arrogance. The actual and presumed 'superiority' over borrowing country capacity is clearly demonstrated by a comment in 1989 from one of the then vice presidents, William Cosgrove that "borrowers may now be more skilled than Bank staff," cited in Caufield, *Masters of Illusion*, p. 214.

Operations Evaluation Unit, which would for the first time evaluate the outcomes of Bank projects.¹¹⁶ Overall, though the pressure to lend outweighed administrative concerns, the:

...rush to meet targets reached a point of near absurdity toward the end of the Bank's fiscal year... During McNamara's tenure, 40 percent of all IBRD loans were pushed through in the last two months of the fiscal year, a pattern that continues to this day.¹¹⁷

As Caufield noted, staff members themselves “...often complained that the pressure to lend resulted in poorly prepared and poorly executed projects.”¹¹⁸ Yet, as George and Sabelli noted, equally interesting was the point that it was *Bank staffers* designing *all* aspects of projects.¹¹⁹ Despite populist calls for greater participation and an enhanced role for civil society, these disappeared from the Bank during the McNamara years.

The second phase of McNamara presidency began with a speech at a World Bank / IMF conference in Nairobi in 1973. Here, McNamara introduced a focus on integrated rural development. This was not McNamara's first idea on how to focus the Bank on poverty — over the years, McNamara gave speeches about a range of other issues: population, unemployment, environment, land reform, public health, the environment and even income distribution.¹²⁰ But for the most, “rhetoric outran implementation”¹²¹ and they did not translate into projects. Whereas agriculture, which had already increased in importance during McNamara's first phase, jumped from 20 per cent of overall IBRD/IDA new lending approvals in 1969-1973 to 29 per cent in 1974-1982. In contrast, despite the many statements and speeches, the education, water supply and sanitation sectors remained at around five per cent of new approvals in both periods, health was one per cent and the new sector of population and nutrition was a mere two per cent of lending in the second period.¹²² However, McNamara's broad interests did directly influence the Bank's “vastly expanded” research programs.¹²³

¹¹⁶ Kapur, Lewis and Webb, *World Bank*, pp. 244-245.

¹¹⁷ Caufield, *Masters of Illusion*, p. 102.

¹¹⁸ Ibid, p. 101.

¹¹⁹ George and Sabelli, *Faith and Credit*, p. 44.

¹²⁰ Kapur, Lewis and Webb, *World Bank*, p. 237.

¹²¹ Ibid, p. 217.

¹²² Ibid, pp. 234-235.

¹²³ Ibid, p. 222.

McNamara's basic needs approach at first gained little popularity outside the Bank. Developing countries were more focused on the creation of a New International Economic Order (NIEO).¹²⁴ However, as Rist argued, the developed countries would not accept the idea of non-interference in domestic policies that NIEO promoted;¹²⁵ whereas the basic needs approach justified intervention in developing countries on the basis of solidarity with the poor. It eventually received approval from many developing country governments and also from the Third World Forum (an independent international association of intellectuals from the Third World) and the International Labour Organization. The basic needs approach improved the Bank's legitimacy as a development agency and its relations with NGOs.¹²⁶

Why the delay in initiating projects that fitted McNamara's focus on poverty? McNamara, despite his concern with poverty, did not contest the Bank's disdain regarding social welfare approaches to poverty. Economic productivity and growth was still the priority.¹²⁷ To quote McNamara, the Bank would put its:

...primary emphasis not on the redistribution of income and wealth — as necessary as they may be in many of our member countries — but rather on increasing the productivity of the poor, thereby providing for a more equitable sharing of the benefits of growth.¹²⁸

Integrated rural development was the first area that McNamara hit upon that offered the possibility of both direct growth in the productivity and in the income of the poorest and that, at the same time, fulfilled the Bank's project model. It was also potentially replicable on a grander scale.¹²⁹ At another level, as Walden Bello pointed out, rural development projects offered potential as a political solution to rural volatility: they aimed to de-link smallholder farmers from tenant farmers and the landless and link them instead to national markets, giving them a stake in the system.¹³⁰ Yet the Bank was not overly successful in its focus on smallholders because, even at the end of

¹²⁴ McNamara's new poverty initiative actually predated the UN Sixth Special Session of the General Assembly in 1974, which resulted in the *Declaration on the Establishment of a New International Economic Order*.

¹²⁵ Rist, *The History of Development*, pp. 163-164.

¹²⁶ Ibid, p. 165.

¹²⁷ Kapur, Lewis and Webb, *World Bank*, pp. 216, 248.

¹²⁸ Cited in Caufield, *Masters of Illusion*, p. 100.

¹²⁹ Kapur, Lewis and Webb, *World Bank*, pp. 249, 309.

¹³⁰ Bello, Kinley and Elinson, *Development Debacle*, pp. 70-71, 25.

McNamara's term when agriculture accounted for one third of new approvals, most Bank projects still targeted richer farmers and employed capital-intensive models and cash cropping.¹³¹ Furthermore, the overall outcomes of both traditional agriculture projects and the smallholder-focused integrated rural development projects were less than a roaring success even on the Bank's own terms.¹³² It is difficult not to agree with Caufield's conclusion that the Bank may have chosen to highlight its activities with the poor but it actually "...acted consciously, out of a conviction that the best way to create new wealth is to invest in the wealthy, not the poor."¹³³

One area where McNamara did challenge a Bank hegemonic principle was in lending to state-owned enterprises (SOEs) that were not operating public utilities.¹³⁴ Historically, Bank doctrine was that outside of natural monopolies (as most public infrastructure was *then* regarded), markets were efficient, natural and largely self-adjusting and should be left to determine production. McNamara, probably drawing from his experience at Ford, held the view that control of enterprises was more important than ownership. Further, he saw that markets were sometimes failing to ensure production of key inputs (especially agricultural inputs).¹³⁵ He was, therefore, not as hostile to SOEs as the Bank had been. His position was never widely held in the Bank but it was a likely reason for the not insignificant funding that went to development finance companies and from thence to SOEs. Given that this position challenged a Bank hegemonic principle, it is not surprising that this more sympathetic view to mixed economies barely survived McNamara's tenure — a Bank commissioned report on development in sub-Saharan Africa put an end to it in 1981 because of a supposed lack of efficiency regardless of control.¹³⁶ This is a very telling point about Bank doctrine — that an organisation born out of Keynesianism could only fleetingly and partially accept mixed economic structures. Not surprisingly, the issue has never made a comeback in Bank debates.

On debt, McNamara was even more liberal than his predecessor but given the influence of Keynesianism on the Bank, this did not challenge hegemonic principles. McNamara

¹³¹ Caufield, *Masters of Illusion*, pp. 106-107.

¹³² See Bello, Kinley and Elinson, *Development Debacle* and Caufield, *Masters of Illusion*, pp. 108-114.

¹³³ Caufield, *Masters of Illusion*, p. 108.

¹³⁴ Ibid, pp. 100-101 and Kapur, Lewis and Webb, *World Bank*.

¹³⁵ Kapur, Lewis and Webb, *World Bank*, pp. 481-482.

¹³⁶ The report was titled *Accelerated Development of Sub-Saharan Africa*. Published in 1981, it is generally known as the Berg Report after its principle author Elliot Berg. See *ibid*, pp. 482-483.

was even more determined than Woods not to have the Bank engaged in debt rescheduling.¹³⁷ It was not that he thought that debt was not an issue for the Bank, rather he believed that developing countries needed additional capital in order to improve productivity and growth and in this way improve their capacity to meet loan repayments in the long-term.¹³⁸ McNamara thought that the World Bank needed to lend *more* to make up for what he saw as developing countries' inadequate access to finance and he took it upon himself to encourage commercial banks to increase lending. Of course, debt levels in some developing countries were already problematically high by 1973 (due in part to Eurodollar loans). After 1973, balance of payment problems for non-oil exporting nations were severe and the subsequent petrodollar phenomenon significantly contributed to the build up of debt in developing countries. McNamara's response was not to curb lending but to argue that loan funds should be used to fund exports, which would enable debt servicing.¹³⁹

McNamara stepped down before 1982, when the debt crisis really became public but the increased lending and attitudes of the Bank during his reign must be acknowledged as a contributing factor. During McNamara's presidency, in the context of an international system that lacked a way to prevent instability, the Bank's only response to debt was to 'bail out' developing countries in crisis.¹⁴⁰ The growth in private lending and the oil crisis reduced Bank influence in some countries but for the more numerous losers during the oil crisis, leverage increased. The crisis also served to sharpen the Bank's focus — publicly social objectives were relegated to second place behind economic stabilisation, prior to neoliberal hegemony demanding it.¹⁴¹ In the medium-term, debt problems actually enhanced the Bank's capacity to impose conditionality due to the amounts owed to it and its role as a lender of last resort.

It is not possible to finish with the McNamara presidency without noting that it was he who formally introduced structural adjustment loans (SALs) to the Bank in 1980, in

¹³⁷ Ibid, pp. 1003-1009.

¹³⁸ Caufield, *Masters of Illusion*, p. 126 and Eric Toussaint, *Your Money or Your Life! The Tyranny of Global Finance* Trans. Raghu Krishnan and Vicki Briault Manus (London: Pluto Press, 1999), p. 128.

¹³⁹ Toussaint, *Your Money or Your Life!*, p. 128.

¹⁴⁰ Gowan, *The Global Gamble*, p. 35.

¹⁴¹ Kapur, Lewis and Webb, *World Bank*, p. 321.

what George and Sabelli called his “parting gift” to the Bank.¹⁴² Actually, it seems that the idea of conditional structural adjustment lending belonged to Ernest Stern, the then Vice President Operations. In May 1979, he wrote McNamara a memorandum that proposed a:

...conditioned program [of] loans in support of macroeconomic policies to selected, mostly middle-income countries... His advocacy was cautious... SAL, said Stern, would give the Bank an uncomfortably high political profile.¹⁴³

For McNamara it seems SALs were a way to get quick disbursing loans out to lenders — which he considered an even more urgent task since the second oil crisis. McNamara was actually only ensuring that the Bank played its new US designated role of ‘bailing out’ states — SALs offered a more efficient way of doing this. A proposal was presented to the World Bank Board in February 1980 and they approved it a couple of months later, after assuring themselves there would be proper coordination with the IMF.

Whether or not McNamara and Ernst recognised it, SALs reflected the new politico-economic climate that was spreading across the West and that came to prominence in the Margaret Thatcher and Ronald Reagan administrations in the UK and US respectively, followed a couple of years later by Helmut Kohl in Germany. Underpinning this new neoliberal hegemony was the intellectual work of a group of neoclassically trained, neoliberal economists led by Friedrich von Hayek and Milton Friedman who had been working on a critique of Keynesianism and to develop their own diagnoses of the developed and developing world’s problems. This chapter concludes with an exploration of their analysis and how they came to be the dominant approach to economic analysis by the mid-1980s.

¹⁴² George and Sabelli, *Faith and Credit*, p. 55. Interestingly, balance of payments support loans were, in effect, made during Woods’ presidency. However, to get around the violation of the Bank’s articles, they were called industrial import loans, Caufield, *Masters of Illusion*, p. 94.

¹⁴³ Kapur, Lewis and Webb, *World Bank*, p. 507.

Neoliberal Economic Theory

Neoliberals take as given the neoclassical assumption that individuals are rational and maximise their utility or benefits. From “this assumption it follows that the most productive economy will be one in which individuals are allowed the greatest freedom to engage in activities or enter into contracts as they choose, and to reap the full benefits of their labours.”¹⁴⁴ Friedman added to neoclassical economics a focus on demand, consumption, utility and a preference for monetary policy (in particular control of the money supply and interest rates) to address economic cycles over fiscal policy (Keynes’ preferred mechanism). This fondness for monetary policy had the added benefit of minimising state intervention in the economy.¹⁴⁵ Rational expectations theory, which models how people forecast future events, expanded the neoclassical case against the state with the argument that people could increasingly foresee the direction of government policies and would adjust their behaviour, thus undermining government attempts to change policy.¹⁴⁶

The neoliberal diagnosis of the developing countries’ problems began in the 1940s with the work of P.T. Bauer whose empirical work supposedly demonstrated that the rational actor assumption held true for developing countries.¹⁴⁷ In particular, he was concerned to show that smallholders do respond ‘rationally’ to local incentive structures as opposed to the view that their actions were the product of (natural) conservatism and/or local cultural and social practices. T.W. Schultz, building on Bauer’s work, argued that smallholders do not make capital improvements on their land because of government policies that distort prices and take too much of their profit in order to fund industrial development. By the mid-1960s there was a rash of literature from neoliberal economists on the negative impact of many countries’ incentive and price structures and on the way that state protectionism or overvaluation of the exchange rate negatively impacts the overall ‘welfare’ of the economy.¹⁴⁸

¹⁴⁴ Rapley, *Understanding Development*, p. 52.

¹⁴⁵ Ibid, p. 53.

¹⁴⁶ Ibid, p. 54.

¹⁴⁷ Ibid, p. 55.

¹⁴⁸ Ibid, pp. 55-56.

It was not until the 1970s that neoliberalism became mainstream amongst development specialists. A 1970 OECD study was central to its mainstreaming. The study examined the experience of seven developing countries in the postwar period and concluded that ISI was overall negative predominately because it did not follow countries' 'natural' comparative advantage but also because of limited bureaucratic capacity to effectively direct ISI.¹⁴⁹ It found that ISI increased income inequality and recommended instead that states follow export-oriented industrialisation (EOI). Further reports followed and while the initial report was relatively cautious in its conclusions, "[s]tronger — some might say dogmatic — expressions of neoclassical thought were to follow, as critics gained in confidence and grew convinced that their findings had thoroughly discredited the old statist development schools."¹⁵⁰

The critiques came together in a 1983 trade study by the National Bureau of Economic Research (NBER) that set up a simplistic dichotomy between ISI and EOI, the latter of which was supposedly practiced fully by the successful East Asian tigers. In countries following ISI, the NBER study said that government interventions in markets for capital and labour distorted the relative prices of each making capital relatively cheap and labour more expensive leading to the elimination of many traditional labour intensive industries but creating few jobs.¹⁵¹ The proposed solution to the problems was, not surprisingly, reduced government intervention across the whole gamut of the economy. The report also totally rejected Prebisch-Singer type arguments regarding the structural problems of trade between developing and industrialising countries and reformulated the benefits of trade based on comparative advantage to make it again attractive. The NBER analysis, along with most neoliberal influenced studies, essentially ignored the role of the state in the development of the East Asian tigers.¹⁵² Nevertheless, this problematic neoliberal reading of East Asian development became central to the case for the adoption of Washington Consensus policies in developing countries and it did so in a way "naturalized" the existence of nation-states and liberal capitalism.¹⁵³

¹⁴⁹ Ibid, p. 56.

¹⁵⁰ Ibid, p. 57.

¹⁵¹ Ibid, p. 58.

¹⁵² This is discussed further in Chapter Four.

¹⁵³ Berger, *The Battle for Asia*, p. 156 and 159.

In the 1970s, a further string was added to the neoliberal bow through New Political Economy (NPE). It was pioneered by Anne Krueger who applied the rational utility maximisation thesis to politics via a study of the effect of quotas on firms.¹⁵⁴ Quotas create economic rents so, Kruger argued, plant managers will augment their access to these rents by increasing the capacity of a plant, regardless of current idle capacity. They do so to make windfall profits via on-selling of goods purchased under the quota system rather than through growth in production. Kruger's posited that this would result in a decrease in overall plant productivity because of increased overheads. Moreover, the quota system would supposedly expand corruption in industry and government. Kruger's study resonated with fellow neoliberals because it supposedly demonstrated that efficiency losses from trade protection were higher than empirical studies had to that point indicated, thus it made the rather weak neoclassical argument in favour of trade liberalisation stronger.¹⁵⁵

Robert Bates published an influential study in 1981, which built on the neoliberal analysis of urban bias in developing countries' government policy using the NPE framework.¹⁵⁶ This bias supposedly resulted in an inequitable price structure for rural production. Bates explained the bias by the disproportionate influence of urban industrialists allied with the urban working class on government policy in developing countries. Given the neoliberal faith in comparative advantage, Bates regarded this as counter-productive for development. As Rapley pointed out, Bates' work was very influential in the World Bank and soon after it was published "‘getting the prices right’ became a guiding concern for the World Bank in Africa."¹⁵⁷

NPE significantly contributes to "a profoundly cynical view of the state in developing countries."¹⁵⁸ The proposition that individuals are only motivated by self-interest is, as John Toye pointed out, an assumption "breathtaking in its scope and pretension," which feeds into pessimism to the point of determinism regarding the capacity of states in

¹⁵⁴ Anne O. Kruger, "The Political Economy of the Rent-Seeking Society," *American Economic Review*, Vol. 64, (1974). The summary here draws on Rapley, *Understanding Development*, p. 59.

¹⁵⁵ Toye, *Dilemmas of Development*, p. 140.

¹⁵⁶ Robert H. Bates, *Markets and States in Tropical Africa* (Berkeley: University of California Press, 1981). A summary of its argument is in Rapley, *Understanding Development*, pp. 60-61.

¹⁵⁷ *Ibid.*, p. 61.

¹⁵⁸ Toye, *Dilemmas of Development*, p. 135.

developing countries to implement 'sound' policies.¹⁵⁹ This bias contributes to its ultimate inability to undertake historically grounded socio-political analysis of state-market-civil society relations despite its pretensions as 'political' economy. Paradoxically, the general acceptance of the negative view of the state was assisted by strands of neo-Marxist analysis that were equally suspicious of it.¹⁶⁰

In summary, the neoliberal analysis of the problems in developing countries comprised three interrelated ideas or hegemonic principles, that: the public sector was over-extended; there had been too much emphasis on physical capital formation often at the expense of human capital formation; and the third world had developed too many market-distorting economic controls.¹⁶¹ Why did this analysis become so widely accepted? Similar to the link between the Depression and Keynesianism, the rise of neoliberal economics coincided with the economic crises of the 1970s for which it purportedly had an explanation *and* a solution. There was: "...widespread doubt and anxiety about the wisdom of government activity in many developing countries..." and "...some truth" in the neoliberal analysis.¹⁶² In contrast to the spread of Keynesianism, well-funded think-tanks, World Bank researchers and many in the press set out to disseminate neoliberal views.¹⁶³ More than anything though, it was the election of the Reagan Administration in the US that legitimated neoliberal economics. The Administration used neoliberal prescriptions to reshape the US historic bloc and a *pax americana* again engaged in reshaping the international scene to its requirements. Of course, not all developing countries had to be pushed; neoliberal regimes came to dominate the historic bloc in many developing countries, though of course not all of them by democratic means.

¹⁵⁹ Ibid, pp. 136-137.

¹⁶⁰ Ibid, p. 143.

¹⁶¹ Ibid, p. 70.

¹⁶² Ibid. On the 'truth' of the neoliberal analysis of the developing world see also, Rapley, *Understanding Development*, pp. 25-72.

¹⁶³ On the role of US think-tank see, Susan George, "How to Win the War of Ideas: Lessons from the Gramscian Right," *Dissent*, Vol. 44, No. 3 (1997). On the role of the press, see Toye, *Dilemmas of Development*, pp. 93-94.

Conclusion

This chapter demonstrated how the Bank during its formative years largely reflected the dominant politics of the time. The Keynesian, modernisation, welfare model that prevailed in the postwar years provided the impetus for its creation and the logic of its operation. During the 1950s, the Bank grew slowly; it largely lent for infrastructure projects to the more creditworthy developing countries. The establishment of the IDA in 1961 made the Bank into a development agency and its lending volume and agenda expanded, though still relatively slowly. During McNamara's presidency the Bank grew more quickly and late in his term, the Bank size and standing gave it the capacity to help shape *pax americana*. This meant it was now a useful and growing force in the global neoliberal reconfiguration of *pax americana*.¹⁶⁴

With neoliberal economics sweeping across the world and governments espousing neoliberalism in power in the US and UK, the long-term presidency of Robert McNamara came to a close. McNamara had left a mixed legacy, he had on the one hand maintained the Bank's post-war development tradition based on the priority of economic growth but emphasising that growth derived from an "...overlapping combination of Keynesianism, welfarism, and modernisation."¹⁶⁵ In line with this, he expanded the Bank's agenda and operations and introduced at least the rhetoric of poverty reduction. On the other hand, he left a now hegemonic Bank dominated by neoclassically trained economists, committed to parsimonious economic modelling and management using economic data. And he left them with a new tool, SALs, which strengthened the Bank's leverage and proved particularly powerful in promoting neoliberal policies in developing countries.

¹⁶⁴ Toye, *Dilemmas of Development*, pp. 77-78.

¹⁶⁵ Fine, *Social Capital Versus Social Theory*, p. 133.

Chapter Four

From Washington to Post-Washington Consensus

This chapter takes up the story of the rise of neoliberalism in the Bank from 1981. It examines how neoliberalism becomes a set of hegemonic economic principles shared between the Bank, the IMF and the US government. John Williamson labelled these commitments and policies the ‘Washington Consensus’ in 1990 and they centre on commitment to macroeconomic stability, outward orientation and domestic liberalisation.¹ So, the term Washington Consensus indicates the way neoliberalism translated to the policies and programs of the Bank and distinguishes this from the broader theoretical and political movement of neoliberalism outlined in the previous chapter.

Washington Consensus prescriptions dominated Bank lending and rhetoric remarkably quickly and were uncontested until the early 1990s. However, a more substantial move away from the Washington Consensus only occurred in mid-1990s as the Bank promoted its ‘human face’ under the new president, James Wolfensohn. Over time, the Bank’s new rhetoric formed an identifiable approach to development, which has been labelled the post-Washington Consensus (PWC) to indicate both its continuities and discontinuities with the Washington Consensus. To date, scholars have not outlined the development and components of the PWC systematically. This chapter attempts to do precisely this and to identify the elements that distinguish the PWC from the Washington Consensus.

The Washington Consensus in Full Swing

The Reagan Administration appointed A. W. Clausen as Bank President in mid-1981, at one level a return to the Bank’s traditional embrace of ex-bankers but more than that, he was: “...a representative of renewed capitalist doctrine concerning the limits of

¹ Ibid, p. 132.

government and the virtues of flexible, self-adjusting markets.”² He was influenced by neo-classical economics and the associated New Political Economy, which, as outlined in the previous chapter, were increasingly dominating development theory and policy. His presidency was the death knell for the Bank focus on poverty, though its commitment was already on the wane prior to his arrival.³

Clausen made major changes to the Bank’s research department by replacing McNamara confidants with economists focused on a new research agenda centred on unquestioned faith in ‘free markets.’⁴ Anne Krueger, a NPE pioneer, was appointed as the Bank’s Chief Economist.⁵ However, staff changes were not sweeping, so the speed at which the new doctrines permeated the Bank is a little surprising. The foundations for a shift must have already been in place — and some are identifiable. Of the hundreds of economists hired during the McNamara reign most were neo-classically trained. A 1991 survey of staff in the Bank’s Policy, Research and External Affairs branch showed 55 per cent of staff had higher degrees in economics or finance and 80 per cent of staff were trained in a handful of British and US institutions.⁶ Stern and Ferreira noted that training in these institutions tends to be “uniform” and, it should be added, neoclassical.⁷ Kapur, Lewis and Webb pointed out that the Washington Consensus suited the operational departments for whom poverty lending had been administratively complex and often not overly successful.⁸ Ngaire Woods makes a similar point about institutional factors — the Washington Consensus provided staff in the IMF and World Bank with a template and:

[t]he template is necessary because it guides staff working in countries all over the world, permitting them to act with the full backing of their institution and to put agreements in place with a minimum of time and resources. Put another way, staff have no incentive to venture beyond what the institution, as a whole, will take responsibility for. The result

² Kapur, Lewis and Webb, *World Bank*, p. 511.

³ Ibid, p. 333.

⁴ Joseph Stiglitz, *Globalization and Its Discontents* (London: Penguin Books, 2002), p. 13.

⁵ Krueger’s main competition for the job, Albert Fishlow, was attacked in the *Wall Street Journal* for his concerns about poverty, Kapur, Lewis and Webb, *World Bank*, p. 339.

⁶ Stern and Ferreira, "The World Bank As "Intellectual Actor", " pp. 586-587.

⁷ Ibid, pp. 587-588.

⁸ Kapur, Lewis and Webb, *World Bank*, p. 334.

is conformity, which is entrenched by the hierarchical way in which each institution is organized.⁹

But management also adopted coercive techniques to ensure Washington Consensus prescriptions were adopted and promoted. For example, Bank ‘editing’ of reports became much tighter; Krueger’s Economic Research Staff did not analyse poverty; and its research program was exclusively centred on showing economic liberalisation was good policy.¹⁰ By the mid-1980s the Bank and its research economists were “...seen to be leading the charge of the neoclassical resurgence.”¹¹

So what were the policy prescriptions of the Washington Consensus? They certainly did not utilise all the ideas of neoliberal economics because, as Woods argued, the IMF and Bank have tended to ignore “economic theories or policy prescriptions which would require greater resources or a different expertise.”¹² Michel Chossudovsky has provided a useful summary of the key policies of the Washington Consensus, which were carried out in two phases: first, short-term macroeconomic stabilisation carried out quickly via ‘big bang’ reforms; and second, long-term structural change via a range of detailed microeconomic reforms.¹³ A brief outline of these policies follows.

Washington Consensus Policies Phase One: Economic Stabilisation

This phase of short-term macroeconomic stabilisation is designed to control balance of payments and budgetary deficits. Implemented predominately by the IMF, key policies prescriptions include:

- i. Budgetary austerity to control deficits — this demands dramatic cuts in recurrent expenditure, in particular through cuts to public sector employment, social sector programs and often investment programs as well.

⁹ Woods, *The Globalizers*, p. 63.

¹⁰ Caufield, *Masters of Illusion*, pp. 144-145, Kapur, Lewis and Webb, *World Bank*, p. 339. Indeed, there was little toleration for alternative views in the Bank from the late 1970s on and this stance hardened in the 1980s, Stern and Ferreira, "The World Bank As "Intellectual Actor", p. 598.

¹¹ Ibid, p. 539.

¹² Woods, *The Globalizers*, p. 63.

¹³ The following section is based on Michel Chossudovsky, *The Globalisation of Poverty: Impacts of IMF and World Bank Reforms* (London: Zed Books, 1997), pp. 55-67. See also Kapur, Lewis and Webb, *World Bank*, pp. 513-518 and Toussaint, *Your Money or Your Life!*, pp. 141-150. For good evaluations of the Washington Consensus policies see *inter alia* Rapley, *Understanding Development*, pp. 66-93 and Toye, *Dilemmas of Development*.

- ii. Currency devaluation, often an end to currency controls or, at minimum, multiple exchange rate policies. Interestingly, the Bank tended to promote devaluation more than the IMF as it did not share the Fund's level of concern regarding inflation.¹⁴
- iii. Price liberalisation —often referred to as 'getting prices right', meaning ending subsidies and price controls. This generally affects areas such as staple foods and their production, whilst at the same time prices for energy, petroleum and other public utilities are set at or higher than world market prices. This is the so-called 'dollarisation' of domestic prices.

Washington Consensus Phase Two Policies: Structural Reform

The IMF and World Bank implement microeconomic reform policies jointly. Key aspects are:

- i. Trade liberalisation — reduction and elimination of tariffs and quotas and encouragement of an export focus.
- ii. Privatisation of state owned enterprises and utilities, often linked to a program of microeconomic reform in various sectors (e.g. power, water supply and sanitation, mining, health and education).
- iii. Tax reform — promoted the introduction of value-added taxes that increase the tax burden on lower and middle classes and tax breaks for targeted investment.
- iv. Land "reform" — a misnomer as this essentially referred to ensuring the security and stability of private land ownership.
- v. Banking deregulation — this involved detailed changes to legislation, privatisation of state-owned banks and the setting up of independent central banks. The package of changes ultimately reduced central bank control over interest rates in favour of international markets.
- vi. Liberalisation of capital movements, that is the removal of foreign exchange controls.
- vii. A focus on poverty alleviation and social safety nets was added in the late 1980s, the focus was on cutting overall social expenditure and selectively 'servicing' the poorest (a supposedly low cost, efficient approach).

¹⁴ Kapur, Lewis and Webb, *World Bank*, p. 514.

- viii. Good governance — in the 1980s, this essentially meant the holding of multiparty elections but, in the post-Washington consensus era, it has taken on a life of its own.

Implementing the Washington Consensus

The debt crisis provided the Bank (and Fund) with greater capacity to impose Washington Consensus policies on cash-strapped developing countries.¹⁵ The debt problem had been building for a number of years but it took the Mexican default of August 1982 and the others that followed shortly thereafter for the Bank and Fund to publicly acknowledge the extent of indebtedness and crisis. The Washington Consensus policies to address the debt crisis acted explicitly to reinforce *pax americana*. By promoting currency devaluation, outward orientation and financial liberalisation:

[t]hus did US rentiers get their debts paid, US industry got cheaper imports of the inputs needed for production, US companies could buy up assets including privatised utilities in the country concerned, and the capital account would be liberalised so that local stock markets could be played.¹⁶

The main mechanism for promoting Washington Consensus policies was conditionality on Structural Adjustment Loans. From the middle of the 1980s, the new Sectoral Adjustment Loans (SECALs) also became popular in the Bank. Their narrower (sectoral) focus made them more effective in facilitating the Washington Consensus's second phase micro-economic reforms than SALs. And these reforms were the Bank's responsibility in the division of labour between it and the IMF.¹⁷ SALs and SECALs also received significant and public critical attention, yet Bank investment loans remained the dominant form of lending and were, in fact, as important a vehicle in pursuing the Washington Consensus agenda. For example, privatisation of utilities was generally pursued through investment loans.

¹⁵ This is in contrast to how the oil shocks, via the recycling of petrodollars and the creation of new donor countries, undermined the Bank's influence especially over middle income countries, see *ibid*, p. 475.

¹⁶ Gowan, *The Global Gamble*, pp. 42 and 56-47.

¹⁷ The Bank had, virtually since its inception, included macroeconomic policy concerns in its project loans to countries. However, its real influence was often limited and its interests in policy conditionality actually declined in the 1950s in favour of a focus on projects before increasing again from the mid-1960s and substantially from the mid-1970s. On the development of policy linked lending see, Kapur, Lewis and Webb, *World Bank*, Chapters Nine and Ten and Mason and Asher, *World Bank since Bretton Woods*, Chapter Six.

SALs and SECALS disburse quickly and can be used for balance of payments difficulties or for meeting debt repayments (an area that had previously been the domain of the IMF). For those countries willing to accept adjustment loans (or with few other options), the Bank's influence was significantly expanded and deepened.¹⁸ In 1981, SALs were around six per cent of Bank lending, by 1987-90 adjustment lending (SALs and SECALS) accounted for almost 30 per cent of lending. In 1991-93, it dropped to 20 per cent of Bank lending.¹⁹ The number of conditions on adjustment lending increased from an average of 34 in 1980-82 to 56 in 1987-90.²⁰ At the same time as adjustment lending was increasing, overall Bank lending increased. Average annual Bank commitments grew from \$5.3 billion in the period 1970-79 to \$15.69 billion in 1980-89.²¹ This reinforced increased Bank leverage over borrowing countries.

The Reagan Administration had a quite turbulent relationship with the Bank. They were ideologically antagonistic to it yet they had appointed Clausen whose strong neoliberal views they applauded and a 1982 report they commissioned from the US Treasury on the Bank concluded that the Bank had been "...most effective in furthering our [US] global economic and financial objectives, and thereby also serving our long-term political/ strategic objectives."²² Nevertheless, in 1984, they decided to cut their IDA replenishment for 1985-87 by 35 per cent on the previous one. According to Bello, the Reagan Administration felt this cut would 'encourage' the Bank to change the eligibility for restricted IDA funding from a basis of need to one of rewarding those progressing economic restructuring.²³ Despite this hardline approach, they decided to replace Clausen when his five-year term expired. His dogmatic neoliberal approach provoked such strong criticism from both NGOs and borrowers that the Bank's capacity to play a role in promoting *pax americana* was reduced.²⁴ Amongst NGOs, environmental campaigners were particularly vocal and their capacity to document Bank projects doing significant environmental harm proved quite damaging to the Bank.

¹⁸ Bello, *Dark Victory*, p. 27. It must be noted that non-compliance with conditions is relatively common and the Bank has not often punished it.

¹⁹ Kapur, Lewis and Webb, *World Bank*, pp. 517-521. In the 1970s, program lending (the forerunner of SALs) averaged 6 per cent of Bank commitments, Kapur, Lewis and Webb, *World Bank*, p. 487.

²⁰ Kapur, Lewis and Webb, *World Bank*, p. 521.

²¹ Ibid, p. 6. The increase in real terms was equally substantial.

²² Cited in Bello, Kinley and Elinson, *Development Debacle*, p. 33.

²³ Bello, *Dark Victory*.

²⁴ Gowan, *The Global Gamble*, p. 32.

Clausen was replaced in July 1986 with veteran Republican Congressman Barber B. Conable. His agenda was largely set by the Reagan Administration who followed their IDA funding cut with a vote against the Bank's 1987 budget, arguing that the Bank's bureaucracy was bloated and needed a change of direction. Clausen formed a committee to oversee a Bank reorganisation. It reported back that:

[f]irst, effective macroeconomic management and a sound policy environment have come to be, and will remain, at the heart of the development challenge... Second, successful economic development increasingly depends on being able to deal with the interdependence of problems and on the effective integration of macroeconomic and sectoral issues.”²⁵

As George and Sabelli point out, the first point reaffirms the centrality of structural adjustment and the second point states that structural adjustment needs to occur in all sectors. In order that all of the Bank's projects line up with adjustment programs, the report recommended reorganisation of the Bank around country programs and abandonment of some of the old cross-sectoral departments such as water or energy.²⁶ The report also repeatedly emphasised regaining and retaining “intellectual leadership” and thus concluded that there were not enough economists in Bank.²⁷ The reorganisation resulted in a ten per cent reduction in staff numbers achieved by a spill of all positions. Staff selection was from the top down, which “fostered a rampant cronyism in the Bank.”²⁸ This was a coercive project to shift the Bank's intellectual terrain and operations towards the Washington Consensus.

Despite the strictures put on Conable's presidency, he did re-dedicate the Bank to the fight against poverty in 1987 and the second half of the decade saw some shift back towards lending in social sectors. However, the reasons for social sector engagement were new, as even the Bank's official history acknowledges:

[b]y engaging in social sector projects, the Bank found that, instead of simply pressing for blanket spending cuts, it was in a position to

²⁵ Cited in George and Sabelli, *Faith and Credit*, p. 126, emphasis in original.

²⁶ Ibid.

²⁷ Ibid, p. 127.

²⁸ Caufield, *Masters of Illusion*, p. 179. Further, the “...reduction in staff was short-lived: Within four years of the reorganization, the workforce was back up to six thousand,” ibid, p. 180.

discuss with and persuade sector officials of the importance of finding alternative ways to finance, allocate, and deliver those services. Social projects thus became a friendlier and more constructive way to lead borrowers by the hand towards austerity...’’²⁹

Moreover, expanding the social agenda allowed the Bank to respond to growing public pressure and critique without actually changing doctrine.³⁰

During Conable’s tenure the debt crisis, which was a catalyst for the implementation of Washington Consensus policies, worsened — Third World debt rose from \$785 billion in 1982 to \$1.3 trillion in 1992. The composition also changed, with a larger portion owed to the international financial institutions than private sources.³¹ This change in composition was partly due to an initiative on debt from US Treasury Secretary James Baker III in 1985. The Baker Plan did not involve debt relief, rather it pushed the IMF, the World Bank and private banks to provide additional resources to debtor countries and combined this with a requirement for enhanced structural adjustment measures.³² In other words, it was a continuation, by using coercive tactics, of the Nixon Administration’s plan to ensure that US private financial operators dominated the international market.³³

The 1989 Brady Plan also enhanced the Bank’s role in debt relief. This plan, proposed by Baker’s replacement Nicholas Brady, did involve some debt forgiveness. Under it, the US issued new bonds (called Brady Bonds) to be purchased by debtor countries using a combination of resources from the IMF, the World Bank, private banks and domestic resources. The Brady bonds were issued either with a discount to the original value of the loan or with a discount on the interest rates. Participation in the Plan was also conditional on further structural adjustment measures.³⁴ In the end, only twelve countries participated in the first round of the scheme because an interest rate reduction eased the pressure on many indebted countries.³⁵ Nevertheless, the Brady Plan

²⁹ Kapur, Lewis and Webb, *World Bank*, p. 348.

³⁰ Ibid, p. 369.

³¹ Bello, *Dark Victory*, p. 69.

³² See Christine A. Bogdanowicz-Bindert, "The Debt Crisis: The Baker Plan Revisited," *Journal of Interamerican Studies and World Affairs*, Vol. 28, No. 3 (1986) and Woods, *The Globalizers*, pp. 49-50.

³³ Gowan, *The Global Gamble*, pp. 19-23.

³⁴ Woods, *The Globalizers*, p. 52.

³⁵ Kapur, Lewis and Webb, *World Bank*, pp. 657-658.

reinforced the Bank's role in adjustment and significantly enhanced its ongoing role in debt management.³⁶ At the same time, it expanded the Bank's links and reliance on the US Treasury and improved US support — in other words it was a less coercively-based approach to shoring up the Bank's role in *pax americana*.³⁷

A strong neoliberal World Bank provided the US with an alternative to the UN. It helped facilitate its multi-pronged attack on the UN system, which involved weakening the overall UN system by pressure, budgetary constraints and mandate changes. In the development agencies it pushed to change the development agenda and re-focus agencies on issues of traditional concern to the North; it even pressured agencies such as the United Nations Conference on Trade, Aid and Development (UNCTAD) to wind up having "...outlived their purpose" or others such as the United Nations Development Program (UNDP) to conform to the World Bank model.³⁸ According to Branislav Gosovic, this program was successful in removing sources of intellectual and policy challenge to the North-controlled hegemonic institutions and agenda, leaving the World Bank, by the time of the Asian Financial Crisis, the "last man standing."³⁹

Lewis T. Preston took over the Bank in late 1991, he was another ex-banker and was more committed to the core Washington Consensus agenda than Conable had been.⁴⁰ Soon after his arrival, controversy around the Bank exploded. In December 1991, a memo from Lawrence H. Summers, Chief Economist and Vice-President for Development, was leaked. The memo commented on the 1992 edition of the Bank's *Global Economic Prospects* report and the controversial comments were on section dealing with 'dirty industries.' In it Summers asked: "[j]ust between you and me, shouldn't the World Bank be encouraging *more* migration of the dirty industries to the LDCs [less developed countries]?"⁴¹ He gave three reasons: lost earnings from "morbidity and mortality" are less in developing countries; the air quality in LDCs is "*underpolluted*"; and those with most money are more choosy about their air quality

³⁶ George and Sabelli, *Faith and Credit*, p. 22.

³⁷ Gwin, "U.S. Relations with the World Bank." The US increased its IDA replenishment after a large cut in the early 1980s and it supported a proposal to double the IBRD's capital, with the requirement that the US veto be maintained, Peet, *Unholy Trinity*, p. 126. This resulted in an amendment to the Bank's articles, which was discussed in Chapter Two.

³⁸ Gosovic, "Global Intellectual Hegemony," pp. 453-454.

³⁹ Ibid, p. 448.

⁴⁰ Kapur, Lewis and Webb, *World Bank*, p. 371.

⁴¹ Cited in George and Sabelli, *Faith and Credit*, p. 98, emphasis in original.

and can afford to be so.⁴² Summers, despite being nominally a Democrat, clearly held very neoclassical and rigid views on economics. In a speech on 10 November 1991 in Bangkok, he asked:

[w]hat can the West do to drive this process of reform [in Russia] forward? Number one: it can spread the truth. The laws of economics, it's often forgotten, are like the laws of engineering. *There's only one set of laws and they work everywhere.* One of the things I've learned in my short time at the World Bank is that whenever anybody says, 'But economics works differently here', they're about to say something dumb.⁴³

One of Preston's first initiatives was to ask Willi Wapenhans, a Bank Vice President close to retirement, to report on the overall outcomes of the Bank's lending. The Wapenhans Report released in 1992 (and leaked in draft form) painted a fairly bleak picture of Bank operations. It concluded that the percentage of Bank projects that suffered from major implementation problems (seen in the Bank's own terms) increased from 11 in the early 1980s to 37.5 of projects completed in 1991.⁴⁴ Projects in the sectors of water supply and sanitation and agriculture performed worst. Surprisingly,

...the inquiry discovered that the longer it took Bank staff to prepare projects, the less successful they tended to be. This particular finding also reflected a lack of borrowers' commitment to projects, mostly dreamed up by Bank staff with little input from the countries concerned.⁴⁵

The report was also one of the first to publicly acknowledge the problem of corruption in Bank projects; it stated that "...the evidence of gross non-compliance is overwhelming."⁴⁶ The Wapenhans Report was a fairly damning indictment of the Bank's implementation of Washington Consensus policies; nevertheless, in 1993 the Bank was still declaring structural adjustment a success.⁴⁷

⁴² Cited in *ibid*, pp. 98-100, emphasis in original

⁴³ Cited in *ibid*, p. 106, emphasis added.

⁴⁴ *Ibid*, p. 224.

⁴⁵ *Ibid*.

⁴⁶ *Ibid*.

⁴⁷ World Bank, *Global Economic Prospects and Developing Countries 1993*, cited in Bello, *Dark Victory*, p. 32. Concern in the Bank about structural adjustment lending at this time seemed confined to three areas: concern that the increasing number of conditions on loans were often not being met; monitoring

There is little doubt that country and policy variations increased in the late 1980s and early 1990s. Thus in 1997, Gustav Ranis argued that the Consensus is "...more subtle and differentiated today than many critics have asserted," however he conceded that:

...the kernel of truth remains: the Bank is inhabited by a large number of highly talented professionals, largely economists, who have shown little willingness to dissent or deviate from what the in-house conventional wisdom is seen to be at any point in time; and analyses of government failure continue to have a much easier time than analyses of market failure.⁴⁸

Structural adjustment did not improve economic outcomes in most developing countries, indeed, the 1980s were labelled the 'lost decade.' Many suffered from zero or even negative economic growth, the number of people living in absolute poverty actually increased in a number of regions and the income disparity both within developing countries and between the developing and developed 'worlds' had widened. There were exceptions of course — the East Asian 'tigers' stand out precisely because they had not followed the Bank's development paradigm. The Bank would not acknowledge this. Indeed, from 1983 the Bank's research department under Krueger funded a series of studies to strengthen the neoclassical interpretation of East Asian growth started by Ian Little and the OECD and NBER sponsored studies outlined in Chapter Three.⁴⁹ The high costs of Washington Consensus policies meant that despite its partial success in transforming domestic historic blocs in developing countries, the overall social costs of its policies were too high and thus the changes it achieved in economic policy were "piecemeal."⁵⁰ In a number of cases policy changes were reversed after short periods.

conditions was too time consuming; and this type of lending may have been encouraging dependency Kapur, Lewis and Webb, *World Bank*, pp. 539-540. Adjustment lending decreased substantially as a percentage of new lending commitments in 1993-94 but increased again from 1995, Kapur, Lewis and Webb, *World Bank*, p. 6.

⁴⁸ Gustav Ranis, "The World Bank near the Turn of the Century," in Roy Culpeper, Albert Berry and Frances Stewart (eds.), *Global Development Fifty Years after Bretton Woods: Essays in Honour of Gerald K. Helleiner* (London: North South Institute / Macmillan Press, 1997), p. 76.

⁴⁹ Iyanatul Islam and Anis Chowdhury, *The Political Economy of East Asia: Post Crisis Debates* (Oxford: Oxford University Press, 2000), p. 8.

⁵⁰ Gowan, *The Global Gamble*, p. 84.

By the early 1990s there was a growing body of work demonstrating the empirical and qualitative failures of the Washington Consensus approach.⁵¹ This, combined with the growing public critique of the Bank, encouraged a slow process of policy change. Finally, there was the decision of the Clinton Administration to “...radicalise the programmes of various multilateral organisations in order to commit them to the radical opening of national economies.”⁵² These are the foundations of the post-Washington Consensus.

The Post-Washington Consensus

Similar to the link between the Bank’s Washington Consensus and the theoretical (and political) rise of neoliberalism and the New Political Economy from the 1970s, the PWC is linked theoretically to the development of New Institutional Economics (NIE) and politically to the decline of hardline neoliberal regimes in the West and the increasing voice of NGOs in the development debate. New Institutional Economics expanded economists’ views of what constitutes market failures — to problems of externalities, increasing returns to scale and monopolies it added issues of information failures and transaction costs.⁵³ The inclusions of these new dimensions led to a picture of markets with extensive imperfections as opposed to the neoliberal view of perfectly working markets.⁵⁴ As North stated:

...new institutional economics is an attempt to incorporate a theory of institutions into economics. However, in contrast to the many earlier attempts to overturn or replace neo-classical theory, the new institutional economics builds on, modifies and extends neo-classical theory to permit it to come to grips and deal with an entire range of issues heretofore beyond its ken.⁵⁵

⁵¹ For a good overview and analysis of the successes and failures of Washington Consensus policies see Rapley, *Understanding Development*, pp. 73-110.

⁵² Gowan, *The Global Gamble*, p. 84.

⁵³ The discussion here of new institutional economics is limited to those aspects that appear to have most impacted the World Bank. It has a broader research agenda including interest in: property rights, public choice, quantitative economic history and cognition.

⁵⁴ Fine, *Social Capital Versus Social Theory*, pp. 4-5.

⁵⁵ Douglass C. North, "The New Institutional Economics and Third World Development," in John Harriss, Janet Hunter and Colin M. Lewis (eds.), *The New Institutional Economics and Third World Development* (London: Routledge, 1998), p. 17.

New Institutional Economics does not question neoclassical economics' methodological individualism or the utility maximisation assumption, however, it does reject its conception of instrumental rationality in favour of bounded rationality, that is the idea that human rationality is constrained by factors such as: "...emotional affect, limited cognitive ability and imperfect information."⁵⁶ This creates space to explain the existence of social structures and institutions by individuals who create these, "...within and between market and non-market forms of organisation," and it allows institutions and non-market (i.e. social) factors a key role in mitigating market failure and thus improving the efficient functioning of markets.⁵⁷

As Fine pointed out, the shift of the World Bank towards NIE was not simply the result of the weight of theoretical critique against the Washington Consensus, nor the analytical or theoretical superiority of the new 'paradigm.' It was connected, first, to the Bank's relations with the IMF, in particular the need for differentiation after the convergence of both policy prescriptions and lending instruments in the 1980s. It also reflected the need to justify the extension of conditionality beyond economic policy into issues of governance, to which one should add, provided the Bank with a new *raison d'être* for lending and thus for its very existence. The PWC was marketed as a response to calls for local 'ownership' of development programs while at the same time facilitating compliance with the broadened agenda. Finally, the PWC reflected the growing influence of Japan — an influential Washington Consensus sceptic — as a donor.⁵⁸ The Bank's level of engagement with NIE is also reflected in the limited impact it seems to have had on the Bank's own research operations, which remain dominated by Washington Consensus concerns.⁵⁹

⁵⁶ The quote is from Bruce E. Kaufman, "The Institutional Economics of John R. Commons: Complement and Substitute for Neoclassical Economic Theory," *Socio-Economic Review*, Vol. 2, (2007), p. 18. On the broader issues of NIE assumptions see, Fine, *Social Capital Versus Social Theory* and North, "The New Institutional Economics and Third World Development."

⁵⁷ Fine, *Social Capital Versus Social Theory*, p. 9.

⁵⁸ Ibid, pp. 10-13.

⁵⁹ This is Broad's conclusion from an evaluation of the output and function of the Bank's Development Economics Vice-Presidency, Broad, "Research, Knowledge, and the Art of 'Paradigm Maintenance'." See also Robert Wade, "Japan, the World Bank, and the Art of Paradigm Maintenance: *The East Asian Miracle* in Political Perspective," *New Left Review*, Vol. 217, (1996), Robert Wade, "Making the World Development Report 2000: Attacking Poverty," *World Development*, Vol. 29, No. 8 (2001), Robert Wade, "US Hegemony and the World Bank: The Fight over People and Ideas," *Review of International Political Economy*, Vol. 9, No. 2 (2002).

In tracing the shift to the post-Washington Consensus in the Bank, a key question is how far from the Washington Consensus does NIE and associated Bank reforms take the Bank? Before addressing this question directly, it is necessary to explore whether the developments in the Bank from the mid-1990s represent a genuine engagement with new institutional economics and the NGO critique of Bank operations or whether they are better understood as a co-option of their language and concerns in order to continue the project of the Washington consensus.

It is not easy to identify when the shift to the post-Washington Consensus took place, it was not a radical shift but the culmination of incremental changes over a decade. There have been attempts to summarise the Bank's PWC, as there is of the Washington Consensus. Though there were some earlier signs of the shift, the 1993 Bank report, *The East Asian Miracle*, is a key marker of change.⁶⁰ Produced at the behest of the Japanese government, it "...concedes for the first time in a major Bank publication the *fact* of extensive government intervention in most of East Asia."⁶¹ However, the report only acknowledged the role of the state in promoting development through direct redistribution measures (in particular, primary and secondary education) and deliberate distortions of the incentive structures to promote exports.⁶² In other words, it ignored issues such as the political systems in these countries including the relations between business and government, historical factors, (such as land reform or the Cold War and its effect on foreign aid and FDI) and the role of the state manipulating price structures (not just for exports). Primacy is given in the report to the role of macroeconomic fundamentals in achieving growth, thus Wade concluded "...the Bank emerges with its traditional paradigm unscathed."⁶³ Nevertheless, the theory and practice of the East Asian 'developmental state' was one of the most significant threats to the Bank's neoliberal orthodoxy; it challenged, in particular, the Bank's beliefs about 'getting the prices right.'⁶⁴

⁶⁰ World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Oxford: Oxford University Press, 1993).

⁶¹ Wade, "Japan, the World Bank, and the Art of Paradigm Maintenance," p. 23.

⁶² See Michael Burgess, "The World Bank — the East Asian Miracle," *Asian Studies Review*, Vol. 18, No. 3 (1995) and Wade, "Japan, the World Bank, and the Art of Paradigm Maintenance," pp. 23-27.

⁶³ Wade, "Japan, the World Bank, and the Art of Paradigm Maintenance," p. 5. Bank language did change around this time, the emphasis shifting slightly from 'free markets' to 'market-friendly'.

⁶⁴ Pietro P. Masina, *Vietnam's Development Strategies* (London and New York: Routledge, 2006), p. 26. A good overview can be found in Islam and Chowdhury, *Political Economy of East Asia*, pp. 1-20. Key contributions to the East Asian 'developmental state' model include: Alice Amsden, *Asia's Next Giant*:

Following the demise of the Soviet Union, the claims of the ‘victory’ of democracy and capitalism — most famously expressed in Francis Fukuyama’s declaration of ‘the end of history’ — shored up the neoliberal project. In the Bank, the challenges posed by the 25 new members that joined the Bank between 1990 and 1994 hindered the shift away from the Washington Consensus. Most were ex-communist states and their addition as borrowers undoubtedly affected the budget and focus of the Bank. A new geographical region (Europe and Central Asia – ECA) was created and these countries did not want to be seen as developing countries — they were transition economies, whose need was “...restructuring rather than development.”⁶⁵ This view also coincidentally served *pax americana* because it justified the implementation of Washington Consensus policies in these countries.⁶⁶ So their arrival pushed the Bank’s focus toward its middle-income clientele for whom the case for structural adjustment seemed clearer. In 1994, the Bank even changed its purpose from “alleviating poverty” to “helping borrowers reduce poverty and raise living standards.”⁶⁷

There is little doubt that the shift to the post-Washington consensus is most closely associated with, and took place under, President James D. Wolfensohn. The nexus between theory and political events again came to the fore, as it was the Clinton Administration in the US who appointed Wolfensohn.⁶⁸ The argument here is not that the Clinton Administration represented a dramatic break with US foreign and economic policy rather that it had more belief than the previous Republican administrations in the “...centrality of state-political action in economic affairs.”⁶⁹ But the role of the state in this new formulation was little changed — it was a pro-capitalist state that opened “...borders to US goods, capital and services.”⁷⁰ The belief in state action extended to a

South Korea and Late Industrialisation (New York: Oxford University Press, 1989), Adrian Leftwich, "Bringing Politics Back In: Towards a Model of the Developmental State," *The Journal of Development Studies*, Vol. 31, No. 3 (1995) and Robert Wade, "State Intervention in 'Outward-Looking' Development: Neoclassical Theory and Taiwanese Practice," in G. White (ed.), *Developmental States in East Asia* (New York: St. Martins Press, 1988).

⁶⁵ Kapur, Lewis and Webb, *World Bank*, p. 373.

⁶⁶ Gowan, *The Global Gamble*, p. 42.

⁶⁷ Kapur, Lewis and Webb, *World Bank*, p. 373.

⁶⁸ While Wolfensohn’s views were broadly in line with those of the Administration, his appointment was the result of a large and intensive personal campaign detailed in Sebastian Mallaby, *The World’s Banker: A Story of Failed States, Financial Crises, and the Wealth and Poverty of Nations* (New York: The Penguin Press, 2004), pp. 70-83.

⁶⁹ Gowan, *The Global Gamble*, p. 79.

⁷⁰ *Ibid*, p. 78. The geographic focus of the administration was East and South-East Asia.

commitment to multilateral institutions: the aim was still to further US interests but through some allegiance to global rule-based governance. Wolfensohn, with his somewhat unconventional background and broad range of interests, fitted the Administration's vision for the Bank.

During his presidency, 1995-2005, Wolfensohn was central to a range of reforms and programs, including the Highly Indebted Poor Country (HIPC) initiative (1996), Knowledge Bank (1996) and the Strategic Compact (April 1997).⁷¹ Mark Berger and Mark Beeson suggested that *The State in a Changing World: World Development Report 1997* (WDR 1997) was the key marker of the Bank's "...reinvention of liberalism."⁷² The Report maintained the neoclassical commitments to markets but, in line with developments in political economy, recognised the importance of state intervention in "...in defining the structure of market-mediated economic relations."⁷³ Paul Cammack argued that this new "...active and pro-capitalist state" was essential to the reproduction of capitalism and thus in line with the Bank's neoliberal Washington Consensus project.⁷⁴ Cammack's argument highlights the Marxist view of the role of the state as core to the reproduction of social relations. In the Gramscian formulation, each historic bloc is the product of complex economic and social forces, but the control by a dominant group of the apparatus of the state gives it the capacity to construct the historic bloc in particular ways. It is core to constructing hegemony.

How did this change in the role of the state impact on the Bank's operations? Veronica Wodsak pointed out,

[a]cknowledging the importance of a functioning state for the development process meant a reorientation of the Bank's efforts from project based lending towards policy-based lending which is clearly reflected in the Bank's budget during the late nineties. Adjustment

⁷¹ On the Knowledge Bank and Strategic Compact see Veronika Wodsak, "World Bank Reform — a Critical Investigation: Change and Continuity in the World Bank's Approach to Development in the 1990s," (A thesis submitted for the degree of Master of Arts: Queen's University, Kingston, Ontario, Canada, 2002), pp. 63-71.

⁷² Mark T. Berger and Mark Beeson, "Lineages of Liberalism and Miracles of Modernisation: The World Bank, the East Asian Trajectory and the International Development Debate," *Third World Quarterly*, Vol. 19, No. 3 (1998), p. 499. See also Wodsak, "World Bank Reform — a Critical Investigation," pp. 71-74.

⁷³ Berger and Beeson, "Lineages of Liberalism and Miracles of Modernisation," p. 499.

⁷⁴ Paul Cammack, "What the World Bank Means by Poverty Reduction," *Staying Poor: Chronic Poverty and Development Policy* (IDPM, University of Manchester: 2003), p. 5.

lending more than tripled from below \$5 billion in 1997 to \$15.3 billion in 1999 and 'institution building and governance' became the 'dominant themes.'⁷⁵

From 2000 to 2005, policy-based or adjustment lending returned to average levels of just over thirty per cent of new Bank commitments (\$5-6 billion per annum) but governance remained a dominant theme in lending.⁷⁶ Whether through adjustment lending or governance programs, the World Bank's renewed engagement with the state ultimately increased its capacity to promote or undermine specific elements of a state's historic bloc.

The Asian Financial Crisis followed publication of the *WDR 1997* and gave added substance to the critique of the Washington Consensus. However, the international financial institutions and some neoliberal economists tried to present the Crisis as evidence of the failure of the East Asian 'developmental state' models — Asia was now the home of 'crony capitalism.'⁷⁷ But their mishandling of the Crisis limited the impact of their reading of it. The brunt of criticism at the response of the international financial institutions to the Crisis was directed at the IMF, but the Bank too received its share of critical attention, in particular its 'one size fits all' development prescriptions. Wolfensohn renewed his public relations offensive for the Bank, going as far as critically commenting on the social dislocation resulting from IMF adjustment. He also allowed the recently appointed Chief Economist, Joseph Stiglitz to speak critically about the IMF's approach to financial liberalisation, in particular capital account liberalisation in countries without mature regulatory systems.⁷⁸ Stiglitz was as an academic involved in developing NIE and his critique clearly derives from it. Doubt

⁷⁵ Wodsak, "World Bank Reform — a Critical Investigation," p. 74. Quotes are from *The World Bank Annual Report 1999*. 1998 and 1999 were very big years for Bank lending (\$28.5 and \$26.2 billion) and adjustment lending accounted for *over 52 per cent* of lending commitments. In 2000, lending declined to \$15.3 billion and then steadily grew to \$22.3 billion in 2005. Adjustment lending has generally been in \$5-6 billion range accounting for around 30 per cent of lending. See World Bank, *The World Bank Annual Report 2003* (Washington: World Bank, 2003), p. 36 and World Bank, *Annual Report 2006*, p. i.

⁷⁶ 2002 was an exception as adjustment lending jumped back up to just over fifty per cent of new commitments. The data is from World Bank, *Annual Report 2003* and World Bank, *Annual Report 2006*.

⁷⁷ Masina, *Vietnam's Development Strategies*, p. 26. The crony capitalism label was first used for South Korea but it gained more credence in relation to Indonesia. Berger and Islam note that the US and the international financial institutions engaged in a "sustained discursive and ideological attack" on the East Asian models, Mark Beeson and Iyanatul Islam, "Neo-Liberalism and East Asia: Resisting the Washington Consensus," *The Journal of Development Studies*, Vol. 41, No. 2 (2005), p.204.

⁷⁸ This is a theme throughout Stiglitz, *Globalization and Its Discontents*.

regarding the efficacy of capital account liberalisation in developing countries is a position that has gained currency amongst mainstream economics commentators.⁷⁹

The Bank's reform process continued in 1998 with a report entitled *Assessing Aid: What Works, What Doesn't, and Why*. The report was based on an empirical analysis that utilises a general equilibrium growth model, in other words, the preferred methodology of neoliberal economics not NIE. It was focused on the debate about the link between aid and economic growth and maintained neoliberal assumptions about the relationship between economic growth and poverty reduction. Its key conclusion was that aid only helps to increase growth in countries utilising 'sound' economic policies and good governance.⁸⁰ Given the failures of conditionality in achieving 'sound' macroeconomic management in recipient countries, the report proposed 'selectivity' in aid contributions, meaning assessing current economic policies and institutional performance and developing targets around these themes to determine eligibility for aid. This process was meant to counter problems of limited local ownership of reform programs, which was seen as a key reason for the failure of conditionality. Niels Hermes and Robert Lensink demonstrated that the report's criteria for selecting good management are ill-defined and primarily refer to indicators of macroeconomic stability associated with the Washington Consensus.⁸¹ Ironically, a number of the report's proposals, such as reduction in government expenditures, may inhibit the development of good governance by limiting development of a strong public sector.⁸²

In 1999, the Bank launched the Comprehensive Development Framework (CDF) and later in the year, the associated Poverty Reduction Strategy Paper (PRSP) process. The CDF is a process designed to improve poverty focus, country ownership and donor harmonisation. It relies heavily conceptually and practically on the PRSP process, which is where the concrete strategies and plans are developed through participating countries planning to reduce poverty. The *WDR 1999/2000*, produced by Stiglitz

⁷⁹ Robin Broad, "The Washington Consensus Meets the Global Backlash: Shifting Debates and Policies," *Globalizations*, Vol. 1, No. 2 (2004), pp. 138-139.

⁸⁰ For some of the critiques of the econometric analysis utilised in the report, see the special issue of *Journal of Development Studies* and especially the overview article by Niels Hermes and Robert Lensink, "Changing the Conditions for Development Aid: A New Paradigm?," *Journal of Development Studies*, Vol. 37, No. 6 (2001).

⁸¹ *Ibid.*, p. 5.

⁸² *Ibid.*

appointee Ravi Kanbur, claimed that the CDF goes beyond the Bank's traditional focus on economic growth to include social goals.⁸³ The CDF, the Bank claims, emphasises:

...the interdependence of all elements of development — social, structural, human, governance, environmental, economic, and financial. It advocates: a holistic long-term strategy; the country in the lead, both 'owning' and directing the development agenda, with the Bank and other partners each defining their support in their respective business plans; stronger partnerships among governments, donors, civil society, the private sector, and other development stakeholders in implementing the country strategy; and a transparent focus on development results to ensure better practical success in reducing poverty.⁸⁴

The CDF is sold as a tool (or compass) in contrast to a "blueprint" approach. Yet there is a Sourcebook for the connected PRSP process – here is the Keynesian commitment to planning that produced the Bank, reorganised for the neoliberal age. The Sourcebook states the key requirements of a PRSP are that the country prepares it and that it focuses "...on *faster and broad-based economic growth*, which *requires* macroeconomic stability."⁸⁵ The ongoing commitment to the macroeconomic prescriptions of the Washington Consensus including commitment to international integration, is one of the biggest blind spots of the process.

Doug Porter and David Craig see PRSPs as the "...high water mark" of the PWC, or what they call 'inclusive' liberalism whose purpose is to embed, legitimate and secure neo-liberal reform.⁸⁶ At their best, PRSPs can be effective in identifying local needs and problems and utilising liberal values to promote "positive freedoms." But:

...more commonly this convergence works in more conservative ways, within constrained, almost phoney forms of the social,

⁸³ World Bank, *Entering the 21st Century: World Development Report 1999/2000* (Oxford: Oxford University Press for The World Bank, 2000), p. 21.

⁸⁴ CDF, What is CDF, World Bank Group Website., access date July 2004.

⁸⁵ "Preface," *PRSP Sourcebook*, World Bank Group Website, access date: July 2004, emphasis added.

⁸⁶ Doug Porter and David Craig, "The Third Way and the Third World: Poverty Reduction and Social Inclusion in the Rise of 'Inclusive' Liberalism," *Review of International Political Economy*, Vol. 11, No. 2 (2004), p. 390. See also Heloise Weber, "A Political Analysis of the PRSP Initiative: Social Struggles and the Organization of Persistent Relations of Inequality," *Globalizations*, Vol. 3, No. 2 (2006).

propagating juridical rules and programmes of security and safety, while merely talking up participation and community.⁸⁷

Porter and Craig also point out that PRSPs effectively move conditions to being prerequisites for accessing assistance from the international financial institutions.⁸⁸

Country PRSPs are reviewed jointly by Bank and IMF staff against set guidelines to determine if they provide "...a sound basis on which to proceed with assistance and debt relief."⁸⁹ Until 2005, PRSP required approved from the Bank board, which as even the Bank's Operation Evaluation Department acknowledges, undermined country ownership.⁹⁰ It is still the case that the Bank's Country Assistance Strategy (CAS) is not necessarily in line with a country's PRSP as the CAS is "...specifically to account to" the Bank's shareholders.⁹¹ Looked at in this way, the CDF does seem more like a blueprint than a mere tool. As Cammack states the CDF:

...is precisely what it says it is — a blueprint for a complete set of social and governmental relations and institutions... it is actually a means of shaping social and structural policies so that they reinforce and extend macroeconomic discipline, and subordinating them to imperatives of capitalist accumulation.⁹²

The CDF does have a strong focus on wide participation in the planning, design and implementation of projects. Participants are meant to include various multilateral and bilateral agencies, all levels of government within a country, civil society and the private sector. Indeed, the strong language on participation in the CDF highlights the extent to which the Bank incorporated participation as a core component of the PWC, as a response to the NGO critique of the Bank in this area. Incorporating this particular critique was undoubtedly a core part of the Bank's public relations push, which was relatively successful at least until the departure of Wolfensohn.

⁸⁷ Porter and Craig, "The Third Way and the Third World," p. 392.

⁸⁸ Ibid, p. 394.

⁸⁹ World Bank, *A Guide to the World Bank* (Washington: The World Bank, 2003), p. 38.

⁹⁰ Cited in World Development Movement, "One Size for All: A Study of IMF and World Bank Poverty Reduction Strategies" (2005), available from: <http://www.wdm.org.uk/news/presrel/current/onesize.htm>, accessed: March 2007, p. 8.

⁹¹ World Bank, *A Guide to the World Bank*.

⁹² Cammack, "What the World Bank Means by Poverty Reduction," pp. 11-12.

There has been a broad range of experiences in operationalising participation but, in practice, the Bank tended to focus on improving relations with other donors and has not integrated participation into “mainstream practice” especially in project implementation.⁹³ Participation in projects remains a privilege rather than a right.⁹⁴ Cammack argued that participation rhetoric needs to be understood as a deliberate strategy “...to induce people to experience tightly controlled and carefully delimited forms of market-supporting activity as empowerment.”⁹⁵ Actually, as Ilan Kapoor pointed out, participation performs several functions:

...in one fell swoop: participation becomes a disciplinary mechanism for the World Bank/IMF to hold the poorest Third World states ‘to account’... and, in turn for these states to keep civil society organisations in check; and participation helps advance neoliberalism, promoting ‘partnerships’ to co-opt Third World states *and* (elite) NGOs into the structural adjustment program.⁹⁶

Where participation is part of loan projects it is often connected to a renewed interest in decentralisation — from 1993 to 1997, 12 per cent of Bank projects involved decentralisation.⁹⁷ Theoretically, decentralisation needs to be seen as part of the PWC agenda of reordering social and political relations in addition to the Washington Consensus project of reordering economies. However, in practice, in the hands of Bank staff, it tends to become a ‘technical problem’ and works to exclude the political nature of policy-making. As Hadiz explained, the:

...emphasis, in particular, on the political insulation of technocrats is particularly ironic given the supposition that decentralization leads to good governance practices involving wider public participation in democracy. In fact, the general thrust of neo-institutionalist theory embraces democracy only insofar as technocrats (or technopols) can

⁹³ Wodsak, "World Bank Reform — a Critical Investigation," pp. 93-95.

⁹⁴ Ibid, p. 96.

⁹⁵ Cammack, "What the World Bank Means by Poverty Reduction," p. 12.

⁹⁶ Ilan Kapoor, "Participatory Development, Complicity and Desire," *Third World Quarterly*, Vol. 26, No. 8 (2005), p. 1214.

⁹⁷ Vedi R. Hadiz, "Decentralization and Democracy in Indonesia: A Critique of Neo-Institutionalist Perspectives," *Development and Change*, Vol. 35, No. 4 (2004), p. 706.

preside over politics unimpeded by the intervention of democratic or more radical agendas.⁹⁸

Further, the act of implementing decentralisation projects immerses the Bank in relations with locally entrenched elites. In this case, it tends to restrict the Bank's capacity to transform local historic blocs; indeed, it generally leaves the Bank supporting existing elites. In its practical implementation, decentralisation also tends to be entwined with the Washington Consensus goal of privatisation because decentralised and unbundled government enterprises are easier to corporatise and privatise. The tensions Hadiz identifies disappear, however, if the reordered social relations promoted by democratisation are understood as neoliberal relations not democratic ones. Moreover, these new relations minimise the role of the state and posit civil society as a distinct conceptual sphere to that of the state.

In 2000, the Bank finally publicly admitted, in a limited fashion, the negative impact of the Washington Consensus. A report by Bank economist William Easterly noted that growth in developing countries between 1980 and 1998 was 0.0 per cent.⁹⁹ The *WDR 2000/2001* also implicitly acknowledged the failure of Bank policies during this period.¹⁰⁰

The *WDR 2000/2001* is the next logical place to examine the PWC as it demonstrates the impact of NIE.¹⁰¹ However, WDRs are not actual Bank policy and, although they generally reflect Bank thinking, *WDR 2000/2001* was somewhat of an exception. According to Wade, the WDR drafted by Kanbur took NIE and the NGO agenda too

⁹⁸ Ibid, p. 698. See also Kanishka Jayasuriya, "Governance, Post Washington Consensus and the New Anti Politics" (South East Asia Research Centre (SEARC) Working Paper No. 2, City University of Hong Kong, April 2001).

⁹⁹ William Easterly, *The Lost Decades: Developing Countries' Stagnation in Spite of Policy Reform 1980-1998* (Washington: The World Bank, 2001).

¹⁰⁰ Not surprisingly, Easterly fell from grace with the Bank shortly after this publication, see International Development Economics Associates (IDEAs), "The World Bank Engages Its Critics, and Backs Off, Book Review: SAPRIN (2004). Structural Adjustment: The SAPRIN Report, the Policy Roots of Economic Crisis, Poverty and Inequality," available from: <http://www.networkideas.org>, accessed: June 2004, p. 16.

¹⁰¹ World Bank, *Attacking Poverty: World Development Report 2000/2001* (New York: Oxford University Press for The World Bank, 2000). For a useful summary of its innovative features and the impact of Stiglitz and NIE see: Simon Maxwell, "WDR 2000: Is There a New 'New Poverty Agenda'?", *Development Policy Review*, Vol. 19, No. 1 (2001).

seriously.¹⁰² The US Treasury and the Bank's neoliberal economists could not accept the strong focus on income inequality and empowerment of the poor, or the NIE-influenced view on the failures in capital markets and the recommendation to create social safety nets prior to structural adjustment.¹⁰³ Kanbur resigned as the report was being finalised in the hope of preventing the Bank from disassociating itself from the (already revised and re-written) report. However, his resignation did not prevent a number of further substantive changes to the text, in particular to the most widely-read sections - the introduction and conclusion.¹⁰⁴

It was suggested that this episode indicated the end of "...the brief 'springtime' at the Bank in the second half of the 1990s."¹⁰⁵ Other indications of the end of openness were Stiglitz's forced resignation late the previous year (November 1999) and the Bank's withdrawal from the Structural Adjustment Participatory Review Initiative (SAPRI), a civil society driven review of the impacts of structural adjustment on the poor.¹⁰⁶ These developments indicate precisely the limits of the post-Washington Consensus. It cannot fully address even NIE and NGO challenges because to do so would require challenging Washington Consensus hegemonic principles and logic. The PWC cannot do this because it is ultimately a modification of the Washington Consensus. Indeed, the evidence suggests that when Washington Consensus hegemonic principles are challenged the Bank still acts to protect them.

A further component of the post-Washington Consensus was the Bank's interest in social capital, which was prominent in the Bank from 1996 to the early 2000s. The relevance of social capital for development was tested in several sites, Indonesia being one. Its prominence was indicated by the development of a dedicated website, which has since been downgraded.¹⁰⁷ The Bank defined social capital as:

¹⁰² See Wade, "Making the World Development Report 2000," Robert Wade, "Showdown at the World Bank," *New Left Review*, Vol. 7, (2001) and Wade, "US Hegemony and the World Bank."

¹⁰³ Wade, "Making the World Development Report 2000," pp. 1436-1438.

¹⁰⁴ Wade, "Showdown at the World Bank," pp. 134-135.

¹⁰⁵ International Development Economics Associates (IDEAs), "The World Bank Engages Its Critics, and Backs Off," p. 16.

¹⁰⁶ It was Stiglitz who involved the Bank in SAPRI. For information on the network see Structural Adjustment Participatory Review Initiative Network, available from: <http://www.saprin.org/>, accessed: July 2004. For a review of its final report and an analysis of the Bank's late withdrawal see International Development Economics Associates (IDEAs), "The World Bank Engages Its Critics, and Backs Off."

¹⁰⁷ The original site was: www.worldbank.org/poverty/scapital, access date July 2004. It has since been downgraded to a topic under the Bank's PovertyNet site, see <http://web.worldbank.org/WBSITE/>

...the *institutions, relationships, and norms* that shape the quality and quantity of a society's social interactions. Increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable. Social capital is not just the sum of the institutions which underpin a society – it is the *glue that holds them together*.¹⁰⁸

The Bank's approach to, and definition of, social capital derived from its adaptation of NIE. The Bank's goal remained economic growth and for a while social capital was seen as the missing link needed to achieve this. As is clear from the definition, it is an all-encompassing phenomenon; there can be 'bad' as well as 'good' social capital. As Fine argued, "...social capital fills out everything that is not already taken care of in terms of standard economic analysis. In principle, it could be anything."¹⁰⁹ Further, he pointed out that social capital's appeal was that, on the one hand it allowed "...the formal results of the new economics to be expressed in non-economic terms" and, on the other hand, it allowed economics to appear interdisciplinary.¹¹⁰

Although social capital was introduced to the Bank by social scientists hoping to challenge the hegemony of neoliberal economics, development economists rather than social scientists "won" the debate in the group set up to develop the Bank's social capital strategy.¹¹¹ According to Anthony Bebbington *et al.*, the discussion and use of social capital bifurcated into an econometrically based one amongst economists and a more social theory based one amongst operation staff.¹¹² The critics of the Bank's discussion of social capital tend to focus on the published work, which was mostly by economists. The discussion here looks at these critiques but the thesis case studies subsequently explore critically their practical use by operations staff.

<EXTERNAL/TOPICS/EXTPOVERTY/0,,menuPK:336998~pagePK:149018~piPK:149093~theSitePK:336992,00.html>, access date April 2007.

¹⁰⁸ This was the definition in the old site: www.worldbank.org/poverty/scapital, emphasis added.

¹⁰⁹ Fine, *Social Capital Versus Social Theory*, p. 158.

¹¹⁰ Ben Fine, "The Social Capital of the World Bank," in Ben Fine, Costas Lapavistas and Jonathan Pincus (eds.), *Development Policy in the Twenty-First Century: Beyond the Post-Washington Consensus* (London: Routledge, 2001), p. 136.

¹¹¹ Anthony Bebbington, *et al.*, "Exploring Social Capital Debates at the World Bank," *The Journal of Development Studies*, Vol. 40, No. 5 (2004), pp. 43-44. The article contains an interesting insider's account of the rise of social capital in the Bank.

¹¹² Ibid, pp. 44-45. On the dominance of economists see also John Harriss, "Book Review: Anthony Bebbington, Michael Woolcock, Scott E. Guggenheim and Elizabeth A. Olson (Eds) *The Search for Empowerment: Social Capital as Idea and Practice at the World Bank*," *Development in Practice*, Vol. 17, No. 1 (2007), p. 162.

Social capital studies tend to find that there are many issues (variables) that need to be taken into account in analysis. However, in the development of theoretical models for social capital, the Bank's economists found that inclusion of more than a few variables resulted in the models being:

...too complicated to be useful. It becomes a matter of focusing upon a few factors that are privileged by being chosen as the key to promoting development.¹¹³

Fine's analysis of the statistical methods that have been used to determine impact of social capital variables in the Bank, suggested they are (mathematically) inadequate.¹¹⁴ His critique was far reaching as it took issue with what he saw as the general problem of economic reductionism inherent in both neoliberal and new institutional economic approaches, issues which are beyond the scope of this project.¹¹⁵ The key point here is that social capital research did expand the opportunities for non-economists but their opportunities ended at "...borders of the economy and the state," whereas economists were able to utilise social capital "...to address issues from which they have previously been excluded..."¹¹⁶ By 2005-6, social capital was out of favour in the Bank and even those social scientists who introduced it, seem to find that its capacity to shift the Bank's analysis and position on social issues was perhaps always limited.¹¹⁷

In August 2004, the Bank renamed Structural Adjustment Lending: Development Policy Lending. It also revised the relevant Operational Policy / Bank Procedures statement (OP/BP 8.60).¹¹⁸ The policy review was presented as the culmination of

¹¹³ Fine, *Social Capital Versus Social Theory*, p. 141. Even the social scientist who promoted social capital in the Bank acknowledge its "severe limitations in practice," see Harriss, "Book Review: *The Search for Empowerment*," p. 163.

¹¹⁴ Fine, *Social Capital Versus Social Theory*, pp. 160-163.

¹¹⁵ Fine, "The Social Capital of the World Bank," p. 148. In Fine's own words: "[a]nalytically, it is not the glue and missing link that need to be critically addressed but the economics of the post-Washington consensus itself." Ibid, p. 173.

¹¹⁶ Ibid, p. 149.

¹¹⁷ Harriss, "Book Review: *The Search for Empowerment*," p. 163.

¹¹⁸ World Bank, "From Adjustment Lending to Development Policy Lending: Update of World Bank Policy" Operations Policy and Country Services, (2004), available from: <http://www.worldbank.org>, accessed: July 2004. Simplification is visible in the discontinuation of many of the names of adjustment lending and their subsumption under the development policy loan title. Loan names discontinued include: SALs, SECALs, Special Structural Adjustment Loans, Rehabilitation Loans, Subnational adjustment loans, Programmatic adjustment loans, Debt and Debt Service Reduction Loans and Supplemental Financing. Remaining adjustment loan types are: development policy lending, Poverty Reduction Support

lessons learned about adjustment lending from practice and reviews over the past decade. It was also meant to reflect changes in policy and practice in this period. The OP/BP does not fundamentally change the rationale for this kind of lending, it is still justified as quick or rapidly disbursing policy-based financing to meet “...actual or anticipated” financing gaps. The new rationale does explicitly include domestic factors in addition to external factors as possible causes of gaps. Three key themes are visible in the revised OP/BP, these are: increased flexibility and simplification; participation; and reducing costs to borrowers.

In September 2004, the Bank released its yearly Doing Business report: *Doing Business 2005: Removing Obstacles to Growth*.¹¹⁹ The report “...benchmarks regulatory performance and reforms in 145 nations” in other words, the environment for business as measured by indicators such as: business commencements, access to credit, and legislation regarding hiring and firing workers, enforcing contracts, registering property and protecting investors.¹²⁰ The report’s conclusions are not surprising — there are heavier regulatory burdens on business in developing countries than in developed ones;¹²¹ the benefits of reform “...appear to be large;” and “...regulation and weak property rights exclude [sic] the poor — especially women and younger people — from doing business.”¹²² They are certainly an interesting contrast to Ha-Joon Chang’s work from 2002 looking at the historical role of institutions in the now developed countries.¹²³ Chang’s analysis suggested that the institutions of today’s developing countries are, in

Credits (PRSCs) and adjustment loans with deferred drawdown option (DDOs), World Bank, "From Adjustment Lending to Development Policy Lending", p. 35.

¹¹⁹ World Bank, *Doing Business in 2005: Removing Obstacles to Growth* (Washington: Oxford University Press, 2005).

¹²⁰ World Bank, "Press Release: Doing Business 2005: Poor Nations Struggle to Reduce Red Tape for Business, Miss Large Growth Opportunities" (2004), available from: <http://www.worldbank.org>, accessed: September 2004.

¹²¹ Note that most the comparisons in the press release are on the basis of percentage of average income per capita required to meet the costs for, for example, establishing a business. While absolute comparisons would also be misleading, it is bizarre to suggest that basic legal, environmental and other arrangements required for establishing other than the simplest of businesses (whilst protecting the public good) can be achieved in a developing country for the equivalent of eight percent of average national income, where that income is often less than USD\$1,000 per annum.

¹²² World Bank, "Press Release: Doing Business 2005: Poor Nations Struggle to Reduce Red Tape for Business, Miss Large Growth Opportunities". The response from the international media is equally unsurprising — *The Economist* in an editorial called the report “splendid” and “something of a handbook for how to put things right.” Reported in the *World Bank Press Review*, 10 September 2004, available <http://www.worldbank.org>.

¹²³ Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective* (London: Anthem Press, 2002).

general, far ahead of the now developed countries when they were at similar levels of development. While this is mostly a good thing, he pointed out that good institutions take time to develop, must be affordable for the country and must be socio-politically acceptable.¹²⁴ Notably, he argued that international standard property rights and corporate governance are the two areas that are most problematic for developing countries as they require large investments (large numbers of lawyers and accountants) for limited returns and as a result reduce the availability of funding for education or essential infrastructure.¹²⁵

Doing Business 2005 shows how the Bank is increasingly centralising and unifying the production of economic and political intelligence on states that was traditionally produced by firms and banks engaged in international investment. Does this activity assist private investment which, according to the dedicated website, "...is central to promoting growth and expanding opportunities for poor people"?¹²⁶ Possibly, though there are certainly more convincing explanations for global investment patterns. And as Chang also pointed out, investors seem to like China and India in particular, which have not followed the Bank's prescription on institutions.¹²⁷ What it does do is reinforce the power of transnational corporations and global finance that has grown so dramatically since capital markets were liberalised in the 1980s.¹²⁸ Equally, it reinforces the Bank's own policy prescriptions for economic development.

2004 was probably the year in which the PWC reached its zenith. Moreover, the replacement of Wolfensohn with Paul Wolfowitz in 2005 heralded the start of another shift in the Bank's direction. 2004 is also the final year of the case studies in this thesis, so this is where the exploration of the PWC concludes. However, it is still necessary to summarise the key features of the PWC as these are precisely what the case studies explore.

¹²⁴ Ibid, pp. 116-117.

¹²⁵ Ibid, p. 135.

¹²⁶ World Bank and International Finance Corporation, "Doing Business: Benchmarking Business Regulation" (2004), available from: <http://www.doingbusiness.org/>, accessed: September 2004.

¹²⁷ Chang, *Kicking Away the Ladder*, p. 137.

¹²⁸ Gill and Law, "Global Hegemony and the Structural Power of Capital," pp. 98-99 and 105.

Key Features of the Post-Washington Consensus

The key features of the post-Washington consensus are:

- i. A fundamental continuation of the neoliberal approach to monetary and fiscal policy, however, the approach to financial liberalisation should be more cautious given concerns about market failure and applicability to local conditions. Interestingly, support for trade liberalisation remains largely intact in the Bank despite academic challenges regarding its theoretical and empirical outcomes.¹²⁹
- ii. Following from above and the (supposed) abandonment of one-size-fits-all approaches to development, there should be greater attention to the specific country situation. This should include better-developed socio-economic analysis of local conditions as well as consideration of global and regional impacts.
- iii. Recipient government's should own their development program and projects; in a strong version this would mean recipient government's initiate and control development assistance projects, a weak version is indicated by reference to proxies for commitment such as counterpart funding and expressions of support.
- iv. A reduction in the Washington Consensus hostility to the state, allowing an expansion of its role to compliment, rather than compete with markets. There remains significant variation in the view of the state's role — a weak form only promotes a state that provides a good policy environment for business, in other words an active, pro-capitalist state.¹³⁰ A further step would allow more space for state institutions to engage with market imperfections (information and transaction costs). A strong version, which indicates a genuine engagement with the state as actor, would require an analysis of actors and interests in the society and the distribution of power and resources between them as well as analysis of who wins and loses from policy proposals.¹³¹
- v. Increased concern with *market* failure to complement existing focus on government failure — this would be indicative of a stronger version of the post-Washington Consensus. Practical indications of implementation include analysis

¹²⁹ Broad, "The Washington Consensus Meets the Global Backlash," p. 136. As Broad notes, the "aggressive thrust" with which the Bank marketed the research of David Dollar and Aart Kray's work supposedly demonstrating the better economic performance of trade liberalisers, "suggests how important maintaining this tenet is to Washington Consensus proponents." Ibid.

¹³⁰ Ibid, pp. 140-141 and Paul Cammack, "Attacking the Poor," *New Left Review*, Vol. 13, (2002), p. 5.

¹³¹ Wodsak, "World Bank Reform — a Critical Investigation," p. 44.

of markets prior to promotion of privatisation. A related issue is increased attention to the sequencing of reform programs, in particular the development of adequate regulatory frameworks relevant to local conditions prior to liberalisation.

- vi. A greater concern for the social costs of adjustment and poverty in general.
- vii. A seeming genuine appreciation of local knowledge and practices tempered by a concern about coherence and coordination.¹³² This may be presented as expanded participation in the planning, design and implementation of activities. Participation needs to be considered both in terms of the type of participants involved (bilateral and multilateral organisation, levels of government, levels of civil society and the private sector) and the extent and nature of the participatory process. A related concern is analysis of social capital —this likely extends to economists analysing social factors but not social scientists in the Bank analysing the economy and state.
- viii. Increased attention to decentralisation as a policy prescription for supposedly increasing participation, ensuring local needs are met and improving governance.
- ix. A slightly broader approach to health and education.
- x. A revitalised concern with corruption.

The PWC continues the Washington Consensus concern with corruption but on the basis of quite different assumptions — the Washington Consensus focus on corruption derived from the New Political Economy's cynical and almost malevolent view of states in the Third World.¹³³ It sees politicians as driven by only self-interest, which is meant to explain both their failure to adopt the right (neoliberal) policies and problems of corruption.¹³⁴ Whereas NIE understands corruption as the result of government *and* market failures. This expands the possibilities for dealing with corruption beyond the Washington Consensus mantra of smaller government. Further, it makes corruption a less dangerous area for the Bank as it transforms it from a political to an economic issue. Equally the focus on property rights and institutions (which comprise legal systems, conventions and norms and their enforcement) is rejuvenated as these are

¹³² Ibid, p. 91.

¹³³ Toye, *Dilemmas of Development*, p. 135.

¹³⁴ Ibid.

essential to minimising transaction and information costs and thus to economic growth, they are a prerequisite to 'getting the prices right'.¹³⁵ Moreover, its analysis of the incorporation of conventions and norms in institutions suggests that simply transferring Western systems to the developing world is unlikely, on its own, to improve performance.

One final area that needs to be explored in a study of the Bank's lending practices is its project model and procurement practices. As noted in Chapter Two, the Bank is at the centre of project identification, development and appraisal. The commitment to country ownership of development programs suggests that a shift in this approach is necessary. Regarding the management of projects once approved, it has always been the case that all activities funded by the Bank must be tendered out. That is, the Bank will not directly fund governments to run any project components, even for example a road safety campaign component of a road rehabilitation project. Government agencies have been able to tender for projects against the private sector, though the Bank has clamped down on this too in the last five years. It is fair to say that the Bank's project model was, from the outset, hostile to government and directed at expanding the space for private markets. Procurement must be undertaken to Bank standards through one of three methods: International Competitive Bidding (ICB), National Competitive Bidding (NCB) and local shopping. ICB has been the dominant form of Bank procurement. ICB does allow a margin of preference (generally 15 per cent) for local suppliers. Nevertheless, historically North American or European firms have won the majority of contracts, though over the last couple of decades the trend has been to work with national partners or through local offices of an international firm.¹³⁶ ICB needs to be seen as a way of ensuring national economies are internationally integrated. It has been another hegemonic principle in the Bank. Thus the case studies also examine whether there has been any challenge to Bank project development and procurement methods.

Overall, there is limited evidence that the Bank has moved beyond its traditional concern with economic growth within a market capitalist framework. Indeed, it is clear that the concern with social issues ultimately rests on their impact on "economic

¹³⁵ North, "The New Institutional Economics and Third World Development," pp. 23-25.

¹³⁶ Caufield, *Masters of Illusion*, pp. 242-243.

development or the functioning of markets.”¹³⁷ However, it is equally clear that there has been a level of change, influenced in part by NIE and in part by NGO critiques. However, in the same way that most engaged with the NIE do not want to replace neoliberalism, but rather to supplement it, the PWC is best understood as an expansion and revision of the Washington Consensus. Thus the term *post*-Washington Consensus is appropriate, highlighting its intellectual, political and practical origins in what Paul Cammack has described as the Bank’s:

...constant commitment to the *systematic transformation of social relations and institutions in the developing world, in order to generalize and facilitate capitalist accumulation on a global scale, and build specifically capitalist hegemony through the promotion of participation and ownership.*¹³⁸

¹³⁷ Wodsak, "World Bank Reform — a Critical Investigation," p. 98.

¹³⁸ Cammack, "What the World Bank Means by Poverty Reduction," p. 3, emphasis in original.

Part II:

The World Bank in Vietnam and Indonesia

Introduction: Case Study Selection

Part II of this thesis comprises two case studies of how the PWC has translated into Bank lending. This section introduces the case studies and outlines the methodology used in the selection of case study countries. The case studies examine the Bank's overall relationship with the borrower but pay particular attention to Bank lending. This is a timely exercise because surprisingly, in the last decade or so — apart from the odd controversial dam project or the like — Bank lending has received limited critical focus. Further, investment lending receives even less than adjustment lending. Attention has in the main been focused on the Bank's development discourse. This focus is undoubtedly warranted and had been facilitated by the Bank's increasing disclosure of documents from 1993. The new disclosure policy, though, also applies to loans thus making analysis of the Bank's lending significantly easier. However, there is now sometimes so much information available that it is difficult to analyse it.

Bank lending is more than just a way of maintaining the relationship with a country in order to influence its policy directions, as has on occasion been suggested.¹ Rather, as is shown in the case studies, the Bank's lending program involves the pursuit of an often long-term agenda. Moreover, the form and nature of Bank lending — project lending, design and implementation according to Bank standards and procedures and international tendering — binds borrowing countries to market procedures and enmeshes them with international capitalism.

In terms of the timeframes studied, the Washington Consensus dominated the Bank from the early 1980s to the mid to late 1990s. Ideally, a case study of Bank lending in this period would have covered a period in the late 1980s to early 1990s. However, in

¹ See for example, Kapur, Lewis and Webb, *World Bank*, p. 270.

1993 the Bank relaxed its official disclosure rules for projects approved after that date.² The new rules provide for disclosure of: Country Assistance Strategies, Staff Appraisal Reports (later renamed Project Appraisal Documents) and (some) Implementation Completion Reports. These reports form the basis of the analysis undertaken below. Given this change, the first case study period starts in 1993. It was considered that five year's analysis of new project approvals would provide a fairly comprehensive overview of Bank lending and trends, so the first case study period runs from 1993 to 1997. For the post-Washington Consensus period, the latest period possible was chosen to allow its influence to have filtered through the Bank's pipeline of projects — the period studied is 2000 to 2004.

In order to select the case study countries, a range of data was collected on eight developing countries across four regions with active Bank portfolios. In South-east Asia, Indonesia and Vietnam were explored, in South Asia, Pakistan and Bangladesh, in South America, Peru and Brazil and in Africa, Nigeria and Uganda. Given the focus of the project on changing lending practices, two factors were considered crucial for case study countries, first a fair sized portfolio with the Bank (approximately \$1 billion in gross disbursements over a five year period) so that there are a range of loans to compare in the different periods. Second, borrowers should have at least a 'medium-sized' economy so that development policy and lending has not normally been seriously impacted by a single event such as a large fall in the price of a key export or a natural disaster. In addition, it was considered important that the countries have a strong relationship with the Bank and that it's lending is likely to be of significant economic consequence. Thus, although it is beyond the scope of the current research project to determine the impact of Bank lending (indeed this is a virtually impossible task), the project may in addition be of some use in indicating where Bank programs have been most influential in case study countries and some of the possible implications of this.

Data collected on each potential case study country included:

- Eligibility for IBRD and/or IDA;
- Total number of Bank projects and the cumulative lending;
- Bank Approvals in 2003;

² The Bank adopted the more conservative of two proposals developed by a committee convened to study disclosure policy, Caufield, *Masters of Illusion*, p. 266.

- Type of loans (investment, adjustment and other non-project);
- Gross and net disbursements over the period 1997-2002;
- Net Official Development Assistance (ODA) received 1997-2002;³
- Net Bank disbursements as a percentage of net ODA 1997-2002;
- ODA as a percentage of Gross National Income (GNI) *or* Gross National Product (GDP), 2001;
- FDI flows 1997-2002; and
- ODA as a percentage of FDI, 1997-2002.

Data was obtained from official World Bank publications and its website, the UNDP Human Development Index and the OECD Development Assistance Committee website.⁴

The South American countries were quickly excluded as in both cases, whilst Bank funds are significant in relation to net flows of ODA, ODA as a per cent of GNI overall is minute (for Peru 0.85 per cent and Brazil 0.07 per cent). In addition, both countries only have access to IBRD funding and both, as of July 2004, had only environment and investment loans with the Bank, that is, they had no adjustment loans. In Nigeria, ODA as a percentage of GNI was also small (0.47 per cent) and, in addition, Bank gross disbursements were quite low and net disbursements were negative for 1997-2002. Uganda had the highest ODA as a percentage of GNI of the countries studied by far (14.28 per cent); the Bank was a significant contributor of funds overall and there was a good mix of loans. However, Uganda had the smallest population examined and the high levels of poverty mean the economy is quite small, add to this the high dependence

³ The OECD Development Assistance Committee defines ODA as:

Grants or Loans to... (developing countries) which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms [if a loan, having a Grant Element of at least 25 per cent]. In addition to financial flows, Technical Co-operation is included in aid. Grants, Loans and credits for military purposes are excluded.

Developing countries (Part I) are defined by the DAC every three years, countries in transition (Part II) are classified as receiving Official Aid (OA) not ODA. Credits from the IDA are generally concessional enough to be regarded as ODA. Other funds from donor countries or multilateral agencies that do not meet this definition are classified as: Other Official Flows (OOF). IBRD loans and IMF loans are generally included in this category as their grant element is less than 25 per cent. Funds for commercial purposes or designed to facilitate exports are also regarded as OOF. Source OECD DAC: www.oecd.org/dac/ accessed November 2005.

⁴ UNDP Human Development Index: www.undp.org, OECD DAC: www.oecd.org/dac/ both accessed February 2004.

on primary commodities and the ongoing unrest in the northern border regions and it was not attractive for a study of changing Bank lending.

For both Pakistan and Bangladesh, ODA is a small but significant contributor to GNI — 3.37 and 2.12 per cent respectively. The level of ODA to Pakistan increased notably from 2001— a direct result of its role in the so-called ‘war on terror.’ The instability in Pakistan and ongoing travel warnings essentially ruled it out as a case study country. World Bank gross disbursements to Bangladesh were over \$2 billion for 1997-2002, a significant amount both in relation to total ODA flows and total FDI flows. However, as of July 2004, the active Bank portfolio contained only one adjustment loan. It was a possible case study.

Official Development Assistance as a percentage of GNI in Vietnam was 4.42 per cent, a comparatively significant level. Between 1997 and 2002 gross Bank disbursements were over \$1.3 billion, a significant amount in relation to both ODA and FDI flows. The Bank portfolio is made up predominately of investment loans, however, structural adjustment lending increased from almost nine per cent of lending in 1993-1997 to over 16 per cent in 2000-2004. Although this is well below the Bank’s current average of 33 per cent of loans in structural adjustment, it is a significant level for a country defining itself as socialist.

In Indonesia, ODA as a percentage of GNP in 2001 was approximately 2.5 per cent, which is a historically average level. Although a spike in 1998-1999, due the Asian Financial Crisis, took the percentage to over four.⁵ Even 2.5 per cent is a significant level for such a large economy. Gross Bank disbursements to Indonesia 1997-2002 were over \$5.8 billion, although interestingly net disbursements were quite low, indicating a high repayment burden. This meant that net Bank loans as a percentage of net ODA were a low 3.7 per cent. However, the significance of the Bank to Indonesia is clear when the gross Bank disbursements (1997-2002) of over \$5.8 billion are compared to FDI flows during the same period, which were *minus* \$13.3 billion. As of July 2004, Indonesia had only one active adjustment loan out of a total of forty loans.

⁵ Anis Chowdhury and Iman Sugema, "How Significant and Effective Has Foreign Aid to Indonesia Been?," *ASEAN Economic Bulletin*, Vol. 22, No. 2 (2005), p. 189.

Prior to the Asian Financial Crisis, Indonesia had only ever accessed one adjustment loan, since then it had four bring the total to five out of its total of 317 loans.

There are a range of other reasons why Vietnam and Indonesia stand out as attractive options for the case studies, including the fact that there has been relatively little study of Bank activity in these countries. But there is also their accessibility, the interesting contrast between their forms of government and relationships with the Bank. Bank lending to Vietnam resumed in 1993, during the period when the Bank was shifting away from the Washington Consensus. It seems reasonable to assume that the assigned staff would have fewer preconceptions about the 'right' policy actions. It may mean that new directions in the Bank's approach to development could be more apparent here.

Indonesia and Vietnam share a region and are now at similar levels of development — Indonesia's 2006 Human Development Index ranking was 108 and Vietnam's was 109.⁶ Indonesia's Gross National Income per capita is still significantly higher than Vietnam's (2005: \$1280 versus \$620) but Vietnam's life expectancy is higher (2004: 70.3 years versus 67.4 years).⁷ Both countries have an adult literacy rate of just over 90 per cent and similar levels of reported income inequality (2002 GINI Index Indonesia 34.3, Vietnam 37.0).⁸ Of course, Indonesia has a much larger population than Vietnam, they are geographically very different and their development and coherence as 'nation-states' is quite distinct.⁹ They also have interesting and contrasting forms of government, levels of political stability and approaches to the role of the state in development. These contrasts should be useful for the study in terms of analysing the Bank's changed approach to the role of the state in the economy and specificity to local conditions in two diverse settings.

The contrast continues with the impact of the Asian Financial Crisis — Indonesia was hit early and hard by the Crisis and is only just returning to earlier levels of GDP growth. Whereas the relatively insulated Vietnamese economy was only indirectly

⁶ United Nations Development Report 2006, "Statistics", available from: <http://hdr.undp.org/hdr2006/statistics/>, accessed: April 2007.

⁷ World Bank Group Website, "Data and Research, Country Data."

⁸ United Nations Development Report 2006, "Statistics."

⁹ In both countries too the military has played, and continues to play, an important role in both politics and the economy although in both cases this role has declined over the past five to ten years.

impacted and growth rates quickly returned to the equal the previous high levels. Indonesia was an early favourite of the World Bank and their relationship through to the time of the Asian Financial Crisis, was if not always perfect, certainly strong. However, since then Indonesia has fallen out of favour with the Bank and the level of lending has decreased. Vietnam in contrast, after decades in the wilderness, has become a Bank favourite — one of it's proclaimed 'success stories.' Since the Asian Financial Crisis though, there have been hints of strains in the relationship.

There is one identifiable weakness in the suggested case studies, which is that both countries have a low proportion of adjustment loans, compared to the Bank's overall portfolio. In 2003, adjustment loans accounted for 33 per cent of new lending commitments and for the period 1997-2003 they averaged 38.2 per cent. However, adjustment loans appear to be disproportionately concentrated in a few countries. A brief survey of loans in 30 countries confirmed this with twenty countries (including India, China and Thailand) having none or only one adjustment loan, whilst a few countries had a very high proportion of adjustment loans. For example, over 48 per cent of Turkey's loan portfolio by value was adjustment lending.¹⁰ Nevertheless, overall the majority of Bank loans are project loans and relatively less analysis has been done on this area, in comparison to structural adjustment, which has been the subject of much study.

Structure of the Case Studies

Each case study comprises two chapters. The first chapter focuses on the general background starting with some information on the political, economic and social structures and policies of the country. The country's dealings with donors are outlined as are their relationship with the World Bank. The initial chapter also details the link between the policy framework of the country and the Bank's program through an analysis of the Bank's key country planning documents: the Country Assistance Strategies and Poverty Reduction Strategy Paper.

¹⁰ Survey of active portfolios in July 2004, undertaking using the World Bank's projects database, available online at World Bank Group Website.

The second chapter provides a detailed analysis of Bank lending structured by type of lending: adjustment or investment. Adjustment loans were studied together but analysis of investment lending was separated into sectors, utilising the Bank's own sectoral classifications of activities. Thus loans in say the transportation sector in the first case study period are compared with loans in the transportation sector in the second case study period. This generally worked well because, despite the broad nature of the sectoral classification, Bank projects in both case study periods tend to be similar. For example, in Vietnam energy and mining sector projects are made up only of activities in electricity generation, distribution and retailing. It did create some problems in sectors where Bank lending was small. For example, in Indonesia there is only one loan in each case study period in the information and communications sector and they are in quite different areas. This made any comparison impossible but such problems areas made up only a very small proportion of lending so their exclusion or incorporation into other sectors is unlikely to have any detrimental impacts on the overall outcomes of the loan analysis.

Chapter Five

Vietnam: An Overview

This chapter commences with an overview of the structure of the Vietnamese government and an outline of key socio-economic developments. It covers the period since reunification, though the focus is the post-1986 period, as this is when the process of socio-economic reform or renovation, called *Doi Moi*, was initiated. Next, donor activity in Vietnam is highlighted, followed by an outline of the Bank's relationship with Vietnam and a detailed analysis of the changes in the Bank's country strategy for Vietnam over the two case study periods of 1993 to 2004. This analysis provides the structure for the analysis of Bank lending in Chapter Six.

It is necessary to introduce a proviso here: the primary and secondary literature on Vietnam is much more limited than for Indonesia. Further, official Government of Vietnam (GoV) documents do not always accurately reflect policy. The GoV has been careful not to publicly challenge the views of international donors but that does not necessarily mean they share their views. Thus, as Pietro Masina argued, it is safer to analyse Vietnamese policy through what is implemented than what is sometimes said.¹

The Political and Administrative Structure in Vietnam

The political structure of Vietnam is not easy to describe because the Communist Party of Vietnam, while not having a clearly defined role in the Constitution and elsewhere, parallels the formal structure of the state and the administration at every level.² The Constitution indicates the importance of the Party rather than its role — it defines Vietnam as a socialist republic “...of the people, from the people, for the people” and notes that the Party represents the “...rights and interests of the working class, the

¹ Masina, *Vietnam's Development Strategies*, pp. 3, 17.

² Much of the information here derives from Adam McCarty, "Governance Institutions and Incentive Structures in Vietnam," Conference on *Building Institutional Capacity in Asia* (Jakarta, 12 March 2001) and Brian Van Arkadie and Raymond Mallon, *Viet Nam: A Transition Tiger?* (Canberra: Asia Pacific Press at The Australian National University, 2003).

toiling people... [It] is the force leading the state and society.”³ Membership of the Party, state administration and business interests overlap; generally the Party decides key administration appointments. However, a 1995 government reorganisation by the ‘pro-reform’ Prime Minister Vo Van Kiet and his faction (and supported by the IMF and World Bank) started a process of insulating government administration from the Party.⁴ The Party seems to have largely acquiesced to this reduced role and, since the late 1990s, it has limited its role to “...orientation and policy-making, rather than direct participation in management activities.”⁵ This enabled the administration to develop property rights and an increase the importance of the rule of law.

The Constitution provides for a unitary system of government operating at four levels: national, provincial, district and commune. At the national level, the Constitution provides for a National Assembly with 450 deputies elected for five-year terms. The National Assembly elects the President and Prime Minister, each for five-year terms; the President is the ceremonial Head of State and Commander-in-Chief of the armed forces. The Prime Minister selects the ministers or heads of the state’s 22 ministries and 26 other agencies and heads the Council of Ministers.

The Prime Minister also selects the leaders of the Provincial People’s Committees, which administer the 59 provinces and five municipalities. There is a separate provincial legislative arm, Provincial People’s Councils, but membership of the two bodies often overlaps.⁶ A similar structure operates at the district and commune level. There is also organisation at the village or ward level. Despite the unitary structure and strong national control, provincial administrations have increasing autonomy with respect to budgeting and operations. The degree to which this has been utilised varies among provinces and depends in part, not surprisingly, on the standing of local leaders.⁷

³ *The Constitution of Vietnam 1992*, cited in Van Arkadie and Mallon, *Viet Nam: A Transition Tiger?*, pp. 58-59.

⁴ Gabriel Kolko, *Vietnam: Anatomy of a Peace* (London: Routledge, 1997), pp. 132-135.

⁵ Cited in Irene Nørlund, Tran Ngoc Ca and Nguyen Dinh Tuyen, "Dealing with the Donors: The Politics of Vietnam's Comprehensive Poverty Reduction and Growth Strategy" (Policy Papers 4/2003, Helsinki: Institute of Development Studies, University of Helsinki, 2003), p. 53.

⁶ For an account of how provincial government operates see the interesting study of Ho Chi Minh City by Martin Gainsborough, *Changing Political Economy of Vietnam: The Case of Ho Chi Minh City* (London: Routledge, 2003).

⁷ Van Arkadie and Mallon, *Viet Nam: A Transition Tiger?*, p. 61.

Despite being a one-party and unitary state, Vietnam was never as centrally planned or controlled as other socialist countries. Stein Tønnesson explained this as the result of necessary compromise between the many layers of the Vietnamese state: social, political-doctrinal, economic and geographic. For example, an important Viet Minh legacy is that key social forces remain committed to social justice, which to an “...extent reduces the capacity of those Vietnamese decision-makers who want to combine social stability with market-oriented reforms.”⁸ Such doctrinal commitments can cut across regional differences (between the north, centre and south) and combine in various ways with the diverse but linked class grouping (for example, linking various groups focused on security concerns or commercial matters) and with Confucian and Vietnamese cultural traditions. As Adam McCarty concludes, it is appropriate to describe Vietnam as “...a rather unique form of consensus governance” or a “managed democracy” that allows mass representation under Party control.⁹

The Grassroots Democracy Decree legislated in 1998 is a good example of the consensus process. The decree was partly a reaction to peasant uprisings especially the widespread disturbances in 128 villages in Thai Binh Province in 1997-8. The disturbances appear to have been caused by a combination of the reaction to economic reform in rural areas, local corruption and governmental unresponsiveness to these issues. The Decree gave people at the commune level specific rights to participate in decision-making, petition authorities and oversee local budgets; it was overlain with a commitment to promote democracy at the commune level.¹⁰

The consensus system, a cautious leadership and the continuing perception that the Party and State are concerned about the welfare of the general population, means the Party and State have retained a fair degree of legitimacy in Vietnam.¹¹ The process of reform or renovation, called *Doi Moi*, initiated in 1986 coupled with a willingness to admit to previous mistakes undoubtedly assisted with the retention of legitimacy.

⁸ Stein Tønnesson, "The Layered State of Vietnam," in Kjeld Erik Brødsgaard and Susan Young (eds.), *State Capacity in East Asia* (Oxford: Oxford University Press, 2000), p. 243.

⁹ McCarty, "Governance Institutions and Incentive Structures in Vietnam," p. 5.

¹⁰ Nørlund, Ca and Tuyen, "Dealing with the Donors", p. 44.

¹¹ McCarty, "Governance Institutions and Incentive Structures in Vietnam," p. 6. See also Gainsborough, *Changing Political Economy of Vietnam*, pp. 14-15 and Masina, *Vietnam's Development Strategies*, p. 47. Kolko, in contrast, argued throughout his 1997 book that the Party's acquiescence to (neoliberal) reform has undermined its legitimacy and cause an internal crisis, Kolko, *Vietnam: Anatomy of a Peace*.

Gabriel Kolko suggested that *Doi Moi* was strongly influenced by the IMF — or rather that IMF staff had strong influence on a few key Vietnamese policy-makers who were the key architects of the reform.¹² However, McCarty and others disagree and have pointed to Vietnam's strong political structure and culture that give it a notable capacity to resist donor pressure for political reform. McCarty explained that:

...the traditional role played by programme aid in supporting reform has been of limited relevance in Vietnam... examination of the political economy of Vietnamese reform further supports the idea that policy dialogue has been of limited relevance... The policy making process in Vietnam is diffuse and does not follow the formal structures that a political scientist may map out. The system is one of consultation and consensus, with many different bodies being involved in a single decision...¹³

The capacity of Vietnam's historic bloc to resist the Bank's hegemony is a reoccurring theme of this case study.

Socio-economic Changes and Policy in Vietnam since 1986

There is an interesting academic debate about the nature of *Doi Moi* and the Vietnamese socio-economic system more generally. It revolves around two central issues: first, the relative strength or weakness of the Vietnamese state (political society) and its contribution to the country's notable economic growth over the past two decades. The second issue is the level and pace of reform required to ensure continuing economic growth. Similar to the literature on East Asian development, a rough dividing line can be made between 'free market' (or neo-liberal) and more critical ('statist') perspectives. The former group point to the weakness of the Vietnamese state and concurrently the

¹² As Kolko noted, the IMF remained engaged with Vietnam after the war and made loans from its Trust Fund (later the Structural Adjustment Facility) in 1976 and 1978. The conditions on these loans (which Vietnam needed for debt repayments) were, Kolko argued, a significant influence on *Doi Moi* as was the IMF's refusal to provide further loans in 1985. He concluded that *Doi Moi* indicates a full acceptance of IMF structural adjustment, Kolko, *Vietnam: Anatomy of a Peace*, pp. 32-33.

¹³ J. Donge, H. White and Le Xuan Nghia, *Fostering High Growth in A Low Income Country: Program Aid to Vietnam* (Stockholm: SIDA, 1999), cited in McCarty, "Governance Institutions and Incentive Structures in Vietnam," pp. 21-22. See also Nørlund, Ca and Tuyen, "Dealing with the Donors", p. 9 and Martin Painter, "The Politics of Economic Restructuring in Vietnam: The Case of State-Owned Enterprise 'Reform'," *Contemporary Southeast Asia*, Vol. 25, No. 1 (2003), pp. 35-38.

need to speed up market-based reforms.¹⁴ Whereas the critical scholars find that the Government of Vietnam (GoV) has provided relative stability, continuity of political institutions and decisive economic decision-making and has thus been a key determinant of Vietnam's poverty reduction and economic growth performance.¹⁵ Equally, they have highlighted the bearing of regional and international geopolitical and economic developments on Vietnam's policy choices. While I do not engage directly with these debates, I take more from the critical position than the neoliberal one.

Following formal reunification in 1976, economic growth was low and unable to keep pace with population growth. The demands of rehabilitation and reconstruction competed with security needs as Vietnam was forced to engage militarily with both Cambodia and China, and thus led to a doubling of the size of the army. The difficulties were exacerbated by the US-backed UN economic embargo after Vietnam's intervention in Cambodia. Domestically, the attempt at collectivisation in the south generally failed, while in the north, collectivised agriculture performed poorly. The performance of manufacturing enterprises was highly variable. Already in 1979, a sporadic process of relaxing constraints on economic activity and decentralising of decision-making commenced. After initial improvements, poor structures combined with high levels of military expenditure resulted in further economic deterioration. In 1986, inflation was 500-700 per cent per annum and the budget and trade deficits had escalated — a situation made worse by the cessation of Communist Bloc and Chinese aid in the following years.¹⁶ On an expenditure basis, over 70 per cent of the population

¹⁴ This position is particularly clear in the work of Adam Fforde and Stefan de Vylder. See for example, Stefan de Vylder, "State and Market in Vietnam: Some Issues for an Economy in Transition," in Irene Nørlund, Carolyn L. Gates and Vu Cao Dam (eds.), *Vietnam in a Changing World* (Surrey: Curzon Press Ltd, Nordic Institute of Asian Studies, 1995) and Adam Fforde, "Vietnam in 2003: The Road to Ungovernability?," *Asian Survey*, Vol. 44, No. 1 (2004). A somewhat more moderate version can be found in William Turley, "Viet Nam: Ordeals of Transition," in Karl D. Jackson (ed.), *Asian Contagion: The Causes and Consequences of a Financial Crisis* (Boulder, Colorado: Westview Press, 1999).

¹⁵ See for example, Benedict J. Tria Kerkvliet, "Land Regimes and State Strengths and Weaknesses in the Philippines and Vietnam," in Peter Dauvergne (ed.), *Weak and Strong States in Asia-Pacific Societies* (St Leonards: Allen & Unwin, 1998), Masina, *Vietnam's Development Strategies*, Van Arkadie and Mallon, *Viet Nam: A Transition Tiger?* and Keun Lee, Justin Y. Lin and Ha-Joon Chang, "Late Marketisation Versus Late Industrialisation in East Asia," *Asian-Pacific Economic Literature*, Vol. 19, No. 1 (2005). 'Developmental' state literature can tend to ahistoricism and a privileging of the nation-state as argued by Berger, *The Battle for Asia*, Chapter Seven. Not all of the authors here accept or promote academic 'developmental state' models but they do all allow space for the state and for the impact of external factors on Vietnam's development.

¹⁶ Van Arkadie and Mallon, *Viet Nam: A Transition Tiger?*, pp. 51 and 67. They noted the importance of pre-1986 reforms in setting the context for the later high growth. Of particular importance was the high

was living in poverty and some areas were on the verge of famine.¹⁷ Most commentators considered that the resultant social unrest, (articulated so forthrightly by key Party members at the Sixth Party Congress in 1986), was a key impetus to *Doi Moi*. In addition, *Doi Moi* can be seen as a delayed recognition of informal activities already occurring in trade and exchange, which, in effect, drove formal policy changes.

Dzung The Nguyen described *Doi Moi* as comprising three main periods.¹⁸ The first period, "Path Seeking" (1986-1988), was driven by informal activity. A series of micro-economic reforms were undertaken to reduce the limits on private sector activity and domestic trade. This was followed by increases in official prices for non-essential consumer goods to bring them closer to market prices. Price reform was undertaken fairly systematically through to 1992 by which time prices for all but a few commodities were at market levels. The price reform effectively lifted a significant burden from the state budget. In 1987, a law allowing private land-use rights was passed and in 1988 land was re-allocated in an equitable manner to households; this combined with additional freedoms for farmers (connected to the dismantling of cooperatives) and new forms of support (e.g. agricultural extension services) was central to significant improvements in farm productivity from the late 1980s.¹⁹ These improvements were at the core of the dramatic reductions in poverty.²⁰

Macroeconomic reform started in 1987 with the first currency devaluation, although a major devaluation of the Dong did not take place until 1989. This devaluation brought the Dong close to its market rate and resulted in positive interest rates.²¹ The year 1989 was also the start of the second phase of reform, which Nguyen argues was the key

level of investment in human capital and the development of strong rural structures and institutions, *ibid*, pp. 51-53.

¹⁷ Dzung The Nguyen, "Social Welfare Aspects of Development in a Transition Economy: Application to Vietnam," (Doctor of Philosophy: University of Wollongong, Wollongong, 2001), pp. 198. By 1993, poverty had dropped to around 60 per cent, Joint Donor Report to the Vietnam Consultative Group Meeting, "Vietnam Development Report 2004: Poverty" (Hanoi: 2003), available from: <http://www.vdic.org.vn>, accessed: June 2004, p. 9.

¹⁸ Nguyen, "Social Welfare Aspects of Development in a Transition Economy," pp. 166-170. Vu Tuan Anh dates path seeking from 1980, see Vu Tuan Anh, "Economic Policy Reforms: An Introductory Overview," in Irene Norlund, Carolyn L. Gates and Vu Cao Dam (eds.), *Vietnam in a Changing World* (Surrey: Curzon Press Ltd, Nordic Institute of Asian Studies, 1995).

¹⁹ Van Arkadie and Mallon, *Viet Nam: A Transition Tiger?*, p. 70.

²⁰ Masina, *Vietnam's Development Strategies*, p. 61.

²¹ Van Arkadie and Mallon, *Viet Nam: A Transition Tiger?*, p. 83.

transition phase. From 1989 to 1993, reforms systematically moved Vietnam towards a market-type economy and macroeconomic stabilisation took place.²² This period saw:

- a formal end to the two-tier price system;
- increasing formal acknowledgement of the role of the non-state sector in industrial production, in particular via enactment of laws on companies, private enterprises and foreign investment;
- a gradual reduction in foreign exchange and trade restrictions;
- legalisation of foreign direct investment;
- legalisation of gold trading;
- development of a two-tier banking system; and
- legislation on land-rights trading.

Reform of state-owned enterprises (SOEs) got underway during this period too, initially via mergers and closures. Between 1988 and 1992, the number of such enterprises fell from 12,000 to 6,000 and the SOE labour force was reduced by one third. In 1992, the process of 'equitisation' was initiated. The GoV describes equitisation as transforming the ownership of the mode of production. It can take place through one of four methods: maintaining the existing state capital value and issuing shares to attract capital; selling part of the existing state capital value of the enterprise; selling part of the enterprise; and selling the entire state capital value of an enterprise and turning it into a joint stock company.²³ A 2004 study of the forms of equitisation suggested that it generally amounts to little more than privatisation.²⁴

Commentators on both the 'left' and 'right' have characterised the program of reform as equivalent to a typical IMF stabilisation package. However, there are at least five reasons to be cautious with this interpretation and to examine the impact of indigenous influences on *Doi Moi* in some detail. First, as Stefan de Vylder pointed out, in Vietnam microeconomic reforms preceded macroeconomic reform — the reverse of the standard IMF approach.²⁵ Second, despite reductions in the SOE sector and tight monetary and fiscal policy, government expenditure actually increased during the reform period, in

²² Nguyen, "Social Welfare Aspects of Development in a Transition Economy," p. 167.

²³ Mark Evans, "Embedding Market Reform through Statecraft - the Case of Equitization in Vietnam," *Workshop on Equitisation in Vietnam* (Institute of Social Science, Ho Chi Minh City: 2004), p. 6.

²⁴ Ibid, p. 1.

²⁵ de Vylder, "State and Market in Vietnam," pp. 37-38.

stark contrast to standard IMF prescriptions of reducing government expenditures.²⁶ Third, the Vietnamese opted for a gradual process of reform, with much 'learning by doing' — it cannot be characterised, regardless of IMF preferences or the picture of some analysts as a 'big bang' approach.²⁷ The fourth reason is an outcome of the first three — Vietnam was not able to meet IMF or World Bank requirements to receive adjustment loans between 1995 and 2001. Finally, the process was more than mere 'adjustment' of the economy, it "...revolutionised the entire set of development concepts and strategies."²⁸ And this 'revolution' has been as much influenced by socialism and the model of the East Asian 'developmental states' as it has been by neoliberalism.²⁹ It is a process in which Vietnam is still engaged.

The positive economic developments — economic growth jumped to 5.1 per cent in 1988 and inflation stabilised — cannot be explained only by the *Doi Moi* reforms. A key factor was the end of the war in Cambodia.³⁰ In 1991, inflation spiked briefly prompting further macroeconomic stabilisation, consolidation of the SOE sector and reform of banking. By 1993, growth reached close to 10 per cent and remained at high levels until mid-decade. Much of the early growth was attributable to the farm sector, which employed around 70 per cent of the working population. Given the egalitarian land distribution, growth had a strong impact on poverty; by 1998 the poverty rate had fallen to around 37 per cent of the population.³¹

Prior to 1986, Vietnam was performing better than countries with similar levels of per capita income assessed by development indicators such as levels of literacy (1980: males 91 per cent, females 78 per cent), primary schooling (gross enrolments in 1980: 108 per cent of age group) and maternal mortality (200 per 100,000 live births).³² Thus the existing social welfare structure underpinned the ongoing reductions in poverty. Serious problems remained: malnutrition affected 52 per cent of under-five year olds in

²⁶ According to Nguyen, government per capita expenditure was nearly twice as high in 1994 than in 1989, Nguyen, "Social Welfare Aspects of Development in a Transition Economy," p. 174.

²⁷ This characterisation is from Turley, "Viet Nam: Ordeals of Transition," p. 278.

²⁸ Nørlund, Ca and Tuyen, "Dealing with the Donors," p. 78.

²⁹ Masina, *Vietnam's Development Strategies*, p. 28.

³⁰ Kolko is one of the few analysts who give adequate weight to the economic impact of the American war and the engagement with Cambodia in understanding the crisis in 1986, Kolko, *Vietnam: Anatomy of a Peace*, p. 34.

³¹ Joint Donor Report to the Vietnam Consultative Group Meeting, "VDR 2004 Poverty," p. 9.

³² Nguyen, "Social Welfare Aspects of Development in a Transition Economy," p. 200.

1980-1985; in 1997-2000 it still affected 37 per cent of under-fives, which is high by regional standards.³³

While Vietnam progressed on most human development indicators between 1986 and 1992, the overall social welfare system — covering health, education and social support — was largely neglected. Education and health were least neglect but in education, lower and upper secondary enrolments actually declined until 1995. In health, the number of beds, medical assistants and nurses declined, accompanied by reduced access to the formal health care system.³⁴ The introduction of user-fees meant that by the year 2000, households directly covered approximately 43 per cent of the costs of education and 35 per cent of public hospital costs. A public hospital visit cost a household from the poorest population quintile on average around 45 per cent of their annual non-food expenditure.³⁵ But from the mid-1990s state allocations to health and education increased and these combined with the income from user fees to produce noteworthy quality improvements.³⁶

Other forms of social welfare such as transfers and poverty reduction programs were severely neglected. Under the old system, the provision of housing, food, utilities, health, education, etc was organised around cooperatives, SOEs and the arms of the state. But cooperatives largely disappeared and SOEs had most social obligations removed in the transition to market operations. Only after 1992 were steps taken to adjust social services to the new economy, these are discussed below.

Dzung The Nguyen argued that the third period of *Doi Moi*, 1994 to 2001, focused on consolidating reforms. Tight fiscal and monetary policy was maintained and incremental reforms continued including decentralisation of budget management and a general focus on public sector management from 1995.³⁷ Irene Nørland, Tran Ngoc Ca and Nguyen Dinh Tuyen see the incremental process as the government's attempt "to

³³ World Bank, "Country Assistance Strategy of the World Bank Group for the Socialist Republic of Vietnam" (Report No. 24621-VN, September 16 2002), Annex 5, Vietnam Social Indicators.

³⁴ Nguyen, "Social Welfare Aspects of Development in a Transition Economy," p. 200.

³⁵ Ibid, pp. 251-254.

³⁶ Masina, *Vietnam's Development Strategies*, pp. 140-1.

³⁷ Nguyen, "Social Welfare Aspects of Development in a Transition Economy," p. 168. For a summary of key developments from 1998 to 2002 see Annex A6 of World Bank, "Vietnam CAS 2003-2006."

set up rational and harmonious development structures before creating a common playing field for all economic components.”³⁸

Since 1994, further steps have been taken to integrate Vietnam into the world economy, including tariff reductions, removal of various quantitative restrictions and quotas and further liberalisation of export and import licensing requirements. Some of the steps were requirements for accession to the World Trade Organization, which occurred in January 2007. In 2000, business licensing procedures were simplified and a stock exchange was established in Ho Chi Minh City. The GoV plans to complete planned equitisation of SOEs by 2010, but the pace has been relatively slow and this deadline might not be met. SOE equitisation has been a major focus of the Bank and is discussed in more detail in the section on the Bank’s structural adjustment lending in Chapter Six.

The Asian Financial Crisis reduced GDP growth, though not nearly as heavily or as long as for regional neighbours such as Thailand and Indonesia. This was in part due to the continuing controls on foreign investment and exchange, which meant funds were long-term investment-oriented not short-term and speculative. FDI to Vietnam did decline in the lead up to the Crisis but this was not, as the World Bank argued, due to foreign investors concerns about slowing down of reform. Rather, it was due to a decline in real estate investment and fluctuations in oil and gas investments.³⁹ The decline during the Crisis was mostly due to the fact that over 60 per cent of Vietnam’s FDI came from East Asia, that is from other countries affected by the Crisis.⁴⁰ The Crisis also appreciated the value of the *Dong*, reduced exports and hit government revenues. In 1998, growth dropped to 5.8 per cent and in 1999 to 4.8 per cent. However, the government acted to maintain macroeconomic stability by controlling imports, devaluing the *Dong* and adopting conservative monetary policy.⁴¹ By 2000 growth had recovered to 6.8 percent and in 2004, it was 7.7 per cent. Poverty continued to decline significantly — from 37.4 per cent in 1998 to 28.9 per cent in 2002 and 20 per cent in 2004. However, the gap between the rich and poor in Vietnam is steadily increasing.⁴²

³⁸ Nørlund, Ca and Tuyen, "Dealing with the Donors," p. 59.

³⁹ Masina, *Vietnam's Development Strategies*, pp. 77-8.

⁴⁰ Ibid, p. 79.

⁴¹ Ibid, pp. 84-86.

⁴² Joint Donor Report to the Vietnam Consultative Group Meeting, "VDR 2004 Poverty", pp. 12-13.

From 1992 steps were undertaken to adjust the social services to the new economy. In 1994, social insurance was extended to non-state employees, however, this scheme only covers employees in formal sector enterprises with more than ten employees. By the end of the 1990s, it covered only around 11 per cent of the workforce.⁴³ Combined with existing veterans' pension and state obligations, social insurance accounted for 90 per cent of the three per cent of national expenditure that was directed to social welfare at this time. Most of the benefits go to upper and upper-middle income groups.⁴⁴ The other key development in social services was the creation of a national program of poverty reduction assistance. Some of the components of this program were already in existence but in 1998 nine programs were consolidated into the National Target Program for Hunger Eradication and Poverty Reduction. Components include:

- construction of basic commune infrastructure;
- promotion of agricultural and off-farm employment;
- credit for the poor;
- Health Care Fund for the Poor;
- education subsidies for the poor;
- extension services;
- training for commune leaders;
- sedentarization, organised migration and new economic zones; and
- assistance for ethnic minority groups.⁴⁵

The final component of the social protection system is social assistance, comprising two funds: a social guarantee fund; and the contingency fund for pre-harvest starvation and disaster relief. These funds are the main safety net for the bulk of the population yet they were equal to only 0.1 per cent of GDP in the mid-1990s. They provide benefits that leave recipients living below the poverty line.⁴⁶ Dzung The Nguyen's analysis of the overall social welfare system concluded that, despite some improvements, "Vietnam's social protection system provides its benefits to those who appear to be

⁴³ Social insurance covers retirements, survivor's benefits, work accidents and disease and maternity leave for two children but not unemployment benefits. There is also a voluntary social insurance scheme but it has very low membership, Nguyen, "Social Welfare Aspects of Development in a Transition Economy," pp. 214-215.

⁴⁴ Ibid, p. 217.

⁴⁵ Ibid, pp. 224-228.

⁴⁶ Ibid, pp. 218-223.

least in need.”⁴⁷ Yet, since Nguyen’s study, poverty reduction expenditures have been increasing and there was a big drop in poverty between 2002 (28.9 per cent) and 2004 (20 per cent), which seems to indicate that the overhaul of social expenditures is proving effective.⁴⁸

Development Assistance to Vietnam since 1993

Prior to 1993, Vietnam had only limited engagement with non-communist donors. There were some international advisers present, coordinated through the UNDP, which had a small program in Vietnam along with UNICEF. The IMF maintained a limited program but Vietnam defaulted on repayments in the mid-1980s and the US vetoed the rescheduling of its arrears until 1993 thus preventing any new program.⁴⁹ The Bank made one loan to Vietnam in 1978 but a self-imposed ban stopped further activity until 1993 (see the following section for further detail). In addition, the Swedish International Development Cooperation Agency and a number of NGOs, such as Oxfam and Save the Children, had small programs prior to 1993.⁵⁰

Non-communist donors re-engaged with Vietnam only after the debt with the former regime in the south was settled. According to Chossudovsky, Vietnam was only allowed to rejoin the Bank after a:

*...secret agreement reached in Paris in 1993, which in many ways was tantamount to forcing Vietnam “to compensate Washington” for the costs of the war, [it] required Hanoi to recognise the debts of the defunct Saigon regime of General Thieu as a condition for the granting of fresh credit and the lifting of the US embargo.*⁵¹

At one level then, it is surprising how dependent the GoV is now on Western aid. As Painter pointed out:

⁴⁷ Ibid, p. 235.

⁴⁸ Poverty reduction expenditures 1998-2003 can be found in World Bank Operations Evaluation Department and IMF Independent Evaluation Office, "The Poverty Reduction Strategy Initiative: Finding from 10 Country Case Studies of World Bank and IMF Support" (Washington: 2005), available from: <http://www.worldbank.org/oed>, accessed: June 2006, p. 94.

⁴⁹ Nick Freeman, "Vietnam: The Siege Ends," *New Statesman & Society* (1993), p. 10.

⁵⁰ Nørlund, Ca and Tuyen, "Dealing with the Donors," pp. 75-76.

⁵¹ Chossudovsky, *The Globalisation of Poverty*, p. 147, emphasis in original.

...between 1994 and 1999, annual overseas development assistance (ODA) averaged 20 per cent of central government expenditure, rising from 17 per cent in 1997 to 27 per cent in 1999.⁵²

There are now over twenty countries and organisations providing ODA to Vietnam, however, over 80 per cent of funding comes from just three sources: Japan, the World Bank and the Asian Development Bank (ADB). Given the sources of ODA, not surprisingly most is in the form of concessional loans not grants — in 2002, 84.8 per cent of ODA was in the form of loans requiring repayment.⁵³ As a consequence, “[a]bout four-fifths of debt in Vietnam is with multilateral and bilateral donors, on concessional terms.”⁵⁴ In terms of sectors of support, according to OECD Development Assistance Committee categories, just over 40 per cent of ODA in Vietnam is for economic infrastructure and services, 17.5 per cent is allocated to programme assistance and the remainder is divided fairly equally between education, health, production, multi-sector and other assistance.⁵⁵ Japan is overall the largest donor of ODA — in 2002 it disbursed \$429 million. On average, 73 to 82 per cent of Japanese ODA has been loans: 45.5 per cent went to the electricity sector, 32.3 per cent to transportation and 16.8 per cent to rural and urban infrastructure projects.⁵⁶

By the end of 2004, ADB cumulative commitments to Vietnam were \$3.15 billion.⁵⁷ Its sector profile was somewhat more diverse than the World Bank or Japanese ODA. The agriculture and transport sectors led its priorities — each receiving just over 19 per cent of loans in value terms. The energy sector was also a major focus receiving 12.6 per cent of flows, while the finance and water sectors each received 10.8 per cent. The remaining funds were divided between education, multi-sector, law, health, and industry and trade. There is a significant convergence visible between the three major donors in the sectors of electricity, transport and water supply and sanitation (on the World Bank, see the following section). Yet, while the PRSP process has received significant and critical attention from NGOs, these sectors of assistance have not.

⁵² Painter, "Politics of Economic Restructuring in Vietnam," p. 32.

⁵³ Trung Duc, "Repayment of ODA," *Thoi bao Kinh te Viet Nam*, (27 June 2004), p. 46.

⁵⁴ Martin Painter, "The Politics of State Sector Reforms in Vietnam: Contested Agendas and Uncertain Trajectories," *The Journal of Development Studies*, Vol. 41, No. 2 (2005), p. 273.

⁵⁵ OECD Development Assistance Committee, "International Development Statistics Online" (2005), available from: <http://www.oecd.org/dac>, accessed: August 2005.

⁵⁶ Trung Duc, "Repayment of ODA," p. 48.

⁵⁷ Asian Development Bank, (2005), available from: <http://www.adb.org>, accessed: August 2005.

Since the rescheduling of arrears in 1993, the IMF and Vietnam have had a rather tumultuous relationship.⁵⁸ It resumed lending to Vietnam in 1994 and made further commitments in 1995 and 1996. However, after a falling out in 1997 regarding the timing of reforms, loan disbursements were withheld and there were no loans until 2001.⁵⁹ After 2002, the program was suspended though not formally until April 2004. This most recent impasse was due to Vietnam failing to meet IMF standards for central bank accounting and auditing.⁶⁰ According to Porter and Craig, use of such standards has become a standard IMF mechanism for deepening fiscal discipline.⁶¹ They are also a broad “post-conditionality” mechanism similar to that employed in Bank PWC adjustment lending.⁶² The IMF maintains its office in Hanoi and continues a program of technical advisory work in the financial sector including: banking supervision, state-owned commercial bank equitisation, monetary policy and anti-money laundering initiatives.⁶³

The World Bank in Vietnam

With the support of McNamara, the World Bank made its first loan to Vietnam in 1978 — the Dau Tieng Irrigation Project. The loan was made despite the US government’s disapproval and it proved costly to the Bank — a campaign against the loan led by Congressman C.W. Young led to inaction on an agreed capital increase for the Bank. Young also called for a cut to the US replenishment of the IDA and inclusion of a proviso on the legislation for the replenishment to prevent the US funds being used for loans to Vietnam and a handful of communist states.⁶⁴ In late 1979, McNamara signed a letter to Young stating that the Bank would not again lend to Vietnam, in return Young

⁵⁸ As noted in the previous chapter, IMF loans are not ODA, rather they are classified by the OECD Development Assistance Committee as Other Official Flows (OOF).

⁵⁹ Masina, *Vietnam's Development Strategies*, pp. 85-6.

⁶⁰ Anon., "IMF Ceases Loans to Vietnam," *Vietnam News Brief Service*, (13 April 2004).

⁶¹ Porter and Craig, "The Third Way and the Third World," p. 400.

⁶² The “term “post-conditionality” is from Penny Griffin, "The World Bank," *New Political Economy*, Vol. 11, No. 4 (2006).

⁶³ Consultative Group Meeting for Vietnam, "Moving Towards 2010: Vietnam Partnership Report" Hanoi: Vietnam Development Information Center, 1-2 December 2004), p. 39.

⁶⁴ Shapley, *Promise and Power*, pp. 568-571. The book also contains an interesting account of McNamara’s role in the loan negotiations. See also Bello, Kinley and Elinson, *Development Debacle*, p. 34 and Gwin, "U.S. Relations with the World Bank," pp. 225-226.

agreed to end his campaign and support the capital increase and Bank replenishment. The letter was leaked and caused an uproar because it violated the Bank's rules on political involvement and on negotiating with member governments only through specified channels.⁶⁵ Nevertheless, the self imposed ban remained in place until 1993.

Between 1993 and 2004, the World Bank committed just over \$5.12 billion to Vietnam. Between 2000 and 2002, it committed significantly less than average at \$270 million per annum, but remained Vietnam's second largest donor. The Bank's *2002 Vietnam: Country Assistance Strategy* (Vietnam CAS) indicated that loans would increase in 2003–2006 — its base scenario ("base case") for loan commitments was an average of \$581 million per annum. In 2003, the base case was met and in 2004, loans moved to the Bank's high case scenario with loans totalling over \$744 million. So in 2004, the Bank actually topped Vietnam's donor list.⁶⁶ The Bank's priority sectors have historically been: energy and mining (electricity), which between 1993 and 2004 accounted for 22 per cent of the value of Bank commitments, and transport, which was 20 per cent. The three sectors of agriculture, fishing and forestry, law, justice and public administration and water supply and sanitation each accounted for 13 per cent of the value of Bank loans.

The Bank also administered \$44.6 million in trust funds specifically for Vietnam between 1993 and 2004. Trust funds have been a key mechanism for extending Bank influence since their inception in the 1970s. In Vietnam, the Bank's use of trust funds indicates how it has sought to be at the front of donor coordination. Its donor coordination role increased after 1999 when Vietnam agreed to join the pilot Comprehensive Development Framework process and the associated Poverty Reduction Strategy Paper process. The Bank also chairs the Consultative Group for Vietnam (CGV). The combined effects of a shared development agenda and the Bank's influence on donors resulted in the CGV making additional aid in 1998 and 1999 conditional on

⁶⁵ Shapley, *Promise and Power*, p. 571.

⁶⁶ World Bank, "Vietnam CAS 2003-2006." Note: the Bank provides three forecasts scenarios for the period of the CAS — low, base and high case. The figures quoted are the base case. The value of loans in 2003 was \$518.4 million and in 2004, \$744.8 million.

Vietnam undertaking World Bank prescribed reform.⁶⁷ The Bank's role in the CGV gives it influence broadly over the geographical spread and sectors of donor's ODA. The Bank also encourages joint funding of its loans, for example, under the 2004 structural adjustment loan, called Poverty Reduction Support Credit III, the Bank lent \$100 million; co-financing by other donors was \$73 million. The Bank plays a lead role in pushing a 'development' agenda, which was confirmed in a 2001 study by Irene Nørlund. However, the response from the GoV and others to the role of the Bank was generally positive as it was seen as having a "...very open attitude in Vietnam."⁶⁸ Further, the Bank has generally adopted a "...tolerant and longer-term view of the relationship" with Vietnam, in contrast to "the IMF's preference for imposing stricter conditions and timetables."⁶⁹

The Bank has used alliances and networks to further its objectives, most prominently it aligned itself with the so-called 'pro-reform' factions in the party and bureaucracy. At times, it has linked with private business interests, for example to assist in its campaign for business licensing reform. The Bank's vast array of technical advisers employed to develop reports, designs, legislation and policy recommendation assist in making the Washington Consensus hegemonic principles 'common sense.' The Bank trains bureaucrats and party cadres in neoliberal principles through particular projects and specific training programs. It even trains private businesses in Vietnam in how to operate in a market economy by training them how to tender for Bank-financed activities.

The World Bank's Key Planning Documents: the Country Assistance Strategy and Poverty Reduction Strategy Paper

There are references to a first CAS, dated September 1994, however despite requests the documentation remains unavailable. Prior to 1998, the Bank tended to keep its country programming documents confidential (even from recipient governments). The first available Vietnam CAS is 1998-2002. However, the first Structural Adjustment Credit

⁶⁷ Masina, *Vietnam's Development Strategies*, pp. 86.

⁶⁸ Irene Nørlund, "Vietnam — a Country View of the Partnership Process" (Paper supplied to the author, July 2001), p. 6.

⁶⁹ Painter, "The Politics of State Sector Reforms in Vietnam," p. 274.

(SAC I) provided to Vietnam in 1994 does give some indications of earlier Bank priorities. While available documentation is limited, the brief “Program Information Document,” was very supportive of the *Doi Moi* reforms that had taken place. The reforms were described as the start of a Washington Consensus structural adjustment package, regardless of whether this is an accurate description. Thus it emphasised: conservative monetary and fiscal policy combined with price liberalisation to control the budget deficit and inflation and to ‘get the prices right,’ currency devaluation and financial sector reforms, reform of SOEs, openness to foreign direct investment, de-collectivisation and property rights, as well as limited and highly targeted social programs.⁷⁰ Conditionalities on the loan were focused in the areas of government budgeting, the program of SOE reform, the legal framework for property rights and commercial transactions and banking reforms — in other words, core Washington Consensus concerns.

While SAC I praised ‘ownership’ by the GoV of *Doi Moi*, the 1998-2002 CAS already noted differences between the Bank and the GoV on the pace of reform, with the Bank urging a faster program.⁷¹ This issue frequently reappeared in Bank documentation. It is not an exaggeration to suggest that it is at the centre of Bank / GoV relations. The Bank’s overarching focus was on the pace of reform despite the significant inroads made into SOE reform and cuts in the labour force pre-1993 and the evidence from other countries that quick privatisation often results in a significant decline in production with high social costs and a strong likelihood of insider privatisation. Thus it indicates the limited extent to which the Bank has taken on board NIE concerns about the pace and timing of reform over the Washington Consensus concerns with government failure and rapid adjustment.

Yet, the Bank and other donors have supported an increased focus on poverty reduction in Vietnam. The Poverty Task Force and Poverty Working Group were established in 1999 and involved the government, donors and NGOs. The smaller Poverty Working Group was the initial vehicle for participatory poverty assessment and living standards

⁷⁰ World Bank, “Viet Nam - Structural Adjustment Credit I Program Information Document” (Report No. PIC1073, 1994).

⁷¹ World Bank, “Country Assistance Strategy of the World Bank Group for the Socialist Republic of Vietnam” (Report No. 18375, August 20 1998), p. ii. Moreover, the GoV were essentially observed at the 1997 Consultative Group meeting, Nørlund, Ca and Tuyen, “Dealing with the Donors,” p. 80.

surveys. While this was clearly an innovative process for Vietnam, it was largely driven by donors, in particular the World Bank.⁷²

The GoV requested involvement as a pilot CDF/PRSP country because it was a pre-condition for access to structural adjustment lending. But, in the wake of the Asian Financial Crisis and the downturn in FDI, producing a PRSP was a signal to both the donor community and international financiers that Vietnam was continuing its reform program.⁷³ The interim-PRSP, released in March 2001, drew on the results of the Poverty Working Group and in particular, a report it released in December 1999, *Attacking Poverty*. However, the interim-PRSP was produced quickly in order to maintain access to structural adjustment lending and involved little public participation.⁷⁴ In a separate process, the Government's own key planning documents were concurrently drafted and debated by political/civil society across the country. The "Five Year Plan for Socio-economic Development 2001-2005" and "Ten Year Socio-Economic Development Strategy 2001-2010" were approved in April 2001 by the Party Congress. They did not mention the PRSP process.⁷⁵

The Bank and IMF approved the interim-PRSP but their Joint Staff Assessment identified issues that had to be addressed in the full PRSP including: improving poverty data and monitoring, sector strategies for addressing poverty, costing and prioritisation of programs, improving the participatory process and increasing attention to vulnerable groups.⁷⁶ The list of concerns certainly suggests a shift from the Washington Consensus yet it contrasts with the process whereby, until 2005, the Bank and IMF's Executive Directors approved PRSPs.

The GoV had a relatively strong degree of ownership of the full PRSP; indeed their very renaming of it as the Comprehensive Poverty Reduction and Growth Strategy

⁷² Nørlund, "Vietnam — a Country View of the Partnership Process," p. 2.

⁷³ Nørlund, Ca and Tuyen, "Dealing with the Donors," pp. 131-132. The Bank's first country director in Vietnam, Andrew Steer, played a significant role in promoting Vietnam on the world stage, *ibid*, p. 133.

⁷⁴ Peter Wolff, et al., "The Comprehensive Poverty Reduction and Growth Strategy in Vietnam: Process, Donor Contribution, and Prospects for Its Implementation" (Report No. 9/2002, Bonn: German Development Institute, November 2002), p. iii.

⁷⁵ Nørlund, Ca and Tuyen, "Dealing with the Donors," pp. 81-82.

⁷⁶ Wolff, et al., "Comprehensive Poverty Reduction and Growth Strategy in Vietnam," p. 24.

(CPRGS) may indicate a desire to distinguish it from Bank processes.⁷⁷ Released in May 2002, it involved significant consultation with various levels of government, some local NGOs, international NGOs and donors, organised through the Poverty Task Force (now the lead body for poverty assessments).⁷⁸ Yet, the participatory processes were not country driven, the World Bank "...mobilised an immense effort to facilitate the process," following it at every step and ensuring that research could be transformed into policy.⁷⁹

An evaluation of the overall process concluded that to start with it had little impact on the GoV or the broader community, indeed the document remained "...unknown at the provincial and communal levels, and even foreign to members of the Vietnamese development research community."⁸⁰ This obscurity is largely because the CPRGS process was kept separate from the Government's existing planning process, which involves debate across civil and political society (including party cells and mass organizations) and final approval by the National Assembly. The CPRGS has progressed to becoming "...a 'second-track' policy forum, paralleling government and party policy."⁸¹ Despite the Bank and Fund's preference to have the CPRGS as the main policy planning mechanism,⁸² in future the PRSP plan will be subsumed under the Government's Five Year Plan. This should largely address problems such as the fact that participatory processes have not been mainstreamed.

That the CPRGS is not mainstream is conceded by the Bank, however, a Bank staffer suggested that:

⁷⁷ David Payne, "Interview," (Hanoi, Vietnam: Co-Director, VUFO-NGO Resource Centre, 2005).

⁷⁸ It is important to note that few of the national or international NGOs were able to devote the necessary human resources to the Poverty Task Force, Nørlund, Ca and Tuyen, "Dealing with the Donors," p. 89.

⁷⁹ Ibid, p. 92. This is also acknowledged in the Bank's review of PRSPs, World Bank Operations Evaluation Department and IMF Independent Evaluation Office, "Poverty Reduction Strategy Initiative: Finding from 10 Country Case Studies," p. 93.

⁸⁰ Nørlund, Ca and Tuyen, "Dealing with the Donors," p. 23. This was a point made by a number of interviewees.

⁸¹ Ibid, p. 7.

⁸² World Bank Operations Evaluation Department and IMF Independent Evaluation Office, "Poverty Reduction Strategy Initiative: Finding from 10 Country Case Studies," p. 96.

...the strength of not being a mainstream document is that it has the space to discuss sensitive issues that are not normally tackled in a direct way in the mainstream documents of government.⁸³

This may have some truth, yet the Bank-organised participatory processes did not include any discussion of macroeconomic policy settings or structural reform, which must be one of the most 'sensitive' components of any country's development program.⁸⁴ Failure to include discussion of macroeconomic policy in participatory processes seems to be a common feature of PRSPs.⁸⁵

In summary then, the CPRGS process contained notable elements of Bank and IMF control, for example the Bank direction of the participatory process and the requirement that the IMF and Bank Boards approve the final document to gain funding access.⁸⁶ However, the GoV took increasing control of the drafting process and the content and seems to have come to regard it as an action plan for the Five and Ten Year Plans.⁸⁷ In terms of the underlying development theory it largely reflects the PWC conception of 'growth with equity' as it prioritises economic growth as the key to poverty reduction. What is new for Vietnam is the use of poverty language and analysis and here tensions are visible between neo-liberal self-help ideas and the emphasis on the role of the state in development and equity.⁸⁸

The 2003-2006 Vietnam CAS claimed to be based on the CPRGS and sets out three broad objectives derived from it:

- (i) High growth through a transition to a market economy;

⁸³ Caroline Turk, "Interview," (Hanoi, Vietnam: Senior Poverty Specialist, Poverty Reduction and Economic Management, World Bank, 2005). The Joint Bank/IMF CPRGS assessment expresses the lack of mainstreaming as a key risk that may contribute to the plan not being the GoV's key planning document, World Bank, "Vietnam Poverty Reduction Strategy Paper and Joint IDA-IMF Staff Assessment" (Report No. 24271, June 7 2002), p. 12.

⁸⁴ World Bank Operations Evaluation Department and IMF Independent Evaluation Office, "Poverty Reduction Strategy Initiative: Finding from 10 Country Case Studies," p. 93. The OED report blames this on lack of interest from the facilitators and "...the absence of systematic effort on the part of *the IMF* to encourage public discussion." Given that it was the Bank who organised the participatory processes, this is an odd claim in an otherwise very frank assessment of the PRSP process.

⁸⁵ This is a finding from a review of PRSPs processes by the Panos Institute, "Reducing Poverty: Is the World Bank's Strategy Working?" (London: 2002), available from: <http://www.panos.org.uk>, accessed: March 2005.

⁸⁶ World Bank, "Vietnam Poverty Reduction Strategy Paper and Joint IDA-IMF Staff Assessment."

⁸⁷ Nørlund, Ca and Tuyen, "Dealing with the Donors," p. 97. See also Wolff, et al., "Comprehensive Poverty Reduction and Growth Strategy in Vietnam," pp. 33-34.

⁸⁸ Nørlund, Ca and Tuyen, "Dealing with the Donors," p. 149.

- (ii) An equitable, socially inclusive, and sustainable pattern of growth; and
- (iii) Adoption of a modern public administration, legal and governance system.⁸⁹

Although these three themes did appear in the CPRGS, the report was not organised around them and the way they are presented differs subtly but significantly from the CPRGS. The CPRGS, drawing from overall objectives in the Government's Five Year Plan, aimed to:

[b]ring about a significant improvement in the people's material, cultural and spiritual life, lay the foundations for the country's industrialization and modernization, build a prosperous people, strong country and a just, equal, democratic and civilized society, and establish the institutions of a *socialist-oriented* market economy...⁹⁰

The Bank's version ignored the *socialist*-orientation of the market economy and changes the "people's material, cultural and spiritual life" into an equitable "*pattern of growth*." The Bank's approach can be read in two main ways, a generous reading suggests the Bank has made a significant concession to country ownership in supporting a country operating on other than a market basis.⁹¹ A more critical reading asks why the Bank would find it so difficult to accept the idea of a socialist-oriented market economy given the level of redistribution and public ownership in many of its (democratic) member states.⁹² Of course, the situation is made more complex by the lack of a consensus on the meaning of a 'socialist-oriented market economy' within the government and party in Vietnam.

In terms of public administration and the legal environment, the Bank's key descriptor was 'modern,' the CPRGS on the other hand referred variously to a fair, level, transparent and efficient system.⁹³ 'Modern' is clearly a synonym for a Western capitalist system, which translates in the lending program as assistance in the design of

⁸⁹ World Bank, "Vietnam CAS 2003-2006."

⁹⁰ Socialist Republic of Vietnam, "The Comprehensive Poverty Reduction and Growth Strategy" (Hanoi: May 2002), p. 6, emphasis added.

⁹¹ See Wolff, et al., "Comprehensive Poverty Reduction and Growth Strategy in Vietnam," p. iv.

⁹² Payne, "Interview."

⁹³ Socialist Republic of Vietnam, "Comprehensive Poverty Reduction and Growth Strategy," p. 7.

key laws consistent with a “market-driven economy” in areas such as land, gas and electricity.⁹⁴

The CAS examination of Vietnam’s historic bloc is revealing: social aspects received little attention accounting for only one paragraph out of fourteen. The economic analysis was also brief and made up largely of broad claims and truisms. The focus was on the need for a faster pace of policy reform connected to building a market economy. The short section on the medium-term outlook focused on the (presumed) link between continued policy reform and economic growth. Monetary and fiscal policy analysis was limited but emphasised prudence and soundness, which fits with the analysis of the PWC as maintaining the Washington Consensus approach. There was no consideration of the potential impact of the external environment, which is surprising given that the Asian Financial Crisis must still have been fresh in people’s minds.

The 2003-2006 CAS contained three scenarios for lending volumes; the outcome was linked only to the “...pace of progress on the Government’s policy and institutional agenda.”⁹⁵ It was *not* linked to poverty outcomes or to the potential impact on Vietnam of regional or global events. There was also no suggestion of alternative scenarios in case the economy and poverty reduction did not respond to the proposed policy prescriptions. So, although the Bank needs and wants to be more ‘organic’ in the PWC period, its structures as a Bank and commitment to the hegemonic principles of *pax americana* expressed in the Washington Consensus, ultimately prevented it from moving beyond superficial interventions and issues.

Yet, there have been substantial reductions in poverty since the PRSP process began, although until 2000 rate of reduction was slower than in the early 1990s. Can these be attributed to the PRSP process? Probably not, as the GoV itself, reflecting the demands of local social forces, made a decision prior to joining the PRSP process to overhaul its social welfare system and to increase and redirect poverty reduction expenditure as indicated by the introduction in 1998 of the National Target Program for Hunger Eradication and Poverty Reduction.

⁹⁴ World Bank, "Vietnam CAS 2003-2006," p. 25.

⁹⁵ Ibid, p. iii.

Conclusion

Vietnam had a stable and quite ‘strong’ government over the case study periods. It has managed to maintain quite high levels of growth and poverty reduction during a period of significant economic transition. Its strength enabled the GoV to work closely with the World Bank yet still maintain a fair degree of autonomy. In other words, the Bank was by no means always able to impose its ‘common sense’ on Vietnam. The next chapter explores this relationship in more detail through an examination of Bank adjustment and investment lending.

Chapter Six

World Bank Lending in Vietnam

This chapter commences with an analysis of changes in the overall lending program in terms of sectoral lending and loan size. It then embarks on a detailed exploration of all Bank loans to Vietnam in the two case study periods by sector commencing with structural adjustment lending. Investment loans are analysed by Bank sector, starting with energy and mining and water, sanitation and flood protection, which are grouped together because of the common approach in these sectors. Transportation is dealt with separately; finance lending is combined with the law, justice and public administration sector, as four out of its five credits were structural adjustment loans. Health and education are also combined because of the small number of loans in each sector.

A Sectoral Analysis of World Bank Lending to Vietnam

Looking at the two case study periods, 1993-1997 and 2000-2004, this section explores the evolution of Bank lending in terms of sectoral focus and the size of loans. The analysis utilises the Bank's own sector classification system. In 1993-1997, transportation and energy and mining were clearly the focus of Bank lending (see Table 6.1). Together they accounted for almost half of total new Bank lending commitments. Transportation comprised mainly projects to rehabilitate highways and ports; the energy and mining sector in Vietnam is restricted to projects in electricity generation, distribution and management. Finance, the third largest sector focused predominately on microcredit and banking reform projects. Health and education received scant attention in either period. Indeed, despite the focus on poverty reduction in the PWC, the Bank's overall levels of lending for education, the environment and health remained fairly stable across the Bank after 1996 at a level lower than the first half of the 1990s. Social "...sector lending has only increased marginally following the record low of 2.5% of Bank lending in 1996." ¹

¹ Wodsak, "World Bank Reform — a Critical Investigation," p. 90.

Table 6.1 World Bank New Loan Approvals to Vietnam by Sector, as a per cent of total country lending: 1993-97 and 2000-04

Sector	1993-1997 (%)	2000-2004 (%)
Transportation	29	16
Energy	20	23
Finance	16	7
Law, justice and public administration	9	18
Health and other social services	9	1
Agriculture, fishing and forestry	7	11
Water, sanitation and flood protection	6	18
Education	4	6

Data source: World Bank Website, Projects & Operations, Projects Database²

The 1998-2002 Vietnam CAS indicated that the Bank program would shift its focus towards poverty, social issues and rural development. There are indications of a shift in emphasis through such projects as the Northern Mountains Poverty Reduction Project and some power projects were targeted at rural areas. Yet, looking at Table 6.1 the negligible expenditure on health and education speaks for itself. Transport and energy (electricity) are the key sectors in both case study periods, though law, justice and public administration and water, sanitation and flood protection moved into equal second place in 2000-04. The increase in the share of Bank commitments in these last two sectors was suggested by the analysis of the PWC, given its renewed emphasis on government's facilitating the provision of infrastructure to enable economic growth; as well as its focus on property rights and on business and regulatory frameworks to reduce market and government failures. Overall there was a strong focus on infrastructure — water, transport and energy accounted for 57 per cent of new commitments in 2000-04. In an interview, a Bank staff member explained the strong focus as the inevitable result of Vietnam's pending graduation from IDA to IBRD loans:

...the reality is that countries like to borrow IBRD money for infrastructure, and the Bank has to be able to lend that money otherwise it is going to run out of money sooner or later.³

² Vietnam received a small number of grants of under \$10 million, mainly under the auspices of the Global Environment Fund. Given the focus is on loans these were excluded from the case study.

³ Turk, "Interview."

The Bank has been criticised over many decades for its focus on project quantity rather than quality and loan size as the key indicator. Ranis argued that the fact that average Bank loans are still around \$100 million indicates the continuing "...trade-off between the quantity and quality of lending."⁴ Vietnam does not deviate from this model. The average loan size shifted only slightly in the case study periods, in 1993-1997 it was \$105 million and in 2000-2004, \$124 million. The mean moved from \$100 million to \$110 million.

Structural Adjustment Lending in Vietnam

Table 6.2 World Bank Adjustment Lending to Vietnam: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)
Loans 1993-1997		
Structural Adjustment Credit	1994	\$150.0
Loans 2000-2004		
Poverty Reduction Support Credit I	2001	\$250.0
Poverty Reduction Support Credit II	2003	\$100.0
Poverty Reduction Support Credit III	2004	\$100.0

Structural adjustment lending increased from almost nine per cent of the value of new commitments in 1993-1997 to over 16 per cent in 2000-2004, which is notably less than the current bank average of 33 per cent of lending.⁵ Until 2004, Vietnam only accessed four adjustment loans: there was one Structural Adjustment Credit (SAC) in the 1993-1997 period and three — called Poverty Reduction Support Credits (PRSCs) — in the 2000-2004 period.

There is limited information available on the 1994 SAC, however, it supported the initial program of *Doi Moi* undertaken by the GoV and emphasised those aspects that fit within the Washington Consensus — conservative monetary and fiscal policy, devaluation, price liberalisation, land use rights, foreign trade and investment, etc. The

⁴Ranis, "The World Bank near the Turn of the Century," p. 86.

⁵ See World Bank, *Annual Report 2003*, p. 36.

objective of the credit was to assist the transition to a market economy.⁶ It included some discussion of the social costs of adjustments and concluded that the Bank should focus on a “broader” approach to aiding the vulnerable rather than direct support for social policy.⁷ The meaning of broader support becomes clear when loans in the finance sector are analysed. Conditionality seemed to be focused on regulation and competition policy, tax policy and administration and debt management and fiscal sustainability. Brian Van Arkadie and Raymond Mallon suggested that the SAC was the driving force behind the 1993 Law on Bankruptcy and the 1995 State Enterprise Law, both of which were developed with little consultation and have been poorly enforced.⁸

The gap in adjustment loans until 2001 paralleled the gap in the IMF program in Vietnam. The failure to reach a consensus continued throughout the Asian Financial Crisis, which negatively impacted economic growth and poverty reduction efforts in Vietnam. This gap and the low level of adjustment lending in general, indicates the relative strength of the Vietnamese historic bloc — because despite the impact of the Crisis on the economy and the state budget reliance on donor flows, the GoV rejected access to quick-disbursing loans in favour of some domestic policy freedom. These policy decisions outlined in Chapter Five, involved conservative monetary and fiscal policy but also trade (import) restrictions. They were clearly preferable to the GoV over the liberalisation and privatisation programs being pushed by the World Bank and IMF. Equally then the Bank’s position is evidence of its commitment to hegemonic principles over country ownership of macroeconomic policy settings or over mitigating the impacts of crisis on the poorest.⁹ During this gap, the Bank attempted to implement aspects of its structural reform program though a combination of sector programs and a large program of analytical studies (see, in particular, the power sector).¹⁰ As noted

⁶ World Bank, “Viet Nam - Structural Adjustment Credit I,” pp. 1-2.

⁷ Ibid, p. 5.

⁸ Van Arkadie and Mallon, *Viet Nam: A Transition Tiger?*, p. 131. This experienced indicated “...the limited role of legislation as an instrument of change, where the laws are neither supported by a consensus of the concerned parties nor respond to a demand arising from within the society.” Across Asia, transplanted laws have neither been generally well received nor been successful in boosting business performance Van Arkadie and Mallon, *Viet Nam: A Transition Tiger?*, pp. 104-105.

⁹ World Bank, “Vietnam - Country Assistance Evaluation” (Report No. 23288, Operations Evaluation Department, November 21 2001), p. 1.

¹⁰ Between 1990 and 1999, analytical work accounted for 26 per cent of Bank work in Vietnam on lending, supervision and analysis. This compares to a Bank-wide average of 18 per cent, *ibid*, pp. 11-12.

earlier, the Bank-chaired CGV also pressured Vietnam by offering additional funding, subject to Vietnam following World Bank reform prescriptions.¹¹

Despite its title and the analysis of poverty in the report, the policy reforms in PRSC I do not directly address poverty.¹² PRSC I proposes action in five areas: the private sector climate; SOE reform; banking reform; trade reform; and public expenditure management. In other words, these are largely Washington Consensus policies focused on developing markets and global integration. The connection to poverty requires two leaps of faith, first that making such reforms will increase economic growth, and second that economic growth will decrease poverty. In contrast, Van Arkadie and Mallon found that in Vietnam, "...improvements in enterprise performance have usually preceded changes in the legal framework."¹³

There is a significant shift from PRSC I to II/III, as the later loans incorporate some of the issues in Vietnam's interim-PRSP released between PRSC I and II.¹⁴ From PRSC II the policy reform agenda was expanded mostly around social issues. New issues included: health, education, land use and transferability, environmental sustainability, government planning and legal reform. However, the five sectors from PRSC I that conform to the Washington Consensus agenda continued to receive the most attention. Decentralisation and corruption appeared in PRSC II and became more prominent in PRSC III, these are part of the PWC focus on governance and provide new grounds for the Bank to propose 'reforms' to Vietnam's legal and regulatory system.

The number and types of conditions also changed — PRSC I for \$250 million contained 24 conditions for the two tranches in the five sectors mentioned above. By PRSC II (\$100 million), conditions were dropped in favour of "policy actions," 19 of them. In addition, PRSC II included a list of 14 "triggers," which are additional targets to be

¹¹ Masina, *Vietnam's Development Strategies*, pp. 86.

¹² Porter and Craig, "The Third Way and the Third World," p. 402. See also their analysis of the tenuous links between the loan objectives and poverty reduction on p.403.

¹³ Van Arkadie and Mallon, *Viet Nam: A Transition Tiger?*, pp. 104-105.

¹⁴ World Bank, "Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Second Poverty Reduction Support Credit" (Report No. P-7584, May 30 2003), World Bank, "Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Third Poverty Reduction Support Credit" (Report No. 28916-VN, May 25 2004), World Bank, "Report and Recommendation on a Proposed Poverty Reduction Support Credit to the Socialist Republic of Vietnam" (Report No. P-7446-VN, April 23 2001).

achieved, prior to PRSC III being negotiated. By PRSC III (\$100 million) only triggers remained — 15 of them. Conditionality has been a controversial area for the Bank particularly in relation to structural adjustment loans.¹⁵ The Bank claims that triggers “...are not conditions,” however the explanation of what they are suggests otherwise: “[p]rogress on most triggers and no backtracking on any of them leads in principle to the preparation of the next PRSC operation...”¹⁶ The triggers in PRSC III (for PRSP IV) included both broad directives and specific actions, for example, Vietnam must draft new “...Enterprise and Investment Laws in accordance with the Guiding Concepts and Principles date April 26, 2004.”¹⁷ As Griffin noted, these broad “post-conditionality” mechanisms often increase the Bank’s “...encroachment into the day-to-day governance of developing countries.” The Bank’s argument that PRSCs are merely a retrospective of what the country has done over the last twelve months is not convincing, they need to be seen as an opportunity for the Bank to influence the government’s agenda or as a way of continuing conditionality in a more expansive form.¹⁸ The GoV demonstrated its strength by only negotiating a limited number of structural adjustment loans. Further, it has not always met SAL conditions, particularly when conditions have conflicted with the needs of the historic bloc. For example, if equitisation of SOEs or trade liberalisation measures threatens the interests of powerful groups, they tend not to be implemented.¹⁹

One of the most controversial aspects of the PRSCs was the requirement for equitisation of SOEs. From 1992 to 2000, there was pilot equitisation of about 450 firms. PRSC I required equitisation of more than 450 firms prior to the release of the first tranche of funding (which was obviously already the case) and adoption of a five-year SOE reform program covering one-third of SOEs. The second tranche release included five conditions (of 12) on equitising SOEs: streamlining the equitisation process, completing equitisation of 200 major and 200 minor SOEs, equitising non-core assets of General Corporations and modification of a redundancy fund for equitising SOEs.²⁰ It is

¹⁵ In late 2004, SALs were renamed Development Policy lending.

¹⁶ World Bank, “Viet Nam PRSC III,” p. 17.

¹⁷ Ibid, p. 32. The Guiding Concepts and Principles document was formulated under a World Bank grant attached to PRSC II.

¹⁸ The retrospective argument is from Turk, “Interview.”

¹⁹ Masina, *Vietnam's Development Strategies*, p. 103.

²⁰ World Bank, “Viet Nam PRSC I,” pp. 41-42. The Bank supported the program via its administration of various trust funds, including \$4 million from the Policy and Human Resources Development Fund for

surprising to see the use of single numerical targets in the PWC period. This is, as the Bank itself has noted, a simplistic and inadequate form of conditionality, which leaves the Bank with only a pass or fail outcome. Where a target is likely to be missed, it provides no incentive for getting close to the target and it offers no leeway in case of unforeseen events.

In PRSC II, the Bank shifted from broad numerical targets to a program listing enterprises and target dates for equitisation. This is an even more coercive (but likely even less effective) form of conditionality pursuing a Bank hegemonic principle. In PRSC III, the Bank finally dropped numerical targets for SOE equitisation, though the section analysing or outlining current government policy supported the government's plan to equitise, sell or liquidate around 2,400 SOEs between 2004 and 2006.²¹

The Bank/GoV debate on equitisation needs to be understood in the context of the reform and performance of SOEs during *Doi Moi*. Significant rationalisation of SOEs was undertaken prior to the Bank's engagement in Vietnam. Perhaps for this reason, despite variable performance of individual SOEs, as a group they outperformed domestic private enterprises in terms of growth until around 2001. They remain a very important source of stability and government revenue.²² Van Arkadie and Mallon found little evidence to support the idea that SOEs have 'crowded out' growth in private enterprise.²³ Further, the experience of rapid privatisation in Eastern Europe provided good reasons not to undertake 'big bang' privatisation. At least six other factors influence and/or constrain the GoV position on SOEs:

- i. Equitisation is a sensitive process impacting on multiple interests and involving many actions including: "...state business interests, state bureaucrats, party leaders and other state actors."²⁴
- ii. Connected to the above, there remain substantial and explicit political commitments to retaining state ownership of SOEs in strategic parts of the

diagnostic audits of SOEs and a \$7.57 million trust fund for the trial restructuring of three General Corporations.

²¹ World Bank, "Viet Nam PRSC III," p. 22.

²² Van Arkadie and Mallon, *Viet Nam: A Transition Tiger?*, pp. 112-113.

²³ Ibid.

²⁴ Painter, "Politics of Economic Restructuring in Vietnam," p. 22.

production chain, as well as for key utilities, some military production and in a range of other 'sensitive' areas of the economy.

- iii. SOEs are central to government revenue generation; it is difficult to replace them with other sources given that it is difficult for developing countries to effectively tax private businesses.²⁵
- iv. Equitisation is administratively and managerially complex and has stretched the regulatory capacity of the government in Vietnam.
- v. The "...considerable labour retrenchment" involved is politically sensitive.²⁶
- vi. The government has made some progress on hardening the budget constraint faced by SOEs (limiting subsidies and preferential access to cheap credit in particular), thus they are not the drain on government resources they have been in the past.²⁷

Combine these factors with the tendency for consensus decision-making in Vietnam and the GoV approach to SOE reform can be better characterised as: "...successful management and containment of the conflicting ambitions of" various domestic social forces, with the aim of improving performance of SOEs and maintaining key state interests.²⁸

As seen in the PRSCs, such social, political and economic considerations appear to have had little impact on Bank enthusiasm for privatising the ownership of enterprises and the pace of equitisation was a significant source of tension between the Bank and the Government until at least 2004, when the Bank seemed to slightly relax its attitude — long after the Bank had supposedly shifted away from simplistic Washington Consensus programs.²⁹ The reasons for the Bank's cooling on the topic are not clear — it tends to tread carefully in Vietnam to avoid backfire,³⁰ or it may have felt that pro-reform voices had gathered enough support to push the reform agenda without the

²⁵ Kolko, *Vietnam: Anatomy of a Peace*, p. 56. Painter noted that across the 1990s SOEs accounted for 23 per cent of total government revenue in Vietnam, excluding crude oil royalties, Painter, "Politics of Economic Restructuring in Vietnam," p. 26.

²⁶ World Bank, "Viet Nam PRSC III," p. 37. The World Bank estimated that from 2004-2006, 300,000 to 400,000 workers would be made redundant.

²⁷ However, this remains an ongoing concern for the Bank, see Klaus Rohland, "Recurring Themes," *Vietnam Economic Times* (2004), pp.12-13.

²⁸ Painter, "Politics of Economic Restructuring in Vietnam," p. 23.

²⁹ The Bank may have cooled on the topic but it is hardly off their agenda as this article from the previous Bank Country Manager for Vietnam suggests, Rohland, "Recurring Themes."

³⁰ Painter, "Politics of Economic Restructuring in Vietnam," p. 33.

Bank's explicit support. Further, World Trade Organization accession, according to one Bank staffer, covered much of what would have been on the conditionality agenda.³¹ Ultimately though, as Martin Painter argued, Vietnam has accepted the resources of donors and even made public pronouncements on timetables for equitisation but these co-exist "...with other policy pronouncements that speak of another trajectory altogether — the entrenchment and strengthening of the state sector."³²

In terms of the actual process of SOE reform, one of the biggest issues is valuation of enterprises and land. Early on, to speed the process, the Bank pushed successfully to have the required independent audit prior to equitisation dropped. A decade later, there are still concerns that firms are not appropriately valuing assets, in particular land, but given that the land market remains underdeveloped, this is almost inevitable.³³ Managers have utilised undervaluation in order to gain control over enterprises.³⁴

Workers receive priority access in purchasing shares, so the lack of reliable information also makes it more difficult for them to make judgements about the value of the company. Given their limited knowledge of share owning in the first place (the process ignores the issue of worker education), it is not surprising that one survey indicates that, at best, 55 per cent of worker's are taking up shares and only 24 per cent are retaining them.³⁵ The point of this is that the Bank's continuing pressure on the Government to equitise SOEs quickly, despite its own judgement that "insider privatization" is taking place, is indicative of its judgement regarding the relative importance of government versus market failures.³⁶ Clearly NIE's 'lessons' about market failure and pace and

³¹ Turk, "Interview."

³² Painter, "Politics of Economic Restructuring in Vietnam," p. 34.

³³ This is noted, for example, in Gainsborough, *Changing Political Economy of Vietnam*, pp. 24-28, Ho Xuan Hung, "Equitization of State-Owned Enterprises in Vietnam: Results, Obstacles, and Solutions," *Vietnam Economic Review*, Vol. 1, (2005), p. 34.

³⁴ Evans, "Embedding Market Reform through Statecraft," p. 13. See also Nguyễn lan Hồng B, "Labour's Mastery through Owning of Shares," *Workshop on Equitisation in Vietnam* (Institute of Social Science, Ho Chi Minh City: 2004), p. 4, Truong Thi Minh Sam and Bui Duc Hai, "An Overview of the Most Crucial Period of Equitization in Vietnam," *Workshop on Equitisation in Vietnam* (Institute of Social Sciences, Ho Chi Minh City: 2004), pp. 4-5.

³⁵ Hồng B, "Labour's Mastery through Owning of Shares," p. 1. The survey was only of a few enterprises. Most researchers believe that the overall rates of share purchase and retention in SOEs are less than this. See Painter, "Politics of Economic Restructuring in Vietnam," pp. 31-32.

³⁶ Quoted in Sam and Hai, "Overview of the Most Crucial Period of Equitization in Vietnam," p. 3. The Bank documentation I read does not analyse the impact of equitisation on new capital investments — equitisation may attract capital otherwise may have been funded greenfield investments. Slowing new

sequencing of reform and the experience of equitisation in Vietnam to date are secondary to the Washington Consensus agenda on privatisation.

The Bank policy for redundant workers also sheds light on the PWC. As part of PRSC I, the Bank negotiated additional support for redundant workers under a specially established fund for SOEs. The fund provided more generous assistance than the Labor Code in the form of lump-sum compensation plus a six-month vocational retraining voucher. Its purpose was undoubtedly to defuse the growing discontent over redundancies, which could have threatened the process of equitisation. It is adjustment welfare and other than the voucher, a passive approach to labour market policy.³⁷ The Bank's review of this program claimed it was a success but an independent review highlighted a number of problems emerging after redundancy particularly amongst vulnerable groups. Around 75 per cent of workers made redundant are women:

...middle-aged women are having an extremely difficult time finding employment. Most are poorly educated, low skilled workers and self-employment is the only option for them. 59 per cent become small vendors, wage labourers in household businesses, housemaids, nannies, or pursue other forms of low paid work in the informal sector... Since the majority work in the informal sector, the vast majority (74 percent) do not have social welfare, such as annual leave, maternity leave, social insurance, or health insurance... their family's living standards decline dramatically as a consequence.³⁸

This survey also found that there are problems in the administration of the fund; more than half of the retrenched workers had only received half the compensation owed to them a year after retrenchment.³⁹

Workers being re-trained confront significant problems with the poor quality of the vocational training system and its lack of employment relevance— in 2002 only 10.7

investments would impact the pace of new job creation in the private sector, which the Bank counts on to absorb redundant labour.

³⁷ Bui Duc Hai, "New Focus on Redundant Workers" (Ho Chi Minh City: Institute of Social Sciences, 2003), Sam and Hai, "Overview of the Most Crucial Period of Equitization in Vietnam."

³⁸ Evans, "Embedding Market Reform through Statecraft," p. 10.

³⁹ Ibid.

per cent of the graduates of Ho Chi Minh City's vocational institutes found jobs.⁴⁰ Vietnam also lacks a developed job matching system. There are a growing number of private employment agencies. However, there is no government regulation of their activities and there have been cases of worker's being swindled.⁴¹ These are both sequencing of reform issues, which have received virtually no attention from the Bank.

The form and implementation of the redundancy package is indicative of the Bank's view of a limited role for the state in social issues. Contrast this to the Bank's view of the government's role in private sector development in Vietnam — in justifying the inclusion of the number of new private enterprises registered each month as a trigger, it is argued that "[e]ssentially private sector development is the combined outcome of policy actions in many areas, from financial sector reform to better governance and public administration."⁴² This is the PWC with a weak conception of the role of the state, limited to providing *adjustment* welfare not redistributive justice and to promoting business.

Investment Lending in Vietnam

Energy and Mining, and Water, Sanitation and Flood Control

Energy and water and sanitation and flood protection are grouped together for the analysis as there is a clearly discernible common model to the Bank's activities, underpinned by the goal of privatisation. The approach to privatisation is organised around the dual Bank policies of decentralisation and 'unbundling.' Rudolf Nsorwine Amenga-Etego and Sara Grusky succinctly outlined this model in their study of water privatisation in Ghana, which I have used and adapted for understanding the Vietnamese experience.⁴³ Before outlining this model, how privatisation came to be

⁴⁰ Hai, "New Focus on Redundant Workers," p. 6.

⁴¹ Ibid.

⁴² World Bank, "Viet Nam PRSC III," p. 17.

⁴³ Rudolf Nsorwine Amenga-Etego and Sara Grusky, "The New Face of Conditionality: The World Bank and Water Privatization in Ghana," in David A. McDonald and Greg Ruiters (eds.), *The Age of Commodity: Water Privatization in Southern Africa* (London: Earthscan, 2005).

applied to utilities is briefly explored — as it was not an original part of the Washington Consensus but was added in the early 1990s.

According to Xu Yi-chong, three broad sets of developments in the 1980s combined to facilitate the application of structural adjustment to utilities by the World Bank.⁴⁴ First, in the 1980s the globe was flush with money due to petrodollars. Financial deregulation further unlocked large amounts of private capital. This capital needed to be invested in revenue-generating activities.⁴⁵ Second, the change in the global political environment, connected to the rise of neoliberalism, gradually served to reduce support for state involvement in all sectors of the economy. Specifically, the Thatcher government's privatisation of utilities started the trend and facilitated expansion of private investment in the sector. Yet, other than new privatisations, the utilities market in developed countries was largely saturated whilst that in developing countries was constrained by lack of investment.

Third, in the 1980s economists developed a theory of utilities that combined the “grand story” of neoliberalism with a view of utilities that changed them into a commodity like any other that can, and should, be traded in markets. In the economist's view, utilities operated in the same way across the globe thus the same model for restructuring their ownership could be applied everywhere.⁴⁶ This narrative about utility privatisation was generally well received by politicians and bureaucrats in developed and developing countries as many already were committed to neoliberalism; the story also fitted the new ‘common sense.’ Further, it offered a ‘solution’ for countries facing difficulty in meeting the increased demand for utilities because of their severely constrained resource position. Often the financial position of utilities themselves was poor, privatisation offered a ‘solution’ here too.⁴⁷

For the Bretton Woods twins, privatisation of utilities offered a new project and a new way of facilitating the shift of American private capital to developing countries. They

⁴⁴ Xu Yi-chong, "Models, Templates and Currents: The World Bank and Electricity Reform," *Review of International Political Economy*, Vol. 12, No. 4 (2005), pp. 651-652. Yi-chong discusses only the electricity sector, however, the analysis is equally applicable to water utilities.

⁴⁵ On this theme see also Gowan, *The Global Gamble*, especially chapter 4.

⁴⁶ Yi-chong, "Models, Templates and Currents," p. 652.

⁴⁷ Ibid, p. 658.

certainly took up the project with gusto and privatisation of utilities quickly became a hegemonic principle of the Washington Consensus. The Bank developed a model of utilities privatisation with two core steps. The first step is the separation of profitable urban components of utilities from unprofitable rural ones — this effectively removes the capacity to cross-subsidise. The second step is the separation of the different business components of the utility. In electricity, this means separating generation, transmission and distribution; private operators are then introduced in each sector starting with generation. In the water sector, the separation of business components means unbundling the more profitable water supply sector from the less, or unprofitable, sewerage sector. In its earliest days, the Bank saw this as a gradual process with an emphasis on introducing private participation rather than privatisation. However, no sooner was it adopted than more radical requirements for restructuring and privatisation became standard.⁴⁸

The Bank's model was expanded by the PWC claim that privatisation based on decentralisation, by definition, improves community participation. Decentralisation also has the benefit of reducing central government fiscal expenditures (by transferring responsibility to regions or municipalities) — a key concern of the Washington Consensus that remains central to the PWC.⁴⁹ Participation is, of course, a supposed key differentiation of the PWC, although as we shall see in the utilities sector it is reduced to little more than willingness to pay. Most importantly, however, decentralisation facilitates unbundling of utilities and, "[b]untly stated, the unbundling process is one whereby the profitable and the unprofitable sectors of the production process of a good or service are separated."⁵⁰

Amenga-Etego and Grusky identify five steps though which privatisation was organised for water supply in Ghana.⁵¹ I have modified their schema to understand the Bank's approach to water and electricity privatisation in Vietnam. The steps are:

⁴⁸ Ibid, pp. 655-656.

⁴⁹ Amenga-Etego and Grusky, "New Face of Conditionalities: World Bank and Water Privatization in Ghana," p. 278.

⁵⁰ Ibid, p. 279.

⁵¹ Ibid.

- i. Grant funds are provided for international consultants to study and develop plans for sector. Subsequent grants are provided to 'assist' with developing a legislative framework, industry pricing, etc.
- ii. National utilities are dissolved into geographically-based entities with responsibility generally devolved to provinces or communes.
- iii. Business components are separated. In electricity generation, transmission and distribution are separated, in water it is water supply and sanitation.
- iv. Devolved urban utilities are corporatised; in rural areas corporatisation is trialled.
- v. Private providers are introduced in generation and in water supply.
- vi. Sub-contracting of maintenance, etc to private providers is trialled in all business components.
- vii. A national regulatory agency and agency/ies to support rural utilities are created.

The final step, which has not yet occurred in Vietnam, is to privatise urban corporations. The specific approach of the Bank in each sector is outlined below.

The Energy and Mining Sector

Table 6.3 World Bank Energy Sector Lending to Vietnam: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)
Loans 1993-1997		
Power Sector Development and Rehabilitation Project	1995	\$165.0
Power Development Project	1996	\$180.0
Loans 2000-2004		
Rural Energy Project	2000	\$150
System Efficiency Improvement, Equitization and Renewables Project	2002	\$225
Vietnam Guarantee Project	2004	\$75.0
Rural Energy II	2004	\$220.0

The World Bank's principal goal, since its first loan in the energy and mining sector in early 1995, has been a fully privatised electricity sector. It pursued this through six loans and one guarantee in the sector, numerous linked technical assistance grants, trust

fund operations and conditions in PRSCs.⁵² There were two loans during 1993-1997 and three plus the guarantee during 2000-2004. The Bank's program in Vietnam is similar to those pursued in other Asian countries — it started with studies to restructure the industry followed quickly by the introduction of Independent Power Producers (IPPs) in the generation side of the industry.⁵³ The preconditions for the introduction were set by the 1995 Power Sector Rehabilitation and Expansion Project and associated technical assistance grants. These funds 'assisted' the power sector's move toward a more commercial orientation and promoted unbundling of generation, transmission and distribution functions. Conditions on the loan included the GoV reviewing with the Bank and implementing the outcomes of studies (funded by the World Bank and ADB) on industry structure and legislative requirements, financial management and electricity tariffs.⁵⁴

The introduction of an IPP (called Phu My 2-2) at the Phu My power generation complex outside Ho Chi Minh City was a condition of the 1996 Power Sector Development loan. The World Bank's Staff Appraisal Report hailed this development as a "...breakthrough in the introduction of private power in Viet Nam."⁵⁵ The loan included funding for the development of the technical, commercial and legal structure of the IPP. The associated technical assistance grant aimed to create "...a legal and regulatory framework for the power sector that would be conducive to private sector participation."⁵⁶

Moving to 2000-2004, the construction of Phu My 2-2 by foreign investors was assisted by a USD \$75 million guarantee from the World Bank; much of the other capital was sourced from the ADB and the Japan Bank for International Cooperation.⁵⁷ The Bank

⁵² Examples of trust fund activity include \$810,000 from the Policy and Human Resources Development Fund for the Rural Energy project in 2002 and two grants from the Global *Environment* Fund for the System Efficiency Improvement, Equitization and Renewables Project, one in 2001 for \$350,000 and in 2002 for \$4.97 million.

⁵³ Sharon Beder, *Power Play: The Fight for Control of the World's Electricity* (Melbourne: Sage Publications, 2003), pp. 86-100.

⁵⁴ World Bank, "Staff Appraisal Report: Viet Nam Power Sector Rehabilitation and Expansion Project" (Report No. 13586-VN, April 14 1995).

⁵⁵ World Bank, "Staff Appraisal Report: Viet Nam Power Development Project" (Report No. 14893-VN, January 2 1996), p. 20.

⁵⁶ *Ibid*, pp. 32-33.

⁵⁷ World Bank, "Project Appraisal Document on a Proposed International Development Association Partial Risk Guarantee to Mekong Energy Company Ltd in the Social Republic of Vietnam" (Report No. 24692, August 2002).

guarantee was, in turn, guaranteed by the GoV. Further, the state owned electricity company, EVN, signed contracts to purchase the power produced by Phu My 2-2 under a 20 year Power Purchase Agreement. In this way, risk was transferred to the GoV and EVN who must continue to purchase power at a set price even if technological or other breakthroughs result in a significant decline in the costs of generation. The project contracts are all denominated in US dollars meaning that the GoV and EVN assume most of the exchange rate risk as well.⁵⁸ In other words, private investors assumed minimal risk for the project and were not exposed to competition after the contract was signed. This leaves one asking why have private companies in the first place.

Phu My 2-2 was constructed by the Meco Energy Company Ltd — a consortium of EdF International, Sumitomo Corporation and Tokyo Electric Power Company (TEPCO).⁵⁹ A quick search on the internet revealed the following information about these companies: EdF International is a wholly owned subsidiary of Electricite de France, a French public enterprise. It is the largest nuclear power station operator in France and has been watched by Greenpeace in relation to concerns regarding its storage of nuclear waste. EdF has been heavily subsidised by the French government for years, but according to *The Economist*, has nevertheless rarely been profitable. Further, they consider it has “questionable accounting practices” and has made “...imprudent use of funds set aside for nuclear decommissioning and waste-management.”⁶⁰ Sumitomo is part of the Japanese Sumitomo *keiretsu*, in 1998 it offered a settlement of USD \$150 million to the USA Commodity Futures Trading Commission because of the Commission’s concerns about its manipulation of copper trading in 1995/96.⁶¹ TEPCO, another Japanese firm, was shown in October 2002 to have falsified inspection data on

⁵⁸ This is standard Bank policy and, in Asia, has already resulted in a number of electricity boards facing “...financial ruin as a result of unpredicted falls in the value of their currencies in the 1990s, after signing up to a number of private power generation projects.” See Kate Bayliss and David Hall, “Unsustainable Conditions — the World Bank, Privatisation, Water and Energy” (London: Public Services International, 2002), available from: <http://www.psir.org>, accessed: April 2005, p. 4. In Vietnam, current currency controls reduce, but do not eliminate, such exchange rate risks.

⁵⁹ Note the Japanese presence here — not surprising since the Japan Bank for International Cooperation also provided considerable funds for the construction of power plants to EVN, which were constructed by Japanese companies.

⁶⁰ Anon., “A Very Big French Turn-Off — Electricite De France,” *The Economist* (2004), p. 77. EdF is in the process of being partly privatised by the French Government, though they have not separated its transmission, distribution and generation functions in this process, which will improve its market competitiveness over other European regional providers.

⁶¹ USA Commodity Futures Trading Commission, available from: <http://www.cftc.gov/ogc>, accessed: November 2004.

leak rate during containment tests in its nuclear power station to the Japanese regulatory agency. It was also shown to have concealed damage in three of its power plants.

The Phu My 2-2 Guarantee is a powerful statement of the Bank's position on the relative importance of state and market failures. Further, given that the project was approved two years before the new National Electricity Law was passed by the National Assembly, it is also indicative of the lack of concern with the pace and sequencing of reform when it conflicts with the ongoing privatisation agenda.

Two of the Bank's three loans during 2000-2004 were in rural electrification (RE). These aimed to expand access to power in rural areas via grid extensions and alternative energy sources. The expanded access of rural households to energy could have a significant impact on living standards. There are however, a couple of catches in the projects that show the more coercive side of Bank hegemony. Connection to the national grid — the largest part of the program — was only provided to communes that demonstrate adequate rates of return from the connection.⁶² So, poverty reduction in the project was clearly second place to economic efficiency. The distribution model in the projects promoted Washington Consensus hegemonic principles.⁶³ In rural areas, EVN has not been historically responsible for electricity distribution, it has been undertaken by a variety of commune and district level enterprises. The RE projects formalised this system of well over a thousand communal and provincial electricity distributors and provided them with funds to address technical and managerial deficiencies. One condition of the RE projects (also a condition of the System Efficiency project) was the commercialisation and subsequent equitisation of distributors (and the equitisation of EVN assets as well).⁶⁴ These projects show the Bank promoting a fairly radical and fast

⁶² World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for a Rural Energy Project" (Report No. 20351-VN, May 1 2000), World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for a Second Rural Energy Project" (Report No. 29860-VN, October 21 2004).

⁶³ Moreover, Bank reports acknowledged that there is a lack of evidence to demonstrate a strong link between RE and economic growth or poverty reduction amongst the rural poor, indeed a number of studies have show a negative or neutral impacts. Various Bank evaluations are summarised in Jocelyn A. Songco, "Do Rural Infrastructure Investments Benefit the Poor? Evaluating Linkages: A Global View, a Focus on Vietnam" (Policy Research Working Paper No. 2796 Washington: The World Bank, East Asia and Pacific Region, Poverty Reduction and Economic Management Sector Unit, February 2002), pp. 1-9.

⁶⁴ The other project is outlined in World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for a System Efficiency Improvement, Equitization and Renewables Project" (Report No. 24192-VN, June 4 2002).

approach to equitisation for rural utilities, suggesting a continued prioritising of Washington Consensus themes over those of the PWC.

The RE appraisal documents contained little analysis of the technical and financial viability of small operations across different parts of the country. Indeed, there was little mention in Bank documentation of problems with either the privatisation process generally or specifically of electrical utilities across the globe, from California and the UK to India and Brazil.⁶⁵

A theme that runs across all of the loans in both periods was electricity tariffs. The Bank consistently pursued the GoV to raise tariffs. The Government actually slowed the pace of increase in 2001 after concerns about the pace of economic growth following September 11 (and with the Asian Financial Crisis and some civil disturbances still a recent memory). The Bank responded by changing its performance rating on two loans from satisfactory to unsatisfactory. This was only lifted after the Bank and GoV agreed to a Tariff Implementation Plan in May 2002.⁶⁶ The number of conditions in relation to tariffs increased from two in each of the two loans in 1993-1997 to five, four and two in the three loans in 2000-2004. This suggests that the concern with 'getting the prices right' that was so central to the Washington Consensus continues and that it is not tempered by analysis of, or concern for, the social and economic impacts of price adjustments. It demonstrates that the PWC is a modification of the Washington Consensus and does not challenge its hegemonic principles.

The loans in 2000-04 included additional conditions in the area of resettlement. This indicates the Bank's knowledge of, and sensitivity to, policy and implementation differences with GoV on the issue. Resettled people, particularly those with no 'legal' claim on the land they were occupying are often left worse off under GoV resettlement procedures. Further, cultural and socio-economic sensitivities have not always been taken into account. For example, people whose livelihood involves street enterprise have been resettled into high-rise flats where they cannot conduct business and take care of household responsibilities simultaneously. Although the new housing may have been

⁶⁵ For an insight into the range and depth of problems associated with electricity privatisation in a range of countries see Beder, *Power Play* and Yi-chong, "Models, Templates and Currents."

⁶⁶ World Bank, "Appraisal Document — Partial Risk Guarantee to Mekong Energy Company," p. 24.

of better quality, many people have left re-developed areas — mostly inner city areas — and moved further out to resume their occupations. The Bank worked with the GoV on this issue and in 2004, the GoV revised their policy.

There were two notable new concerns in the loans in the second period of study, namely decentralisation and participation. Decentralisation was a key policy prescription in all three loans in the second period. It is a policy that, on the surface, responds to critics of the one-size-fits-all view of Bank programs and also is assumed to provide more local participation in decision-making.⁶⁷ However, as in Vedi Hadiz's analysis of decentralisation in Indonesia, the decentralised structures are not the product of political or social forces on the ground rather they an issue for supposedly apolitical technicians who will determine how to efficiently manage and administer electricity enterprises. So, in Vietnam there was no social analysis of local political and power conditions to determine where and how grid extension should take place, rather decisions were based on the estimated economic rate of return.

Participation made a welcome appearance in the three loans in 2000-2004, although its purposes were limited. In RE projects, communities were consulted to "determine the need for electrification" in other words to assist in the assessment of the economic rates of return and to confirm that 60 per cent of the local population were willing to pay for the service. This supports Paul Cammack's argument that the Bank's vision of civil society participation has been a deliberate strategy "...to induce people to experience tightly controlled and carefully delimited forms of market-supporting activity as empowerment."⁶⁸

What was visible in the power sector was the Bank pushing a radical model of privatisation in both case study periods. The GoV seem to have adopted a more gradual approach to reform and accepted and adapted those components of utility privatisation that suited its approach.⁶⁹ Thus we saw a gradual introduction of IPPs in generation, a

⁶⁷ Hadiz, "Decentralization and Democracy in Indonesia," pp. 700-701.

⁶⁸ Cammack, "What the World Bank Means by Poverty Reduction," p. 12.

⁶⁹ The Chinese also accepted World Bank funding but adopted a gradual approach, see Yi-chong, "Models, Templates and Currents," pp. 665-667.

slow approach to legislative reform and utilisation of Bank funds to develop the already decentralised distribution arrangements in rural areas.

Water, Sanitation and Flood Control

Table 6.4 World Bank Water, Sanitation and Flood Control Sector Lending to Vietnam: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)	% International Competitive Bidding
Loans 1993-1997			
Water Supply Project	1997	\$98.61	93.8%
Loans 2000-2004			
HCMC Environmental Sanitation Project	2001	\$166.34	90.8%
Urban Upgrading Project	2004	\$222.47	53%
Urban Water Supply Development Project	2004	\$112.6	48.55%

The first loan in the sector was the Water Supply Project for four cities approved in 1997. The project was a response to a 1991 request from the GoV to undertake a water supply *and* sanitation project. The Bank's Staff Appraisal Report argued that it was separated into two projects, a water supply project to be followed by a sanitation project, because "...the great number of involved institutions with various financial objectives would make the project very complex."⁷⁰ However, as outlined earlier, separation of water supply from sanitation is a strategy the Bank has employed in numerous countries as a key step in achieving privatisation of the more profitable water supply business.

Much of the process of unbundling of the sector was already carried out under the impetus of GoV's decentralisation program and with assistance from an ADB technical assistance project.⁷¹ Water Supply Companies (WSCs) were formed under the responsibility of Provincial People's Committees. Sewerage is controlled by the municipal level by Sewerage and Drainage Companies or by Urban Environment Companies. The Water Supply Project included training and capacity building measures

⁷⁰ World Bank, "Staff Appraisal Report: Socialist Republic of Vietnam Water Supply Project" (Report No. 16299-VN, May 20 1997), p. 7.

⁷¹ Ibid, p. 26.

to make the WSCs "...commercial companies in a market economy" that are "...attractive for private sector participation."⁷² The largest component of the project was design and construction and it was here that private sector involvement was firmly established via the Bank's requirement for ICB for materials and construction, which in this project accounted for a high 93.8 per cent of the Bank loan.

Poverty got very little attention in the Water Supply Project, indeed the Bank cited its global experience as a justification for ignoring it:

[t]he principal lesson is that sector projects should not be used as vehicles to pursue subsidiary objectives at the expense of the main objective. Thus tariffs should not be distorted to satisfy poverty alleviation objectives...⁷³

This is the kind of argument the Bank made regarding water projects from its first forays into the sector in the mid-1960s and its residual suspicion of such 'social' projects meant that cost recovery or revenue raising was promoted in the sector from the outset.⁷⁴ The project contrasts starkly to the three projects in the second case study period that all focus heavily on poverty reduction as an objective. However, these projects maintained the push for privatisation. In the Ho Chi Minh City (HCMC) Environmental Sanitation Project, amidst technical discussion of wastewater and drainage components was a plan to divide the maintenance units of the Urban Drainage Company (UDC) into five self-financing business centres which, by 2002 must have entered into management contracts with UDC. By 2004, three of the five maintenance units must have been fully separated from the UDC, with two remaining inside UDC as a baseline and to provide flexibility in case of emergencies. Operation and maintenance for new wastewater facilities built under the project must be fully contracted out.⁷⁵ Over ninety per cent of the value of the Bank's loan was for works contracted via ICB. Of the remaining \$15.3 million, \$14.3 million was for consultants.

⁷² Ibid, pp. 28, 24.

⁷³ Ibid, p. 9.

⁷⁴ Kapur, Lewis and Webb, *World Bank*, pp. 199-200.

⁷⁵ World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for the Ho Chi Minh City Environmental Sanitation Project" (Report No. 21030-VN, February 20 2001), p. 4.

The Urban Upgrading Project (2004) stepped out of the mould, it had a poverty focus and participatory components, though participation still reduced to communities, "...willingness and ability-to-pay".⁷⁶ All of the activities carried out had to be contracted out, however, only 52 per cent of the value was subject to ICB procedures. Forty-five per cent were reserved for NCB and the remainder was consultancy service.

The Urban Water Supply Development Project (2004) returned to the traditional Bank mould of projects expanding private participation, however, it focused on district centres.⁷⁷ The Bank loan funded components one and two of the project, respectively entitled the "Competition Route" and "Performance Route." Under the Competition Route, contractors were used to design and build water supply facilities in un-serviced district towns. A separate round of bidding was then planned for contracts to operate the facilities. Component two, the Competition Route provided funds to existing WSC that were performing well, defined as meeting criteria on staffing, unaccounted for water and financial ratios. The funds could be used to subcontract work on construction or rehabilitation of systems. The only concession to the projects being outside major urban centres was that slightly over 50 per cent of funds were reserved for NCB.⁷⁸

The water tariff was a theme and condition in all of the loans, with the Bank focused on increasing tariffs to levels that fully cover costs. The Bank's attitude to tariffs was clear in this statement on key challenges for the sector, which were:

...reorientation of the enterprise management to providing water and sanitation services as a business rather than exclusively as a social obligation, to the gradual replacement of subsidies by user charges, and to the increased ability of enterprises to make rational business decisions without unnecessary political control.⁷⁹

Tariffs are not a simple issue in water supply. Those not connected to water supply systems (normally the poor) sometimes pay substantially more absolutely and relatively for their water than those who are currently connected, who are more likely to be

⁷⁶ World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for the Urban Upgrading Project" (Report No. 27526-VN, March 31 2004), p. 7.

⁷⁷ World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for the Urban Water Supply Development Project" (Report No. 29128-VN, November 22 2004).

⁷⁸ Ibid, p. 43.

⁷⁹ World Bank, "Staff Appraisal Report: Vietnam Water Supply," p. 3.

wealthy.⁸⁰ Thus higher tariffs for piped water can be justified if they fund expansion of networks. However, high tariffs often result in the poor switching to cheaper water sources (e.g. groundwater) and increases can cause political disturbances. Moreover, historical experience is that "...network extension in the water sector has only ever been achieved through cross-subsidisation implemented through central government."⁸¹ Water is a very 'political' issue because it has implication for poverty, health and the environment and it is clear that private sector involvement has not, and cannot by itself, guarantee provision of safe water to the poor.⁸² The Bank's view of water tariffs as being simply a business decision reflects a weak analysis of actors and interests in society and a weak version of the PWC.

Transportation

Table 6.5 World Bank Transportation Sector Lending to Vietnam, 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)	% International Competitive Bidding
Loans 1993-1997			
Highway Rehabilitation Project 1	1993	\$158.5	N/A*
Rural Transport Project 1	1996	\$ 55.0	1 %
2 nd Highway Rehabilitation Project	1997	\$195.0	73.9 %
Inland Waterways and Ports	1997	\$ 73.0	67.1%
Loans 2000-2004			
Mekong Transport and Flood Protection Project	2000	\$110.00	89.5%
Community Based Rural Infrastructure Project	2001	\$102.78	0.7%
Road Network Improvement Project	2003	\$225.26	53.6%

* ICB procurement was used in the project but no figures are included in the available reports on the project. Presumably levels were similar to 2nd Highway Rehabilitation Project.

Transportation has been one of the largest areas of Bank lending in Vietnam. There were seven loans, mostly large, over the two case study periods (see table 6.5), supported by an extensive program of analytical and advisory services. Despite being

⁸⁰ Arthur C. McIntosh, *Asian Water Supplies: Reaching the Urban Poor* (London: Asian Development Bank and International Water Association, 2003), pp. 1-2.

⁸¹ Bayliss and Hall, "Unsustainable Conditions," p. 10.

⁸² McIntosh, *Asian Water Supplies*, pp. 39-40.

one of the least contentious areas of Bank activity, four issues stood out for attention, these were: procurement; road standards; involuntary resettlement; and the socio-economic impact of transport projects and their poverty implications. And indeed, these issues address the core issue for this thesis — the nature and extent of the Bank's shift from the Washington to post-Washington Consensus.

Standard Bank procedures relating to procurement apply to transport loans, thus the Ministry of Transport cannot carry out work, rather it must be contracted out. The only area of flexibility relates to whether procurement is open internationally or restricted to national bidding or shopping. Table 6.5 indicates the percentage of each project that was subject to ICB. Rural projects, in both periods, show a higher component of non-ICB. This may indicate more flexibility from the Bank.⁸³ However, pragmatically examined, it is unlikely that international capital would (currently) be interested in small operations in rural Vietnam. Therefore, from the Bank's perspective, local capital and competition is required. Thus, the Bank sought to assist in the establishment of local private contractors and the project set aside funds for training firms in "...bid preparation, cost accounting, and contract management."⁸⁴

Given the experience of the Rural Transport Project where 'too many' SOEs were winning contracts, in December 2000 SOEs connected to the Ministry of Transport and relevant provincial governments were banned from bidding for work.⁸⁵ The Bank explained this decision on the basis of removing potential conflicts of interests. However, it also effectively excluded many firms with relevant skills and experience from competing for work. The Bank's Implementation Completion Report on the 2nd Highway Rehabilitation Project explicitly connected its program to promoting equitisation:

...there remain a large number of SOEs to which reform has not been applied... The equitisation process could have continued through this project with a programmatic approach that would have created the

⁸³ Note that the Community Based Rural Infrastructure Project's major classification was transportation because the bulk of expected sub-projects are in this sector.

⁸⁴ World Bank, "Staff Appraisal Report: The Socialist Republic of Vietnam Rural Transport Project" (Report No. 15537-VN, September 24 1996), p. 15.

⁸⁵ World Bank, "Project Performance Assessment Report Vietnam Highway Rehabilitation Project 1 (Credit 2549-VN), Rural Transport Project 1 (Credit 2929-VN)" (Report No. 28168, March 9 2004), p. 16.

right incentives for [Ministry of Transport's] MOT's innovation, supporting successful case models for future application, focusing on equitisation of profitable enterprises and extending the reform to large SOEs.⁸⁶

The important point is the way the Bank explicitly connected reform of procurement, equitisation of SOEs and deregulation of the construction industry.⁸⁷ In rejecting a mixed economy model, the Bank aims to systematically transform Vietnam to a neo-liberal, mediated yet individual and market-driven form of capitalism.

The Inland Waterways and Port Rehabilitation Project (1997) aimed to establish a framework for the privatisation of “commercially-viable transport services” in the Mekong. The Mekong Transport and Flood Protection Project (2000) in the second case study period continued this goal. According to the Bank, the Vietnam Roads Authority must:

...gradually disengage from force account operations, and focus on performance-based long-term contract management and quality control. The road construction industry *will have to develop correspondingly, by first divesting state-owned construction enterprises...* The Government has launched a program to equitize SOEs with selective targeting and a time frame but so far construction SOEs have not been given a high priority.⁸⁸

The Road Network Improvement Project moved the focus from private participation in road construction to private participation in road maintenance. Its goal of creating a “large number” of road maintenance enterprises across Vietnam again required

⁸⁶ World Bank, "Implementation Completion Report on a Credit to the Socialist Republic of Vietnam for a Second Highway Rehabilitation Project" (Report No. 29375-VN, June 30 2004), p. 18. Component C of the project to improve hazardous road sections was cancelled by the Bank as GoV wanted to undertake the work itself rather than contract it out. Bank loans are simply not flexible enough to allow a \$1.1 million (of a \$195.6 million program) safety component to be other than out-sourced regardless of safety and efficiency gains.

⁸⁷ See World Bank, *Vietnam: Transforming Public Procurement* (Hanoi: World Bank, 2002), p. 6.

⁸⁸ World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for the Mekong Transport and Flood Protection Project" (Report No. 20405-VN, November 20 2000), p. 4, emphasis added.

encouragement for local capital. Therefore, the level of ICB bidding for the project was only 53.6 per cent of the value of the Bank's credit.⁸⁹

Road standards have been an issue of some contention in all Bank-funded projects, in relation to the Highway Rehabilitation Project 1 the problem lay in rehabilitation versus expansion. Some sections of highway that were rehabilitated by the Bank needed, shortly after completion, to be expanded and or bypasses needed construction, due to traffic growth. According to the Bank's Project Performance Assessment Report, both the Bank and GoV ignored lessons from other countries in post-conflict or transition stages that road transport is often an area of pent-up demand.⁹⁰

Standards on rural roads have been even more controversial — on the basis of a cost-benefit approach, the Bank limited upgrades on many rural roads to spot upgrading and gravel surfacing. In many cases, however both the community and the relevant local authority pushed for bituminisation. Key reasons for this were that, as in the case of highways, upgrading often leads to increased traffic volumes, which increase the impact of externalities on the many communities living along the roads. The Bank's Project Performance Assessment Report recommended that such externalities be taken into account in analysis.⁹¹ This report, released in 2004, appears not to have impacted on the Bank's approach — at an interview in 2005, a Bank officer noted:

I know we've been having a big debate internally and with the government about gravel paving versus rural roads. I think the *modus operandi* seems to be we finance a gravel road and then they pave it later on...⁹²

When I asked the officer about the implications of the Bank's position in terms of government and local ownership, the response was to cite the issue of costs — the GoV cannot fund all the infrastructure projects they wish and the Bank needs to work with them to establish priorities.

⁸⁹ World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for a Road Network Improvement Project" (Report No. 27368-VN, November 24 2003), p. 10. Bank procurement is outlined in pp. 54-60.

⁹⁰ World Bank, "Project Performance Assessment Report Vietnam Highway Rehabilitation Project 1, Rural Transport Project 1," p. ix.

⁹¹ Ibid, p. 13.

⁹² Phillip D. Gray, "Interview," (Hanoi, Vietnam: Senior Energy Economist, World Bank, 2005).

There was a problem with lack of compliance by the GoV to the Bank's involuntary resettlement guidelines in transport projects. As outlined above, the Bank worked with the GoV to address this issue and progress is being made. However, it remains a concern particularly in decentralised transport projects with possibly hundreds of local authorities responsible for resettlement.

Finally, there is the issue of the connection between transport investment and socio-economic development generally and, more specifically poverty reduction. World Bank and other donor activity in transport was predicated on a connection between increased investment and a range of socio-economic benefits, for example, improved access to markets, health and education facilities and off-farm income generation possibilities.⁹³ This analysis resulted in a generally implicit correlation being posited between transport (and roads in particular) and poverty reduction. Rural Transport I makes the link explicit in referring to data from a national survey that purportedly "...shows that people who live near an all-weather road have higher living standards than those who do not."⁹⁴ There is, however, little analytical work to explain the correlation.

Philip Taylor's work on the Khmer Krom ethnic minority in the Mekong delta did not question this correlation *per se*, rather the reasons for it. His study indicated that road transport projects have driven the Khmer Krom away from better-located land and that the primary effects of road infrastructure have been "...to open new opportunities for those who are already advantageously placed."⁹⁵ The Khmer Krom are primarily rice farmers who, after initial gains in living standards in the late 1980s and early 1990s, suffered under the decreasing price of rice. Further, the price of many of their key crop inputs has increased, as have the costs of health and education often resulting in high levels of debt. Taylor found that when Khmer Krom landowners were offered

⁹³ The summary of donor activity in Vietnam highlighted that transport, in particular roads, has been a major area of activity for the big three providers of ODA: Japan, the World Bank and the ADB. Australia and other bilateral providers of ODA have also funded roads and bridges. Taylor noted that donors possess "...resounding unanimity as to the beneficial impacts of roads" and this has resulted in "...swift and spectacular" action. Philip Taylor, "Redressing Disadvantage or Re-Arranging Inequality? Development Interventions and Local Responses in the Mekong Delta," in Philip Taylor (ed.), *Social Inequality in Vietnam and the Challenges to Reform* (Singapore: Institute of Southeast Asian Studies, 2004), p. 242.

⁹⁴ World Bank, "Project Performance Assessment Report Vietnam Highway Rehabilitation Project 1, Rural Transport Project 1," p. 13.

⁹⁵ Taylor, "Redressing Disadvantage or Re-Arranging Inequality?," p. 255.

seemingly good prices for their land (from those with knowledge of forthcoming projects), they often accepted and either relocated to more remote areas where land was cheaper or they became (landless) agricultural labourers.⁹⁶ The implication is that people who already have high living standards are able to advance their position by purchasing land near roads to be upgraded and this can result in impoverishment of people from lower socio-economic strata.

The Bank appeared to recognise this problems in the Community Based Rural Infrastructure Project, stating in the lessons learned section that it is necessary to transparently target the poor “and minimize opportunities for influential people to favor the non-poor or preferred location.”⁹⁷ The project implementation model was more participatory than earlier project; it involved community capacity building prior to projects. This change is strong evidence of a PWC model of development. However, a note of caution is required—the necessity for scale in Bank projects meant the project did not include a differential analysis of its impacts on minority and other disadvantaged groups. Further, as outlined in more detail in the section below on loans in agriculture, fishing and forestry, the Bank has not been overly successful in implementing participatory projects.

The changes visible in the Community Based Rural Infrastructure project are not applicable to the two other loans in the second case study period. Overall then, it can be concluded that the PWC had a minor impact only on rural transportation projects.

Finance and Law, Justice and Public Administration

Table 6.6 World Bank Finance and Law, Justice and Public Administration Sector Lending to Vietnam: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)	% Microfinance
Loans 1993-1997			

⁹⁶ Ibid, p. 261. It is notable that the Mekong has amongst the fastest growing rates of landlessness in Vietnam, Taylor, "Redressing Disadvantage or Re-Arranging Inequality?," p. 241.

⁹⁷ World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for a Community Based Rural Infrastructure Project" (Report No. 21215-VN, June 4 2001), p. 13.

Agricultural Rehabilitation Project	1994	\$96.0	51
Payment System and Banking System Modernization Project	1995	\$45.65	-
Rural Finance Project I	1995	\$122.0	100
Loans 2000-2004			
Second Rural Finance Project	2002	\$200.0	100
Public Financial Management Reform Project	2003	\$54.3	0
Forest Sector Development Project*	2004	\$39.5	51**

* Project sector as classified by Bank is agriculture, fishing and forestry. ** See note 99.

Four of the five credits in the law, justice and public administration sector were structural adjustment loans analysed above. Thus the remaining credit in this sector, the Public Financial Management Reform Project, is included with finance sector activities. The Bank classified the Agricultural Rehabilitation Project as a finance project because 51 per cent of the loan value was for a form of microfinance — supervised credits to private smallholder farm households across ten provinces to provide access to farm inputs.⁹⁸ The non-microfinance aspects of the credit are analysed with agriculture, fishing and forestry loans. The Forest Sector Development Project, which is classified by the Bank as 100 per cent agriculture, fishing and forestry, includes a similar microfinance component for smallholder plantation forests valued at 51 per cent of total project funds (and a greater portion of World Bank loan funds).⁹⁹ Thus the microfinance component is covered in this section.

These two loans (one in each case study period) with specific agricultural credit components are somewhat surprising as agricultural credit became unfashionable in the Bank in the 1980s due to a combination of poor performance and a shift in paradigm regarding rural credit.¹⁰⁰ The new paradigm, outlined in more detail below, is to mainstream microfinance services and operate them on commercial lines. This was the

⁹⁸ World Bank, "Project Performance Assessment Report Agriculture Rehabilitation Project (Credit 2561-VN)" (Report No. 24291, June 11 2002), p. 2.

⁹⁹ Total project costs were \$74.63m of which \$9.0m was a Global Environment Fund grant and \$39.5m a Bank investment loan. Of the loan funds, \$38.02m was allocated to component two of the project that covers plantation establishment, extension, land-use certification and microfinance. Figures on the relative allocation to each component of Bank loan funds were not available, however, total planned expenditure for microfinance was \$38.55m. See World Bank, "Project Appraisal Document on a Proposed Credit and Grant from the Global Environment Facility Trust Fund to the Socialist Republic of Vietnam for a Forest Sector Development Project" (Report No. 26767-VN, May 19 2004).

¹⁰⁰ Kapur, Lewis and Webb, *World Bank*, pp. 428-436.

model for both Rural Finance Projects with an addition of targeted funds for the rural poor (accounting for 9.8 and 14 per cent respectively of the first and second Rural Finance Projects).¹⁰¹ The new paradigm was also the reason for the switch from using a single institution for microfinance (sub-project) loans (the Vietnam Bank for Agriculture and Rural Development), to using one wholesale bank and multiple, competing banks and organisations for sub-project loans. Overall, microfinance was the dominant theme in finance sector loans, comprising three of the four activities and accounting for 89 per cent of loan funds in the sector.¹⁰²

Microfinance has been part of the World Bank 'toolkit' since the 1980s when a so-called 'revolution' took place, shifting "...from the old paradigm of subsidised credit delivery to the new paradigm of sustainable commercial microfinance."¹⁰³ From this shift, we can see that microfinance is sympathetic to the Washington Consensus supporting, in particular, its faith in individualism, entrepreneurship and banking liberalisation, especially in relation to control over interest rates. By the early 1990s, the Bank was publicly supporting microfinance as an approach to poverty reduction¹⁰⁴ — an approach that eschews the need for social safety nets as "...a welfare-biased approach to poverty alleviation that disenfranchises the poor and establishes new dependency relations."¹⁰⁵ The Bank's theory is that empowering the poor requires the appropriate "enabling environment" thus giving them the opportunity to be entrepreneurial. As Heloise Weber pointed out, the enabling environment in policy terms becomes in essence an issue of access to credit, which in a neoliberal context has the effect of placing financial sector liberalisation as a central issue in poverty reduction.¹⁰⁶ Thus, she concluded that microfinance is more than merely sympathetic to the Washington

¹⁰¹ World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for a Second Rural Finance Project" (Report No. 23817-VN, May 2 2002), World Bank, "Staff Appraisal Report: Socialist Republic of Viet Nam Rural Finance Project" (Report No. 15088-VN, April 2 1996).

¹⁰² This calculation included only the 51 per cent of the Agriculture Rehabilitation Credit that was microfinance as Finance sector, if the whole credit was included then microfinance only accounted for 80 per cent of the sector.

¹⁰³ Marguerite S. Robinson, *The Microfinance Revolution: Sustainable Finance for the Poor* (Washington: World Bank and the Open Society Institute, 2001), p. 46.

¹⁰⁴ Heloise Weber, "The 'New Economy' and Social Risk: Banking on the Poor?," *Review of International Political Economy*, Vol. 11, No. 2 (2004), p. 359.

¹⁰⁵ David Gibbons, et al., "Microfinance for and by the Poor: Lessons from Experience," in Joe Remenyi and Benjamin Quiñones (eds.), *Microfinance and Poverty Alleviation: Case Studies from Asia and the Pacific* (London: Pinter, 2000), p. 266.

¹⁰⁶ Weber, "The 'New Economy' and Social Risk," p. 362.

Consensus, as a poverty reduction strategy its goal is: "...to both advance and legitimize neoliberal restructuring." ¹⁰⁷

Moreover, the administration of microfinance projects is often presented in ways that imply a need for financial sector liberalisation. ¹⁰⁸ This later implication is evident in statements from the Bank-sponsored group responsible for mainstreaming microfinance, the Consultative Group to Assist the Poorest (CGAP), who state that necessary financial sector reforms to support microfinance include:

...removal of ceilings on interest rates, removal of competing subsidized credit schemes, less restrictive banking laws to encourage new entrants, and prudential regulation and supervision to accommodate non-bank financial institutions, particularly those involved in savings mobilization and uncollateralized credit to individuals through solidarity groups. ¹⁰⁹

The strategy of promoting multiple, competing banks for loans was a part of the Bank's overall project of reforming finance in Vietnam — the Second Rural Finance Project justified IDA involvement in the loan because it facilitated restructuring of state-owned commercial banks, improved banking competition and created "...a framework within which there can be substantial private development within the financial sector."¹¹⁰ Further, the project was supposed to "strongly complement" banking sector reforms supported under the PRSCs, which aimed to create a private, liberalised finance sector. Subsumed under the conditions on the contents of a policy manual for both the first and second rural finance loans, was a requirement for commercially sustainable interest rates acceptable to IDA.¹¹¹ Indeed, there was a high level of conditionality on both the Rural Finance Projects — 29 conditions on the first loan and 45 on the second. These are the second and third highest numbers of conditions in the two case study periods in Vietnam; the average number of conditions was 20.9 and the median was 19.¹¹²

¹⁰⁷ Ibid, p. 360.

¹⁰⁸ Ibid.

¹⁰⁹ Cited in *ibid*, p. 374. CGAP further argued that policy implications of mainstreaming microfinance extend to reform of the legal and regulatory environment for micro-business and recovery of debts.

¹¹⁰ World Bank, "Project Appraisal Document: Vietnam Second Rural Finance Project," p. 17.

¹¹¹ Ibid, p. 30 and World Bank, "Staff Appraisal Report: Viet Nam Rural Finance," p. 37.

¹¹² These figures exclude three loans from early in the first case study period for which the documentation containing conditions is not available. Calculations of the number of conditions counted the various sub-

Weber argued that microfinance should be seen as a key policy response to crises that follow from structural adjustment programs —it is “...a neo-liberal safety net *for* neoliberal political restructuring.”¹¹³ In Vietnam, microfinance loans were among the first organised by the World Bank. This was at a time when, following a period of restructuring broadly along neoliberal lines, the rate of reduction in poverty had declined and the social welfare system, which had been neglected since the mid-1980s, was in a state of disrepair. Even in education and health, where Vietnam had achieved above average outcomes, user-fees and neglect resulted in declining performance. This produced increasing levels of unrest, especially in the countryside. Given the Bank’s commitment to neoliberalism, microfinance loans in Vietnam should be seen, as Weber’s analysis suggests, as part of the neoliberal policy response to problems arising from economic adjustment.

The model of microfinance used in the Bank loans also sheds light on the PWC. It was what is called a minimalist approach to microfinance and involved credit provision only for those accessing ‘sub-projects.’¹¹⁴ That is to say, there was no training or skills development involved for the poor. There were, however, significant programs of institutional strengthening for the wholesale bank and the participating financial institutions. There was a substantial administrative burden on participating financial institutions and little flexibility for them to modify operations to suit local conditions and needs. The paradox of this approach was that microfinance operations were initially established precisely because traditional banks and financial institutions were not flexible enough to serve the poor. The Bank’s model required participating financial institutions to follow the management and institutional arrangements of mainstream financial organisations.¹¹⁵

conditions as separate conditions, for example condition (b) sub-conditions i-v were counted as five conditions.

¹¹³ Weber, "The 'New Economy' and Social Risk," p. 362.

¹¹⁴ Ibid, p. 364. The Forest Sector Development Project was an exception to this as it included linked extension services, training and land-use certification.

¹¹⁵ John Weiss, Heather Montgomery and Elvira Kurmanalieva, "Micro-Finance and Poverty Reduction in Asia," in John Weiss (ed.), *Poverty Targeting in Asia* (Cheltenham: Edward Elgar, 2005), p. 250. On the problems of donor requirements on microfinance see: Gibbons, et al., "Microfinance for and by the Poor," p. 260.

There can be little doubt that what has kindly been called the “mission drift” towards commercial operation will significantly impact on microfinance operations.¹¹⁶ This appears to be the case in Vietnam — a review of rural lending in Vietnam by Pham Bao Duong and Yoichi Izumida found that the Vietnam Bank for Agriculture and Rural Development (VBARD), which accounts for 84 per cent of formal lending for rural households, lends primarily to the non-poor.¹¹⁷ VBARD lending is primarily determined by a household’s reputation in the village (a measure of both economic position and prestige), a low number of dependents and by the amount of credit applied for. In other words, VBARD follows traditional commercial banking practices that make it difficult for the poor to access formal credit.¹¹⁸ Further, differential in access to credit is, according to A. Haroon Akram-Lodi, contributing to a stratification of peasant landholdings in rural Vietnam, which in turn is contributing to the creation of landless wage labourers.¹¹⁹ The percentage of landless rural households jumped from 8.2 in 1993, to 9.2 in 1998 and 18.9 in 2002.¹²⁰ It may well be that World Bank microfinance (and other) activities are contributing to the development of a landless proletariat in Vietnam.

There was little information in the loan documents on the way the microfinance activities were operated, however a couple of references suggest a relatively standard microfinance model. This involves the formation of small savings groups of approximately five people; after a few weeks of demonstrating their savings capacity a limited number, generally two, members of the group are eligible for loans. If these loans are re-paid in line with the rules, other members of the group become eligible for loans. The key feature is the collective or group responsibility for loan repayment; this collective responsibility also serves as ‘collateral’ for the loan.¹²¹ Jude Fernando, in a review of microfinance in Bangladesh, found that, the group system results in range of pressure tactics to ensure repayment including control and regulation of household

¹¹⁶ Weiss, Montgomery and Kurmanalieva, "Micro-Finance and Poverty Reduction in Asia."

¹¹⁷ Pham Bao Duong and Yoichi Izumida, "Rural Development Finance in Vietnam: A Microeconomic Analysis of Household Surveys," *World Development*, Vol. 30, No. 2 (2002).

¹¹⁸ Ibid, p. 333.

¹¹⁹ A. Haroon Akram-Lodhi, "Vietnam's Agriculture: Processes of Rich Peasant Accumulation and Mechanisms of Social Differentiation," *Journal of Agrarian Change*, Vol. 5, No. 1 (2005), pp. 84-87.

¹²⁰ The data is from the *Vietnam Joint Donor Report 2003*, cited in *ibid*, pp. 84-85.

¹²¹ M. Kabir Hassan, "The Microfinance Revolution and the Grameen Bank Experience in Bangladesh," *Financial Markets Institutions and Instruments*, Vol. 11, No. 3 (2002), p. 208.

consumption. Difficulties meeting repayments can increase the conflict within a household too.¹²²

Other research has shown that microfinance loans are often not used for the purpose for which they were made, instead they are used for consumption (e.g. medical costs, school books, etc). As Weber pointed out, donors responded to this finding by changing the objectives of microfinance to include consumption ‘smoothing.’¹²³ Where loans are used for income generation activities, the requirement for immediate weekly repayment means income generation activities need to provide returns from day one. Often new loans are taken to repay existing ones, which can result in debt dependency.¹²⁴

The Second Rural Finance Project referred to results from a socio-economic study of the first project reporting that there was a high repayment rate of loans (98 per cent) and that the bulk of funds went to projects in cultivation and animal husbandry (74 per cent of loans).¹²⁵ There was no detail on the impact on poverty, despite the project being classified as a Poverty Targeted Initiative. On gender issues, the assessment was limited to noting that only 30 per cent of borrowers were women.¹²⁶ The study does not indicate the level of access of ethnic minorities (who suffer the highest levels of poverty in the country) to the program, but it claimed that there was no negative impact on them.¹²⁷

The Second Rural Finance Project posited that: “[f]inancing viable initiatives of the rural poor and providing them with better access to financial services would increase their chances of getting out of the poverty trap.”¹²⁸ Despite the growing literature on microfinance, there is little solid and uncontested evidence to support this argument. The Bank’s claim is an example of the belief that microfinance has “intrinsic value” and

¹²² Jude L. Fernando, "Nongovernmental Organizations, Micro-Credit, and Empowerment of Women," *The Annals of the American Academy of Political and Social Science*, Vol. 554, (1997), p. 160.

¹²³ Weber, "A Political Analysis of the PRSP Initiative," p. 195.

¹²⁴ Fernando, "Nongovernmental Organizations, Micro-Credit, and Empowerment of Women," p. 161.

¹²⁵ World Bank, "Project Appraisal Document: Vietnam Second Rural Finance Project," p. 15.

¹²⁶ This low rate is surprising because most microfinance schemes target women and their key (if questionable) argument is that microfinance empowers women. One academic study found that some of the strongest evidence supporting the pro-poor argument for microfinance comes from projects that target women in Asia, Weiss, Montgomery and Kurmanalieva, "Micro-Finance and Poverty Reduction in Asia," p. 259. Alternatively for a critical perspective on women’s control of microfinance and microfinance organisations see Fernando, "Nongovernmental Organizations, Micro-Credit, and Empowerment of Women," pp. 155-156.

¹²⁷ World Bank, "Project Appraisal Document: Vietnam Second Rural Finance Project," p. 15.

¹²⁸ Ibid, p. 18.

the “general expectation” that it will assist the poor.¹²⁹ More to the point, though, the argument re-frames social vulnerability as economic potential and thus can be seen as “...a form of social disciplining aimed at commanding compliance” with Washington Consensus restructuring.¹³⁰ The Bank’s continuing reliance on microfinance in the PWC, demonstrates the PWC’s neoliberal core. Further, this individualistic, self-help approach to economic growth is increasingly being marketed to the poor themselves and to the developed world as *the* appropriate way of achieving development.¹³¹

The final two loans examined here are the Payment System and Banking System Modernization Project from 1995 and the 2003 Public Financial Management Reform Project. The Payment System Project aimed to establish a national inter-bank payment settlement system, a commercial intra-bank payment system and provide institutional strengthening for commercial banks. It was designed to undertake precursor actions for the commercialisation and equitisation of the domestic financial sector and as a “...step toward the gateway for global markets.”¹³²

The Public Financial Management Reform Project provided hardware, software and training for a management information system for Treasury. It also piloted the use of Medium Term Fiscal Frameworks and Medium Term Expenditure Frameworks (MTEFs). Because these were to be linked to achieving the goals of the CPRGS, the Bank claimed that “...the poor should benefit disproportionately” from the project.¹³³ This may be the case but accounting and planning methods were the reason that Vietnam has not been able come to terms with the IMF since 2001. As Porter and Craig pointed out such standards, and MTEFs in particular, are an effective way to deepen PWC fiscal discipline and global transparency. They found that:

MTEFs provide one, comprehensive device through which global agreements, national inter-sectoral budgeting and highly localized investments are bound together in ways that were never possible

¹²⁹ These related arguments are respectively from: Weber, “The ‘New Economy’ and Social Risk,” p. 365, Weiss, Montgomery and Kurmanalieva, “Micro-Finance and Poverty Reduction in Asia,” p. 262.

¹³⁰ Weber, “The ‘New Economy’ and Social Risk,” p. 356.

¹³¹ Weber, “A Political Analysis of the PRSP Initiative,” p. 195.

¹³² World Bank, “Implementation Completion Report on a Credit to the Socialist Republic of Vietnam for a Payment System and Banking Modernization Project” (Report No. 27635, June 15 2004), p. 8.

¹³³ World Bank, “Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for a Public Financial Management Project” (Report No. 25480-VN, April 24 2003), p. 15.

through the instruments of national development planning [and] of national accounting that were popular in newly independent nations. In practice, MTEFs now sit in a larger basket of World Bank/IMF risk management procedures as part of wide-ranging fiduciary and due diligence assessments of a country's public financial accountability arrangements.¹³⁴

This may be a project sold in poverty terms but it was nevertheless fully consistent with the Washington Consensus.

In addressing the central question of whether and how the PWC differs from the Washington Consensus, this section demonstrated that finance and public administration sectors remain dominated by Washington Consensus thinking.

Agriculture, Fishing and Forestry

Two things are surprising about loans in the agriculture, fishing and forestry sector, first the lack of change in the language and content of projects over the two case study periods and second, the number of projects that can best be described as area development or integrated area rural development projects. These developed during the McNamara presidency as poverty lending but became unfashionable in the Bank in the early 1980s. However, the focus on specific geographical areas high in poverty fulfilled the Bank's need for specific projects and its need to be seen doing something about

Table 6.7 World Bank Agriculture, Fishing and Forestry Sector Lending to Vietnam: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)
Loans 1993-1997		
Agricultural Rehabilitation Project*	1994	\$96.0
Irrigation Rehabilitation Project	1995	\$100
Forest Protection and Rural Development Project	1997	\$21.5
Loans 2000-2004		
Northern Mountains Poverty Reduction Project	2001	\$110
Water Resources Assistance Project	2004	\$157.8

¹³⁴ Porter and Craig, "The Third Way and the Third World," p. 400.

Forest Sector Development Project	2004	\$39.5
Avian Influenza Emergency Recovery Project	2004	\$5.0

* *World Bank sector classification is finance 51 per cent, non-finance components included in this section.*

rural poverty.¹³⁵ In terms of language and content, participation of local communities was incorporated by 1997 — in the Forest Protection and Rural Development Project — and maintained a strong presence thereafter. Decentralisation was discussed more explicitly in the second case study period loans, not enough though to suggest significant change. This may be because given their nature, all projects adopted decentralised management and implementation systems (with the exception of the avian influenza loan).

In the Northern Mountains Poverty Reduction project, the Bank claimed that its key ‘value-added’ to the project was its direct support for “...true and full participation during design, implementation, operation and maintenance, and monitoring and evaluation.”¹³⁶ However, a brief analysis of the project design reveals that most project implementation responsibility lay with districts rather than communes and that participation essentially involved representation from existing GoV structures and connected organisations (e.g. Women’s Union, Youth Union, Farmers’ Association). Participation in this form is likely to reinforce existing power relations. This design indicates why the Bank’s own Operations Evaluation Department concluded that in general “...the language of NGO/CBO involvement in Bank-supported projects outstripped the reality.”¹³⁷

Both forest sector loans claimed to be focused on biodiversity protection, however, they can be better understood as rural area development projects — in the Forest Protection and Rural Development Project (1997) \$10.46m of the \$21.5m loan was directed to rural infrastructure projects in the two project areas, a further \$1.77m was for

¹³⁵ Kapur, Lewis and Webb, *World Bank*, p. 314.

¹³⁶ World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for a Northern Mountains Poverty Reduction Project" (Report No. 21233-VN, September 5 2001), p. 25.

¹³⁷ World Bank Operations Evaluation Department, "Non-Government Organizations and Civil Society Engagement in World Bank Supported Projects: Lessons from OED Evaluations" (Lessons and Practices No. 18, Washington: August 28 2002), p. 1.

agriculture support services and \$1.62m was for *land allocation*.¹³⁸ In the Forest Sector Development Project (2004) \$38.02m of the \$39.5m loan was for development of smallholder plantation forests in four sites (this includes the microfinance component discussed previously).¹³⁹

The Northern Mountains Poverty Project was also an area development project — it targeted 368 poor and remote communes across six provinces and funded a range of community-selected rural infrastructure projects and some associated ‘software.’¹⁴⁰ Informal feedback indicated that this and other community development projects in Vietnam did not performing particularly well. The Project Appraisal Document acknowledged some of the problems that the Bank has encountered with both community development and area development projects in the past, noting they have “...not been entirely successful in terms of impact or sustainability.”¹⁴¹ Specifically it highlighted project complexity as a problem and acknowledged this project has “above average complexity” and will place significant demands on local institutional capacity. This concern with administrative and procurement complexity is one that could be applied to all the area development projects as well as the two irrigation projects.

Both forest sector projects supported provision of land-use certification as a way of increasing stability, access to credit and sustainable land-use. There was little sign here of the impact of NIE which would caution that:

...partially complete ‘real’ markets are capable of being ‘regulated’ by dominant economic agents that can take advantage of asymmetrical information and bounded rationality to shape the operation of markets to their own advantage.¹⁴²

Akram-Lodhi found that partial land markets are a central cause of “differentiation in access to land” contributing to the stratification of rural households. Land-use certification is more than a reflection of core Washington Consensus concerns, land

¹³⁸ World Bank, "Staff Appraisal Report: The Socialist Republic of Vietnam Forest Protection and Rural Development Project" (Report No. 16569-VN, September 23 1997).

¹³⁹ World Bank, "Project Appraisal Document: Forest Sector Development Project."

¹⁴⁰ World Bank, "Project Appraisal Document: Northern Mountains Poverty Reduction Project."

¹⁴¹ Ibid, p. 23.

¹⁴² Akram-Lodhi, "Vietnam's Agriculture," p. 79.

markets as a way to create and reproduce private property are a central hegemonic principle of the liberal capitalist project exemplified by the Bank.

The water resources/irrigation projects were designed to rehabilitate, improve and expand existing large irrigation schemes. Neither made substantial claims regarding poverty impact, rather the Water Resources Assistance Project, for example, supported “transition to a more market-based economy by promoting changes in infrastructure and management that will encourage and underpin further agricultural diversification.”¹⁴³ Wealthier farmers tend to already and increasingly have access to irrigated land (poor households in contrast are more likely to have a high portion of forested land). According to Akram-Lodhi, the Bank was correct in pointing to the growth potential of diversified (i.e. non-rice) agriculture, however, the resulting accumulation process “...may be inequalizing.”¹⁴⁴ Support for rehabilitation of existing irrigation schemes was likely to contribute to the stratification of rural landholders that is (as the Bank itself acknowledges) already occurring and thence to increasing landlessness (as was the case with microfinance).

Overall, loans in the agriculture, fishing and forestry sector provided linkages to the pre-Washington Consensus Bank expressed largely through PWC rhetoric. These commitments combined with core Washington Consensus principles of private land ownership and economic growth regardless of its distributive impacts seem to form the basis of the PWC version of poverty reduction.

Education and Health

Table 6.8 World Bank Education and Health Sector Lending to Vietnam: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)
Loans 1993-1997		
Primary Education Project	1993	\$70.0

¹⁴³ World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for the Vietnam Water Resources Assistance Project" (Report No. 27395-VN, March 3 2004), p. 2.

¹⁴⁴ Akram-Lodhi, "Vietnam's Agriculture," p. 94.

Population and Family Health Project	1996	\$50.0
National Health Support Project	1996	\$101.2
<i>Loans 2000-2004</i>		
Primary Teacher Development Project	2001	\$19.84
Regional Blood Transfusion Centres Project	2002	\$47.5
Primary Education for Disadvantaged Children Project	2003	\$138.76

There were only three projects in each of the health and education sectors; to facilitate comparison between the two case study periods, the sectors were combined. Education and health care were also the two sectors with least World Bank lending activity, which is, in itself indicative of the relative priority these sectors have been given in the Bank's program for Vietnam. Loan volumes to the two sectors dropped only slightly from \$221.2 million in 1993-1997 to \$206.1 million in 2000-2004, however, the weighting shifted significantly towards education projects, despite the ongoing problems in Vietnam's health sector.

In terms of the structure of the projects, there was a notable tightening of focus and goals in the 2000-2004 loans — they shifted from generic projects covering a range of issues and many geographical regions to more tightly focused and geographically limited projects. This may have been a response to the Bank's own evaluations of the earlier projects, which indicated that they were too complicated and imposed too many administrative and management burdens on ministries not used to working with donors.¹⁴⁵ Ministries were required to establish specific structures, entities and accounting and reporting systems for Bank projects, whereas this was not a requirement for the integrated rural development projects. In education, projects had a strong focus on construction of infrastructure — in the Primary Education project, rehabilitation and construction of primary school infrastructure accounted for 58.6 per cent of the loan at

¹⁴⁵ See for example, World Bank, "Implementation Completion Report on a Credit to the Socialist Republic of Vietnam for a VN-Primary Education Project" (Report No. 25967-VN, April 21 2003). This report stated that the project required restructuring as it obliged the Ministry of Education and Training "...to spread itself thin and imposed a significant burden on its institutional capacity to implement the project," p.3. Despite many different problems outlined in the report, the Bank rated the project outcome and its own performance as satisfactory! The Staff Appraisal Report for the Regional Blood Transfusion Centres Project also noted that Bank projects in the health and education sectors "...had long implementation difficulties" though it was less direct about the reasons stating merely that the difficulties were broadly due to problems with institutional readiness, World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for a Regional Blood Transfusion Centres Project" (Report No. 22128-VN, March 18 2002), p. 14.

completion; in the Primary Education for Disadvantaged Children, 91.8 per cent of the Bank commitment was for infrastructure.

There was relatively little change in justification or analysis for projects between the two case study periods, apart from increasing concern with the regressive effects of user fees on the poor (only) in education but *not* in health care. This change may reflect the impact of the NGO lobby and poorer Vietnamese regarding growing inequality. In education, the Bank proclaimed it had undergone a “fundamental shift” in its understanding of equity from one focused on inputs to one aimed at achieving “equity in outcomes.”¹⁴⁶ This focus on outputs is another way of making the ‘non-poor’ responsible for education themselves and equally limiting government social expenditures on education by targeting them to the poorest — thus this approach effectively increases the burden on the so-called non-poor in meeting the costs of education.¹⁴⁷ Such outcomes from Bank activity support Porter and Craig’s finding that the PWC may aim to get people above one dollar a day but it does not aim for much more than that. Thus the PWC is “...fundamentally not redistributive in any substantive sense.”¹⁴⁸

In health care, the early Bank loans focused on support for the communal health system, which was undermined by the end of the cooperative system. The communal health care system is the centre of preventative health care in Vietnam and World Bank health policy has, since at least the early 1990s focused on allocating government health resource on so-called low-cost, high return activities that target the poor, that is preventative public health interventions.¹⁴⁹ However, the parallel to the focus on preventative care has been a program to reduce government expenditure on curative health care services and to promote market forces, initially in curative services. As Asa

¹⁴⁶ World Bank, "Project Appraisal Document on a Proposed Credit to the Socialist Republic of Vietnam for a Primary Education for Disadvantaged Children Project" (Report No. 23846-VN, April 3 2003), p. 13.

¹⁴⁷ On this theme see Adriana Puiggrós, "World Bank Education Policy: Market Liberalism Meets Ideological Conservatism," in Vincente Navarro (ed.), *The Political Economy of Social Inequities: Consequences for Health and Quality of Life* (Amityville, New York: Baywood Publishing Company Inc, 2002).

¹⁴⁸ Porter and Craig, "The Third Way and the Third World," p. 412.

¹⁴⁹ Asa Christina Laurell and Oliva López Arellano, "Market Commodities and Poor Relief: The World Bank Proposal for Health," in Vincente Navarro (ed.), *The Political Economy of Social Inequities: Consequences for Health and Quality of Life* (Amityville, New York: Baywood Publishing Company Inc, 2002), p. 192.

Laurell and Oliva Arellano state, this is a neoliberal agenda proscribing health as a private activity and concerned with limiting state intervention and expenditure; but one tempered in the early 1990s by political backlash engendered by the socio-economic impact of the agenda.¹⁵⁰

The unbundling of the curative and preventative health sectors has the added advantage that the curative sector can then be subject to market forces and the extraction of profit.¹⁵¹ There is an interesting parallel here in the separation of profitable and non-profitable components of utilities. For Laurell and Arellano the problematic consequence of the overall Bank health policy is that it "...recreates a modern version of 19th century charity: the state intervenes in response to popular demands but the benefits provided are regarded as concessions rather than rights." Indeed the Bank "...also covertly seek[s] to destroy the very concept or idea of social rights, a critical condition for the privatization and commodification of health financing and provision."¹⁵²

In curative health, Bank policy in Vietnam followed this model as part of encouraging the transition to a market economy. Its reasoning was quite seductive, the Bank argued that curative services were disproportionately accessed by non-poor households and that relatively too much GoV expenditure was devoted to them particularly though hospital care. However, making curative services subject to market forces only makes such services even less accessible given that, as a study in Vietnam demonstrated, the poor already tend to "...forgo inpatient treatment because of the expense."¹⁵³ The Bank's argument about access was premised on a simplistic, non-specific distinction between the 'poor' and 'non-poor.' It assumes that when households are not longer poor they have the capacity to pay for curative services. This focus on making the 'non-poor' pay

¹⁵⁰ It is a modification of the radical anti-state project that proposes "...a model of state intervention that neither nullifies the neoliberal project nor destroys the legitimacy of the state." Ibid, pp. 192-193. For a similar analysis of the Bank's health policy see Joesph Brunet-Jailly, "Has the World Bank a Strategy on Health?," *International Social Science Journal*, Vol. 51, No. 161 (1999) and Prabhat Patnaik, "The Political Economy of Structural Adjustment: A Note," in Mohan Rao (ed.), *Disinvesting in Health: The World Bank's Prescriptions for Health* (New Delhi: Sage, 1999).

¹⁵¹ Laurell and Arellano, "Market Commodities and Poor Relief," p. 193.

¹⁵² Ibid, pp. 193, 204.

¹⁵³ M. Segall, et al., "Economic Transition Should Come with a Health Warning: The Case of Vietnam," *Journal of Epidemiological Community Health*, Vol. 56, (2002), p. 501.

for health services also supports Porter and Craig's argument that the PWC only aims to get people above one dollar a day and no more.

There are alternatives — a study of health services in Vietnam recommended, in the first instance, exempting the poor from user-fees in both primary and hospital care.¹⁵⁴ It found that in general such exemptions are administratively complex and generally do not effectively target the poor, which indeed the Bank acknowledged in relation to education exemptions. Thus, in the longer-term, the study recommended that exemptions be replaced with more comprehensive support. Ensuring good public health outcomes would require, in the first instance, maintaining the strong public health system built under central planning. This is in contrast to the Bank's approach of pushing the sector towards market mechanisms.

Overall, it is difficult to determine if the Bank's approach to health care has shifted under PWC (or other) influences, as there was only one loan in the later period. The lack of projects in itself indicates that the Washington Consensus approach of 'marketising' health care, which is apparent during the first case study period and is linked to poorer health outcomes in Vietnam, remains dominant. In education, while there was support for private providers, there was a greater concern for equity.

Conclusion: A Weak Post-Washington Consensus

This analysis of the Bank's program in Vietnam demonstrated that the impact of the PWC on country programs and lending has been more limited than it appears from Bank policy documents and research output. In terms of country ownership — perhaps the feature that is meant to distinguish the PWC most from the Washington Consensus — we saw that Vietnam's CPRGS did involve country ownership but that the process was significantly Bank-driven and controlled and has been at best a second-track policy forum. The Bank's CAS liberally reinterpreted the CPRGS, to focus on neoliberal priorities.

¹⁵⁴ Ibid, pp. 503-504.

In terms of loans, there were few changes in administration and procurement requirements that ceded greater control or authority to the GoV. Project personnel, implementation manuals and accounts all must be “acceptable to the Association.” Project accounting and procurement must be done according to Bank guidelines and, if anything, the attention to Vietnam’s procurement arrangements increases in the second case study period.¹⁵⁵

In terms of sectoral priorities, as suggested in the 2002 Vietnam CAS, Bank lending has prioritised regional development projects but these address welfare only indirectly at best through provision of infrastructure, especially roads. There remains limited support for health, education or more direct forms of social welfare.¹⁵⁶ The dominant form of ‘social safety net’ the Bank supported was microfinance — an avowedly neoliberal approach, cannot be described as a safety net, even if prefaced by the term neoliberal. A number of Bank interventions may be increasing landlessness in a context where, by all accounts, the equitable distribution of land provided the basis for rapid and relatively equal growth out of poverty. The Bank’s rural development activities seem remarkably similar to those that dominated the second phase of the McNamara presidency. And these projects, as Caufield argued, may have highlighted the Bank’s activities with the poor but in reality they were based on the “...conviction that the best way to create new wealth is to invest in the wealthy, not the poor.”¹⁵⁷

The increased focus on law, justice and public administration, through structural adjustment lending, seemed to be the product of the PWC priority on good governance and reducing corruption. Structural adjustment loans showed an expansion of the development agenda, some of which are poverty-focused but equally the revitalised PWC agenda on governance was visible with the focus on land titling and government administration. The analysis demonstrated that the approach to health and education remained focused on increasing the space for markets and on maintaining fiscal restraint on the state. Public administration reforms equally were focused on state expenditure, indeed in a more invasive and expansive way than during the Washington Consensus

¹⁵⁵ The number of pages devoted to procurement in Staff Appraisal Reports increases from two to three pages on average in first case study period to 12-16 pages in second case study period.

¹⁵⁶ World Bank, “Vietnam CAS 2003-2006,” pp. 20-22.

¹⁵⁷ Caufield, *Masters of Illusion*, p. 108.

period. Further, when PWC ideas conflicted with those of the Washington Consensus, the later inevitably prevailed. All of this demonstrates a weak version of the post-Washington Consensus at work.

The Bank's lending and technical advice during the Washington Consensus can be seen as a Gramscian 'war of position' designed to impose at least the key features of a capitalist system — private property and markets, connected to an unequal distribution of wealth and the expansion of a class of landless proletariat. The PWC was a passive revolution whose aim was to continue the Washington Consensus project through compromise regarding the social costs of adjustment. What this analysis demonstrated is that the PWC's added focus on poverty reduction is a minimalist one, concerned to get people out of absolute poverty but not much more.

This Gramscian analysis of the Vietnamese historic bloc and its relations with the World Bank highlighted both the acceptance of, and resistance to, the imposition of Washington Consensus policies. The case study showed that the state has notable capacity to resist outside pressure for reform. Thus, in the case of SOE equitisation, to date Bank funds have essentially been coopted to further the process as far as acceptable to the mix of interests in the historic bloc. What is not yet clear is whether the Bank has successfully helped change the underlying terrain on which debates about equitisation occur in favour of market interests. The Ninth Party Plenum gave some indication; it committed to expanding the scope of equitisation to include the large general corporations but not all SOEs. It also committed to: ensuring enterprises were properly evaluated before sale including land-use rights; and transparency in the equitisation process.¹⁵⁸

In areas that do not appear to have been subjected to such a level of public scrutiny, in particular, the energy, water supply and transportation sectors, the Bank seems to have had a greater measure of success in introducing market 'reforms.' The Ninth Party Plenum committed to expanding the scope of SOE equitisation to include electricity.¹⁵⁹ Although, it is important to note that the Vietnamese have generally conducted such

¹⁵⁸ Hung, "Equitization of State-Owned Enterprises in Vietnam," p. 32.

¹⁵⁹ Ibid. This comment also applies to road and river transport and water supply where the Ninth Party Plenum also commitment to equitisation, notably it reserved sanitation for the state.

processes at their pace rather than the Bank's and the GoV's involvement in these projects helps them to (re-)assert central state and party control in what is a quite decentralised c.¹⁶⁰ Thus the new Electricity Law, the drafting of which was funded by Bank technical assistance grants, took over nine years to pass the National Assembly. The Bank envisaged a two or three year timetable and was not fully happy with the final content.

Looking at Vietnam's record on poverty reduction, economic growth and social stability they seem to be doing something right — Vietnam was one of the countries in Asia least affected by the Financial Crisis in 1997 and quickly returned to high growth rates. Growth in 2003 was 7.2 per cent and was slightly higher in 2004. The incidence of poverty has declined from 58 per cent of the population to 20 per cent in 2004. There are still huge challenges in poverty, education, health and infrastructure to name a few but the largely cautious program and the reinvestment in the social sectors, for the most part contrary to Bank advice, has been more successful than most other former communist countries undergoing transition (with the notable exception of China).

¹⁶⁰ Martin Painter, "The Politics of State Sector Reforms in Vietnam," p. 276.

Chapter Seven

Indonesia: An Overview

In parallel with the case study on Vietnam, this chapter outlines the structure of the Indonesian government and its principal socio-economic policies from 1966 to the end of 2004. The chapter briefly explores the history of ODA in Indonesia including the World Bank program, which approved over \$30 billion in loans between 1968 and 2004. The macro analysis of the Bank's involvement in Indonesia continues with an analysis of shifts in sectoral lending and size of loans. Chapter Eight is a detailed exploration of all Bank loans to Indonesia in the two case study periods. As we shall see, this second case study provides not only a different context but also a distinct pattern of lending through which to understand World Bank lending under the post-Washington Consensus.

The political and socio-economic background starts with the New Order government of Suharto, which came to power via a bloody coup in 1966. But, given the focus of the thesis, the concentration is on the period from 1993 to the end of 2004. As background, it summarises key structures and developments, and provides an indication of the framework within which the World Bank operated in Indonesia and under which its lending program was conducted.

The Political and Administrative Structure in Indonesia from 1966

Indonesia continues to be governed by the 1945 Constitution, which, as its name suggests, was instituted at the beginning of the independence Revolution as a temporary measure. It was replaced in 1949 when sovereignty from the Dutch was ceded. In 1959, it was reinstated as part of Sukarno's 'Guided Democracy' again as an interim measure. The 1945 Constitution is short, open to varied interpretation and concentrated power in the president. Thus when Suharto overthrew Sukarno, he was able to utilise it "...as a suitable vehicle for a strong presidential rule" in what was essentially an authoritarian

and patronage-based regime (or historic bloc).¹ During the Suharto era, the formal political process was largely subsumed to a project of nation-building or development.² However, later in the New Order, the focus shifted to shoring up Suharto's economic and political control.³

The Political Structure Under Suharto: 1966 - 1998

According to the constitution, sovereignty is vested in the people, who exercise their will through the People's Consultative Assembly (MPR). Full executive authority is vested in the President, who until 2003 was elected by, and responsible to, the MPR. Legislative power is predominately in the hands of the House of People's Representatives (DPR).⁴ The MPR is formally the highest constitutional body though it had little power or responsibility before constitutional reform commenced in 1998. Its responsibilities were to elect the President and Vice President and to approve the Broad Outline of State Policy — a planning document establishing policy guidelines for the next five years. Under Suharto, the President was selected by consensus while senior government officials developed the Broad Outline in a largely “executive-controlled exercise.”⁵ The MPR was only required to meet every five years, in the year following DPR elections. From 1985, the MPR consisted of 1,000 seats, 500 of which were held by members of the DPR. A further 100 seats were reserved for representatives of professional groups, including the armed forces, who are appointed by the President. After reforms in 1992, provincial-level legislative assemblies elected 147 seats. The balance of seats (353) was assigned on a proportional basis to representatives of the political parties, depending on their respective membership in the DPR. Given that Suharto controlled the DPR, the “...MPR was, in effect, beholden to the president.”⁶

¹ Damien Kingsbury, *The Politics of Indonesia* (Oxford: Oxford University Press, 2005), p. 41.

² On the antecedents of Indonesia's ‘developmental’ state see, Berger, *The Battle for Asia*, p. 238-42.

³ David Bourchier, “Conservative Political Ideology in Indonesia: A Fourth Wave?,” in Grayson LLoyd and Shannon Smith (eds.), *Indonesia Today: Challenges of History* (Lanham: Rowman & Littlefield Publishers Inc, 2001), pp. 116-117.

⁴ The constitution also provided for a Supreme Advisory Council to advise the President; a State Audit Board to exercise financial oversight; and a Supreme Court as the head of the judiciary.

⁵ Andrew Macintyre, *Business and Politics in Indonesia* (North Sydney: Asian Studies Association of Australia in association with Allen & Unwin, 1990), p. 29. Macintyre argues that the Broad Outline had a largely symbolic impact on policy, serving primarily as a constraint on policies not in line with it, rather than being an indication of policies to be operationalised, *ibid*.

⁶ Kingsbury, *Politics of Indonesia*, p. 66.

The DPR had primary responsibility for legislation, though the executive was also able to initiate legislation and indeed under Suharto virtually all legislation came from the executive. The DPR was only required to meet once a year. Four hundred of its 500 seats were subject to election and the remaining 100 seats were allocated to military representatives.⁷ Both the MPR and DPR served largely as rubber stamps for the Suharto regime.

Elections were tightly controlled and only government-sanctioned political parties were allowed to contest them.⁸ By 1973, the New Order had created two main parties from the previous multiparty organisations: the United Development Party or *Partai Persatuan Pembangunan* made up of the former Islamic parties; and the Indonesian Democratic Party or *Partai Demokrasi Indonesia* (PDI) made up of the former Christian and nationalist parties. These artificially formed parties incorporated different and even contradictory social forces, which limited their scope of political effectiveness. Further, party leaders were vetted by the state, the parties were not allowed to campaign outside election periods and were denied organisational representation in villages and smaller towns, making them impotent.⁹

The bureaucracy, civil society groups and political parties were linked through the Joint Secretariat of Functional Groups (Golkar), which became in effect the key political force and a central organising body for the state.¹⁰ Golkar was not a formal political party until 1999 but still won between 62 and 73 per cent of the votes in the (rigged) elections between 1971 and 1993.¹¹ All government officials (and government-connected organisations) had to be members of Golkar (via the Civil Service Corps, KORPRI). From 1992, officials had to get permission to vote for parties other than Golkar. Golkar was used to organise and control civil society — it incorporated official groups organising labour, peasants, fisherman, youth and women.¹² This corporatist

⁷ This acknowledged the military's dual role as both protectors of the state from external aggressors and protectors of internal security, including assisting in governance, which is further discussed below.

⁸ On the techniques used by the New Order to organise elections see Adrian Vickers, *A History of Modern Indonesia* (Cambridge: Cambridge University Press, 2005), pp. 175-176.

⁹ Macintyre, *Business and Politics in Indonesia*, p. 25. See also Richard Robison, "Indonesia: Tensions in State and Regime," in Kevin Hewison, Richard Robison and Gary Rodan (eds.), *Southeast Asia in the 1990s: Authoritarianism, Democracy and Capitalism* (St Leonards: Allen & Unwin, 1993), p. 43.

¹⁰ Vickers, *History of Modern Indonesia*, p. 161.

¹¹ Kingsbury, *Politics of Indonesia*, p. 64.

¹² Macintyre, *Business and Politics in Indonesia*, p. 24.

structure was expanded over time to encompass a range of other occupations and groups with strategic value via separate representative organisations that could be controlled and monitored by the dominant historic bloc. As Andrew Macintyre notes, the *de facto* role of these groups under the authoritarian corporatist structure “...was to absorb and contain the demands of extra-state groups... They were, in short, a means of social and political control.”¹³

Cabinet’s role in the New Order, like parliament’s, was restricted. It met in full only once a year to report on the annual budget. There were restricted sub-gatherings of Ministers organised around economic, political and social issues that met more often but they tended to avoid policy debate. Detailed policy debate usually took place through working groups at the ministerial level. The President’s view on controversial issues was sought through private meetings.¹⁴ Individual cabinet members could, and often did, wield significant power.

The entire parliamentary structure was framed by the state ideology of *Pancasila* — its five principles are: belief in one God; a just and civilized humanity; the unity of Indonesia; democracy guided by the wisdom of deliberation and representation; and social justice for all the people of Indonesia. *Pancasila* is important, as Richard Robison points out, because, beyond its “bland generalisations,” it “...legitimizes authoritarianism as a mechanism that achieves the common will of society through consensus under the tutelage of a state.”¹⁵ Moreover, it defines “...liberalism, laissez-faire capitalism, communism or any exclusive claim to represent a religious, ethnic or class interest” as illegitimate in the Indonesian state.¹⁶ These were hegemonic principles of the New Order historic bloc. *Pancasila* was applied to political and social organisations through a 1985 law that required such organisations to accept it as their guiding principle. It is notable that *Pancasila* remains a defining feature of the

¹³ Ibid, p. 27.

¹⁴ Ibid, p. 30.

¹⁵ Robison, "Indonesia: Tensions in State and Regime," p. 44.

¹⁶ Richard Robison and Vedi R. Hadiz, *Reorganising Power in Indonesia: The Politics of Oligarchy in an Age of Markets* (New York: RoutledgeCurzon, 2004), p. 49. See also Kingsbury, *Politics of Indonesia*, p. 63 and Robison, "Indonesia: Tensions in State and Regime," p. 44.

constitution in post-Suharto Indonesia, though its formal role in guiding political parties and other organisations ended in 1998.¹⁷

Until 2001, despite the existence of provincial and local level government, Indonesia was largely centrally controlled and run. Through most of the Suharto era there were 27 provincial-level units: 24 provinces (called *propinsi*), two special regions (Aceh and Yogyakarta) and the special capital city region (Jakarta). Provinces had elected regional people's representative councils (DPRD) that could recommend appointments for governors from a shortlist prepared by the Minister of Home Affairs, but the President had the final choice. Beneath provinces are districts; during the New Order there were 241 districts (*kabupaten*) and 40 municipalities/city governments (*kota*). The Department of Home Affairs appointed district heads. Districts are divided into subdistricts (*kecamatan*) and further into villages.

Provincial and local government implemented Jakarta-determined policies and programs. Jakarta also controlled budgets and personnel appointments and there was little capacity for feedback to the centre.¹⁸ The overarching goal of this centralised structure was to ensure national integrity and integration, which was projected as requiring significant redistribution of wealth from resource-rich outer provinces to the more population-dense areas (in particular Java and Bali). This had the added benefit of giving the central government control of national wealth. Jakarta controlled around 90 per cent of the resources available to the provinces and districts — 80 per cent through the various ministries and a further ten per cent through Presidential Instructions. The remaining ten per cent of provincial and district income was locally generated.

No discussion of Indonesian politics is complete without reference to the military, in particular, the army and police (until 1 April 1999, the police were a branch of the armed services). From independence, the armed forces were given a dual function of defending *and* administering the state, which developed into a formal doctrine called *dwifungsi*. The Indonesian army operates with a territorial structure, under which its units "...paralleled and participated in government administration from the provincial

¹⁷ Robison and Hadiz, *Reorganising Power in Indonesia*, p. 228.

¹⁸ Federal Research Division Library of Congress, "Country Studies: Indonesia" (1993), available from: <http://countrystudies.us/indonesia>, accessed: November 2005.

level to the village level.”¹⁹ Under Suharto, the army had a key role in political society — officials could be appointed to all levels of administration down to the village level. The army frequently employed terror tactics on those perceived to threaten the state’s stability. In effect, it played a coercive role similar to that in most authoritarian states.

Military influence has fluctuated over time and there is disagreement amongst commentators regarding its current significance and the real extent of its recent apparent decline. On the one hand, commentators point to its declining economic significance both in budgetary and non-budgetary terms, its reduced operational capacity and its lack of political unity in post-New Order elections.²⁰ On the other hand, the territorial structure has remained intact in the post-Suharto period; military support has been important to the presidencies of Megawati Sukarnoputri and Susilo Bambang Yudhoyono; and the events of September 11 2001, and the bombings in Bali and Jakarta assisted the police, and to a lesser extent the military, in regaining international standing.²¹

The late 1980s saw a brief period of political ‘openness’ in Indonesia but this ended in 1993-4.²² The New Order was in decline by the mid-1990s. However, it took the economic upheaval of the Asian Financial Crisis to finish the Suharto regime. The story of his downfall has been extensively covered elsewhere and is not repeated here; rather the chapter turns to an overview of political reform process in the post-Suharto era.²³

Constitutional and Political Reform: 1999-2004

Doctor Jusuf Habibie became President of Indonesia in May 1998. As Suharto’s chosen successor and a New Order insider, he surprised many by his political reformism. His earliest reforms were the vote on independence in East Timor, removal of controls on

¹⁹ Kingsbury, *Politics of Indonesia*, p. 63.

²⁰ Lex Rieffel, "Indonesia's Quiet Revolution," *Foreign Affairs*, Vol. 83, No. 5 (2004), pp. 100-102.

²¹ See Kingsbury, *Politics of Indonesia* and Robison and Hadiz, *Reorganising Power in Indonesia*.

²² On the end of openness see Vickers, *History of Modern Indonesia*, pp. 198-201. Written prior to the onset of the Asian Financial Crisis, one article which signalled the decline of the New Order was, Mark T. Berger, "Old State and New Empire in Indonesia: Debating the Rise and Decline of Suharto's New Order," *Third World Quarterly*, Vol. 18, No. 2 (1997), pp. 346-352.

²³ See for example the collection of essays in Edward Aspinall, Herb Feith and Gerry Van Klinken (eds.), *The Last Days of President Suharto* (Clayton: Monash Asian Institute, 1999), or Stefan Eklof, *Indonesian Politics in Crisis: The Long Fall of Suharto, 1996-98* (Copenhagen: Nordic Institute of Asian Studies, 1999).

press and release of political prisoners. In terms of Indonesia's political society, Habibie removed laws restricting the number of political parties, however, limits were retained on the number of small parties — parties require representation in nine provinces and within the nine provinces in half of the districts. Elections became open and a series of reforms changed the constitution, introduced checks and balances on presidential power and increased the influence of the legislature. The MPR now comprises the 500 seat DPR and a 200 seat Regional Representative's Council (DPD) both of which are fully elected. Since 2004, the President and Vice-President have been popularly elected and limited to two five-year terms.²⁴ The role of the MPR is limited to swearing-in the President and Vice-president, removing them for specified constitutional violations and amending the constitution.

The DPR remains the key legislative body, it has strengthened legislative responsibilities, including the right to submit legislation. The President is still in charge of promulgating government regulations in the implementation of law. The DPR has increased power to review the executive, military and bureaucracy, however, it has shown limited interest in using its review or legislative powers.²⁵ Radical decentralisation accompanied the reforms and resulted in national political and executive authority being limited to "international policies, defence and security, judicature, monetary and fiscal policy, religion" and other fields requiring national planning and policy-making.²⁶

The DPD manages relations between the regions and the central government. It participates in debate, and can submit bills to the DPR, on regional issues, for example, finances and relations between Jakarta and the regions. It considers DPR bills on the budget, taxation, education, and religion and is empowered to supervise the implementation of such laws. Members of the DPD are elected by Regional People's Representative Assemblies (DPRD), whose members are, in turn, directly elected.

²⁴ Achieved under Law no. 23/2003, which was passed by the DPR despite opposition from the then President, Megawati.

²⁵ Greg Fealy, "Parties and Parliaments: Serving Whose Interests?," in Grayson Lloyd and Shannon Smith (eds.), *Indonesia Today: Challenges of History* (Lanham: Rowman & Littlefield Publishers, 2001), pp. 105-106.

²⁶ Mark Turner, et al., *Decentralisation in Indonesia: Redesigning the State* (Canberra: Asia Pacific Press, 2003), p. 24.

The creation of the DPD was the logical outcome of the radical decentralisation of formal political power and government administrative responsibilities that commenced in 1999, as were amendments recognising the role of provinces, *kabupaten* and *kota* in regulating and managing their own governmental matters. Reform led to fully elected DPRD's and elected local leaders (governors, *bupati* and mayors).²⁷ The constitution now states that regional administrations "...exercise the broadest possible autonomy." Though, of course, the reality is more complex. Decentralisation was the product of two laws, no. 22/1999 on regional governance and no. 25/1999 on fiscal balance between the central and regional governments. Law no. 22/1999 aimed to democratise local government and devolve central government responsibilities to the provinces, *kabupaten* and *kota*. *Kabupaten/kota* are given equal status with provinces and, along with the provinces, are given explicit responsibility for "public works, health, education and culture, agriculture, communication, industry and trade, capital investment, environment, land, cooperative and manpower affairs" as well as for managing natural resources.²⁸ But even within these areas, national government retains some responsibilities, particularly for coordination activities. The division of responsibilities both between the centre and provinces and between the provinces and *kabupaten/kota* continues to lack clarity. This has given international donors and various elements of the historic bloc room to influence outcomes in directions they see fit.

Law no. 25/1999 specifies a General Allocation Grant as the key mechanism for financing decentralisation. The grant must be at least 25 per cent of domestic revenue, 90 per cent of which is allocated to *kabupaten/kota* and ten per cent to provinces.²⁹ The law provides for revenue sharing between Jakarta and the regions in the areas of land and building tax, land acquisition, forestry, fisheries, mining and oil and gas. However, the mechanisms for sharing are not specified, nor are local capacities for revenue generation clearly delineated. The two laws were drafted very quickly, largely by bureaucrats from separate ministries and there was little input from political or civil society. There is a "...clear mismatch between the two laws... one assigned authorities

²⁷ Under the original law, provincial and district leaders were to be elected by DPRD's. This was introduced in 2004.

²⁸ From Law no. 22/1999, articles 10 and 11, cited in Turner, et al., *Decentralisation in Indonesia*, p. 24.

²⁹ Robison and Hadiz, *Reorganising Power in Indonesia*, p. 26. It also provides for a Special Allocation Grant to fund particular regional initiatives and to be used for equalisation purposes.

without any concept of costing, and the other assigned funding without any concept of need.”³⁰

Why the very rapid process of decentralisation? The main reason was undoubtedly that President Habibie saw it as a way to craft a new historic bloc in the context of widespread demands for democratisation that were sweeping Indonesia. It responded to domestic and international calls for reform whilst maintaining the unity of the Indonesian state and the privileges of the elite.³¹ From the international side, donors — in particular the World Bank — had been pushing for decentralisation since at least the early 1990s. Despite donors’ support for the New Order (or indeed perhaps because of it), when it fell they demanded rapid reform and in particular decentralisation.³² Wihana Kirana Jaya and Howard Dick argued that, domestically, the real intent of decentralisation was to bypass the provinces around which independence movements had been organised. By redistributing power to *kabupaten/kota* the centre could retain substantial influence.³³ This may overstate the case somewhat, but as Mark Turner and Owen Podger point out, Law no. 22/1999 does contain regular references to the unity of the state.³⁴ The sheer administrative and political difficulties of dealing with 357 *kabupatens* and *kotas* have resulted in recent regulations increasing power to the provinces.³⁵

Decentralisation is a key issue for this and the following chapter, because the World Bank claimed it was “...catalytic in getting the Government to focus on” it. Further, decentralisation was a major area of financing during both case study periods.³⁶ The core issue here, though, is the impact of decentralisation on post-New Order power structures. Vedi Hadiz argued that decentralisation has not challenged existing

³⁰ Turner, et al., *Decentralisation in Indonesia*, p. 16. Law 22/1999 was drafted by the Ministry of Home Affairs and Law 25/1999 by the Ministry of Finance.

³¹ The bureaucrats who drafted the laws were either US trained or had visited the States, and they used the US anti-state local government system as the model for the laws. Yet, in contrast to the US, Indonesia has little tradition of democratic local government, Vickers, *History of Modern Indonesia*, p. 221.

³² Decentralisation showed the Bank as supporting democratic reform, yet in practice Bank support for decentralisation projects were a technocratic tool for pursuing neoliberal hegemonic principles.

³³ Wihana Kirana Jaya and Howard Dick, "The Latest Crisis of Regional Autonomy in Historical Perspective," in Grayson Lloyd and Shannon Smith (eds.), *Indonesia Today: Challenges of History* (Lanham: Rowman & Littlefield Publishers, 2001), p. 223.

³⁴ Turner, et al., *Decentralisation in Indonesia*, p. 27.

³⁵ Hadiz, "Decentralization and Democracy in Indonesia," pp. 707-708.

³⁶ World Bank, "Indonesia Country Assistance Note" (Report No. 19100, Operations Evaluation Department, March 29 1999), p. 1.

networks, they quickly reconstituted themselves under the decentralised system, creating “...newly decentralized, predatory networks of patronage” that “...are relatively autonomous of central state authority.”³⁷ For this reason, decentralization has done little for the most disadvantaged in Indonesia.³⁸ This equally applies to the reform process overall. Thus, Richard Robison and Hadiz noted that, apart from decentralisation, the Suharto-appointed DPR controlled the reform process. The voting system they agreed upon for the DPR — candidates are elected by proportional representation organised around provinces but allocated by party performance at the district level — allowed incumbent politicians to fully utilise their existing party structures thus giving them an advantage over newly formed parties.³⁹ Andrew Macintyre makes a similar point stating that incumbent politicians, “...all had their eyes clearly focused on the new game of competitive elections, understanding full well that the design of the institutional framework would favor some interests over others.”⁴⁰ Nor has corruption disappeared from the political process. All this suggests that the transition from the New Order was, in Gramscian terms a passive revolution. That is, it is a way already dominant groups confronted with changing social relations, manage this change using the instruments of the state to ensure that their dominance is maintained or indeed extended. In Indonesia, the elite continued their domination of the political process and furthered their own private interests. As Robison and Hadiz state, the Indonesian political contest is:

...not primarily about agendas or even ideologies, but about [the elites] furthering dominance over the institutions of the state, and their resources and coercive power, and about developing networks of patronage and protection.⁴¹

³⁷ Hadiz, "Decentralization and Democracy in Indonesia," pp. 699 and 711. See also Vedi R. Hadiz and Richard Robison, "Neo-Liberal Reforms and Illiberal Consolidations: The Indonesian Paradox," *The Journal of Development Studies*, Vol. 41, No. 2 (2005).

³⁸ Ibid, p. 715.

³⁹ Robison and Hadiz, *Reorganising Power in Indonesia*, p. 250.

⁴⁰ Andrew Macintyre, *The Power of Institutions: Political Architecture and Governance* (Ithaca: Cornell University Press, 2003), p. 141.

⁴¹ Robison and Hadiz, *Reorganising Power in Indonesia*, p. 245. On elite control see also, Bouchier, "Conservative Political Ideology in Indonesia," Fealy, "Parties and Parliaments: Serving Whose Interests?" and Kingsbury, *Politics of Indonesia*.

Socio-economic Developments in Indonesia since 1966

Socio-economic Developments under Suharto

As noted above, under Suharto there was a strong commitment to nation-building and an explicit development project. Growth was strong through the 1970s, slowed in the early 1980s but returned to respectable levels after 1987. In the early 1990s, many commentators including the World Bank, labelled Indonesia as a new Asian ‘tiger.’ But after the Asian Financial Crisis it was more commonly seen as the epitome of ‘crony capitalism.’ With hindsight, it is possible to dismiss some of the economic growth under Suharto as a proverbial ‘house of cards.’ However, such an approach, neglects the substantial changes that did take place.

There is a key debate about the extent to which the Indonesian economy is market-based. In the early years of the regime — with the background of the Cold War and Western hostility to the previous Sukarno regime — Indonesia was largely presented as a market-based economy. This was possible because, in contrast to Sukarno’s closed and increasingly socialist-oriented policies, Suharto pursued relatively mainstream policies. With the assistance of a group of US trained economists labelled the ‘Berkeley mafia’ or technocrats, he controlled inflation and pursued conservative monetary and fiscal policy (including a 1000 per cent devaluation of the *Rupiah*);⁴² restructured and reduced debt (with the assistance of the West via the Inter-Governmental Group on Indonesia); and liberalised the foreign investment regime. Western aid is discussed in more detail later in the chapter but it is worthwhile to note the haste with which bilateral donors became involved with Indonesia after Suharto’s brutal take over, and they were followed quickly by the IMF and World Bank.

Underneath the liberal surface though, the regime was committed to a high-level of state involvement in the economy. The level of intervention shifted with the changing configurations of the New Order historic bloc. During the early years, a relatively open economic stance was adopted reflecting the New Order’s need to distinguish itself from the previous regime in order to attract Western investment and debt restructuring. At the

⁴² On monetary policy see Hal Hill, *The Indonesian Economy* (Cambridge: Cambridge University Press, 2000), pp. 30-42, on fiscal policy see pp. 43-64.

same time, the regime itself was relatively weak and the Berkeley mafia had significant influence over fiscal and monetary policy and indeed over economic and social planning more broadly through its influence in a range of other ministries. A key exception was Indonesia's oil industry, where through Ibnu Soetowo, director of the state-owned Pertamina, Suharto had access to high levels of off-budget funding.

The economy responded to the stability and relative openness to capital and these combined with development expenditures, available largely due oil wealth produced GDP growth of 10.9 per cent in 1968.⁴³ From 1971 through to 1981, economic growth continued at a high average of 7.7 per cent despite growing political and economic turbulence. In 1972, poor rice harvests led to price hikes and unrest. In 1973, the international oil shock and growing discontent amongst domestic Islamic businesses contributed to the Malari riots in 1974.⁴⁴ However, the New Order was, by this point, hegemonic and it responded to the instability with both coercion — repression of dissenting forces — and consent — populist policies in the form of a resurgent nationalist economic agenda. Thus, from 1973-4 a range of controls over foreign investment, trade and other economic policy were introduced.

In the 1980s, economic growth slowed to around four per cent. An increasing proportion of oil production was being consumed domestically and this combined with decreased prices for oil exports to erode valuable export earnings.⁴⁵ Debt was also accumulating at a fast pace. This contributed to increased unemployment and some social unrest and prompted policy reforms from the early 1980s, particularly to reduce government expenditure and reform the banking system. However, it took the international recession of 1986-1987 and leverage from the IMF and World Bank to initiate more substantial 'adjustment.' Even then liberalisation was not systematic because:

⁴³ Ibid, p. 15. Seen in the light of the massive upheaval caused by Sukarno's policies and the severe unrest and massacres during the mid-1960s, it is not as surprising that the economy responded very positively to some stability from its very low base.

⁴⁴ Ibid, p. 16, Robison and Hadiz, *Reorganising Power in Indonesia*, p. 51.

⁴⁵ Hill, *Indonesian Economy*, p. 16. Overall, in the 25 years to 1997, economic growth averaged seven per cent, World Bank, "Project Performance Assessment Report Indonesia Banking Reform Assistance (Loan No. 4255-IND), Policy Reform Support Loan I (Loan No. 4368-IND), Policy Reform Support Loan II (Loan No. 4470-IND)" (Report No. 27177, Operations Evaluation Department, November 4 2003), p. 3. For a good description of the impact of the development program across parts of the archipelago see Vickers, *History of Modern Indonesia*, pp. 188-196.

...the attempt to liberalise the economy was made before the complex coalitions of state and social power that had underpinned the existing regimes had been dismantled or at least fractured, and no coherent political alliances had formed to drive the reform agenda.⁴⁶

But the reform, linked to a period of increasing political openness, was enough to kick-start the economy and economic growth averaged 6.7 per cent between 1987 and 1992. Economic growth and increasing corruption made the regime complacent so by the early 1990s the reform program slowed substantially, followed in 1994 by an end to the period of political openness. Nevertheless, economic growth remained strong at 7.8 per cent between 1991 and 1995. In the years leading up to the Asian Financial Crisis, there were no significant fluctuations across a wide range of macro and microeconomic indicators.⁴⁷ The debt to GDP ratio was stable at around 54 per cent and it comprised more private than public sector debt — a situation financial markets typically applaud. Yet, an increasing portion of debt was short-term. More broadly, the influence of the technocrats in the regime was again on the wane and corruption intensified.⁴⁸ Social and political turbulence increased from 1996 with Suharto's ousting of Megawati from the PDI leadership and it led to widespread ethnic violence in early 1997.

The extent of change in the Indonesian economy is indicated by the change in the structure of its GDP. In 1966, agricultural output accounted for over 50 per cent of GDP, by 1992 it was 36 per cent. Industry grew from a few per cent of GDP in 1966 to around 40 per cent, though oil was the major source of growth until 1987. Shares of employment by sector have not changed as much as GDP, but agriculture dropped from 73 per cent of employment in 1961 to around 50 per cent in 1990. Industry increased from 8.1 per cent to 17 per cent and services grew from 18.9 per cent to 32.9 per cent. Though, as Hal Hill points out, these averages hide strong variations between Java and the rest of Indonesia.⁴⁹

⁴⁶ Robison and Hadiz, *Reorganising Power in Indonesia*, p. 73.

⁴⁷ Hill, *Indonesian Economy*, pp. 262-264.

⁴⁸ Ibid, pp. 281-282.

⁴⁹ Ibid, pp. 19-23. See also Thee Kian Wie, "Brief Reflections on Indonesian Economic History," in Grayson Lloyd and Shannon Smith (eds.), *Indonesia Today: Challenges of History* (Lanham: Rowman & Littlefield Publishers Inc, 2001), pp. 165-166.

New Order economic policy needs to be situated within the complex network of business, political, bureaucratic and military relationships that formed the Indonesian historic bloc. Ethnic Chinese predominate in the business community⁵⁰ — ethnicity and their small numbers exclude them from political power but they were key beneficiaries of New Order patronage and in return were the main source of extra-budgetary funds for Suharto. This close relationship caused significant resentment amongst the indigenous Indonesian business community. Business and political interests increasingly merged as the Suharto family expanded its business interests in the 1980s and 1990s. They were also fused with the New Order controlled bureaucracy.⁵¹ The military played a role in business too. Initially they directly operated businesses and controlled concessions and licences but, as many of these enterprises failed, an indirect network formed working through *yayasan* (charitable foundations) and interconnected business interests. These complex social forces created a delicate balance between economic growth, social objectives and entrenching the (economic and political) interests and power of the politico-business families that controlled the economy.⁵² Fundamentally though, the Suharto regime's legitimacy was underpinned by economic performance, in particular improving living standards for ordinary Indonesians. For most of the New Order, the regime succeeded in improving living standards and social indicators. When it could no longer do this, the regime fell.

Between 1970 and 1996 the proportion of Indonesians living below the poverty line dropped from 60 to 11 per cent, this equalled a drop from 70 to 22.2 million people.⁵³ However, the poverty line used in these measurements is lower than used by the poorest countries in the world. If the World Bank's measurement for near poor (US\$2 per day) is used, in 1996, some 50 per cent of the population were still living in poverty.⁵⁴ This measurement makes the large number of people who fell into formal poverty as a result of the Asian Financial Crisis more explicable.

⁵⁰ In a 1989 survey 163 of the top 200 Indonesian companies were Chinese controlled. A 1993 survey estimated virtually the same level of Chinese control— 80 per cent. Cited in Adam Schwarz, *A Nation in Waiting: Indonesia in the 1990s* (St. Leonards, N.S.W.: Allen & Unwin, 1994), p. 109.

⁵¹ Robison points out, trade and industry regimes entrenched "...the authority of the state and its officials over the full range of economic life." Robison and Hadiz, *Reorganising Power in Indonesia*, p. 51.

⁵² Ibid, p. 53.

⁵³ World Bank, "Project Performance Assessment Report Indonesia 2003," p. 3.

⁵⁴ Thee, "Brief Reflections on Indonesian Economic History," pp. 171-172.

Surprisingly, growth was achieved without large increases in relative inequality as measured by income inequality, though initial inequality was higher than in other countries in the region. Moreover, there are no reliable figures available for wealth or asset inequality, which may well be high.⁵⁵ There were significant disparities in growth between urban and rural areas and between Java (and some other resource rich regions) and outlying regions, in particular, West and East Nusa Tenggara.⁵⁶

Chart 7.1 GDP Growth and Gini Ratio in Indonesia, 1971-2002⁵⁷

Universal primary education was achieved in the early 1980s and here gains were also impressive in rural areas.⁵⁸ Health care improved —as an example, the infant mortality rate dropped from 118 per 1,000 lives births in 1970 to 47 in 1997, however, this is still

⁵⁵ Ibid, pp. 174-175. On income inequality and regional variation see also Pierre van der Eng, "Indonesia's Economy and Standard of Living in the 20th Century," in Grayson Lloyd and Shannon Smith (eds.), *Indonesia Today: Challenges of History* (Lanham: Rowman & Littlefield Publishers Inc, 2001), pp. 193-197.

⁵⁶ Thee, "Brief Reflections on Indonesian Economic History," pp. 175-176.

⁵⁷ Data sources: GDP growth from United Nations Common Database, available from: http://unstats.un.org/unsd/cdb/cdb_help/cdb_quick_start.asp accessed: June 2007, Gini ratio 1971-1993 from Hill, *Indonesian Economy*, p. 197, and Gini Ratio 1993-2002 from, BPS-Statistics Indonesia, Bappenas and UNDP Indonesia, "National Human Development Report 2004, the Economics of Democracy: Financing Human Development in Indonesia" (BPS-Statistics Indonesia, Bappenas and UNDP Indonesia, 2004), p.14.

⁵⁸ World Bank, "Project Performance Assessment Report Indonesia 2003," p. 3.

significantly higher than regional averages and the per cent of population with access to safe drinking water was also much lower than regional neighbours. In general, as Thee Kian Wie concludes, social development was less impressive than economic growth and compares "...unfavourably with the gains made in Malaysia, Thailand and the Asian 'Tigers.'"⁵⁹

The Asian Financial Crisis and Beyond: Economic and Social Impacts

The focus here is on the consequences of the Asian Financial Crisis more than its causes, however, it is necessary to engage briefly in the debate about causation. According to Thee, there have been two main economic explanations of the Crisis.⁶⁰ The first or 'fundamentalist' explanation saw that the Crisis was caused by deep-seated economic weaknesses in affected countries. It pointed to domestic factors as the primary cause and argues that the affected countries' good economic indicators in some areas "...masked serious structural problems and policy shortcomings that rendered these countries vulnerable to the crisis."⁶¹ 'Fundamentalists' focused on the large short-term external debt, large and volatile private capital flows, problems of the quasi-fixed exchange rate system, weak and poorly regulated banks and of course "...widespread corruption and poor governance."⁶² This was the position of the international financial institutions, in particular the IMF.

The second explanation focused on the panic and "...self-fulfilling pessimism of international lenders."⁶³ Under this analysis, economic fundamentals were not as important as the lack of market maturity and the structure and denomination of foreign and domestic debt. The two explanations are not mutually exclusive but as a rule it is political scientists who have tended to give more weight to political and social factors or to the role of international institutions, in particular the IMF's (mis-?)handling of at

⁵⁹ Thee, "Brief Reflections on Indonesian Economic History," pp. 169-170.

⁶⁰ Thee Kian Wie, "The Indonesian Economic Crisis and the Long Road to Recovery," *Australian Economic History Review*, Vol. 43, No. 2 (2003). Similar typologies of the literature are also noted by Ha-Joon Chang, Gabriel Palma and D. Hugh Whittaker, "The Asian Crisis: Introduction," *Cambridge Journal of Economics*, Vol. 22, No. 6 (1998) and Stephan Haggard, *The Political Economy of the Asian Financial Crisis* (Washington, DC: Institute for International Economics, 2000). Hill outlines five main theories, however, most of these fit into one or other of Thee's schema, Hill, *Indonesian Economy*, pp. 272-274.

⁶¹ Thee, "Indonesian Economic Crisis," p. 185.

⁶² *Ibid.*

⁶³ *Ibid.*, pp. 185-186.

least the early response to the crisis. This last aspect, though, is generally regarded as more an explanation of the length and depth of the crisis rather than its origins.⁶⁴

The bulk of commentators on the crisis do seem to agree that, in the case of Indonesia (as well as Malaysia and the Philippines), the trigger was (at least in part) ‘contagion.’ Equally though most of the factors that Thee’s ‘fundamentalists’ point to were present in Indonesia. While macroeconomic indicators were stable (low budget deficit, moderate inflation and broadly accepted exchange rates) there was a growing level of short-term unhedged debt — unhedged in part because of the security provided by the quasi-fixed exchange rate system. Equally, banks were poorly regulated and there had been a significant build up of corporate debt and some asset price inflation, although none of this had received much attention from economists.⁶⁵ Poor governance and corruption were obviously issues, though Hill questions whether their levels actually increased in the 1990s — while the wealth of the Suharto family had undoubtedly increased, the relative size of the SOE sector had fallen and the trade regime was more open.⁶⁶ There were few indications that the market’s perceptions of levels of corruption altered notably in the period leading to the crisis.⁶⁷ Nor were there signs of a change in confidence in the regime’s economic credentials. Domestic governance was, however, a factor in the severity and length of the Crisis: the government handed down an unrealistic budget shortly after the onset of the Crisis, it signed an overly ambitious program with the IMF and mishandled bank closures.⁶⁸ In addition, Suharto was seen to be protecting the interests of his family and its cronies. This contributed to the way the crisis intensified.

The program of liberalisation in the 1980s left the Indonesian government with limited levers with which to respond to the Crisis. For more radical critics of the neoliberal development agenda, liberalisation was the key factor behind the Crisis as it facilitated

⁶⁴ See Stiglitz, *Globalization and Its Discontents*, especially Chapter Four.

⁶⁵ See Charles Harvie, "The Financial Crisis in Indonesia: The Role of Good Governance," in Tran Van Hoa and Charles Harvie (eds.), *The Causes and Impact of the Asian Financial Crisis* (Houndmills: Macmillan Press Ltd, 2000).

⁶⁶ Hill, *Indonesian Economy*, p. 279. For a good overview of the accumulation of Suharto family wealth see Schwarz, *A Nation in Waiting: Indonesia in the 1990s*, pp. 133-161.

⁶⁷ A key exception being the Bre-X gold mine scam, Vickers, *History of Modern Indonesia*, pp. 202-203.

⁶⁸ Hill, *Indonesian Economy*, p. 280.

uncontrolled build up of short-term debt.⁶⁹ For those influenced by New Institutional Economics, it was the sequencing of reform that was the key failure — financial liberalisation should not have taken place prior to freeing up exchange rates, appropriate prudential supervision of banking, etc.⁷⁰

The impact of the Crisis on Indonesia was severe and long lasting. The Crisis came on top of a severe El Nino drought that had reduced rice production by four per cent and there was ethnic violence in a number of provinces. Economic growth in 1998 was *minus* 13.6 per cent.⁷¹ The Crisis had its severest sectoral impact on construction, finance and services. Agriculture was least effected and manufacturing declined by around the Crisis average.⁷² Inflation soared from 6.5 per cent in 1996 to 65 per cent in 1998 and took time to be brought under control. The current account actually went into surplus because imports collapsed but exports declined too, despite the huge devaluation in the *Rupiah* after it was floated in August 1997 (in 1998, it was 28 per of its US dollar denominated value from pre-crisis). Devaluation contributed substantially to the exploding debt. Private capital switched from a net inflow in 1996/97 of \$13.5 billion to a net outflow of \$11.8 billion in 1997/98, the capital account returned to positive in 1998/99 only due to the high level of official flows.⁷³

Official unemployment increased only slightly, to around six per cent, because formal unemployment is essentially not an option in Indonesia — workers were absorbed into less productive sectors, in particular agriculture. As a result, underemployment, which was always high, increased. There was also a substantial decline in real wages. According to the World Bank's conservative estimates, the incidence of absolute poverty more than doubled to 27 per cent in 1999, but declined again to 15-16 per cent by 2000 due primarily to a decrease in the price of food, especially rice.⁷⁴ However, the overall vulnerability to poverty has increased significantly since the Crisis.⁷⁵

⁶⁹ See for example, Jonathan Pincus and Rizal Ramli, "Indonesia: From Showcase to Basket Case," *Cambridge Journal of Economics*, Vol. 22, No. 6 (1988), p. 732.

⁷⁰ Stiglitz, *Globalization and Its Discontents*, pp. 64-67.

⁷¹ Thee, "Indonesian Economic Crisis," p. 186.

⁷² Hill, *Indonesian Economy*, pp. 264-265.

⁷³ *Ibid*, pp. 267-268.

⁷⁴ World Bank, "Project Performance Assessment Report Indonesia 2003," p. 3.

⁷⁵ Asep Suryahadi and Sudarno Sumarto, "Poverty and Vulnerability in Indonesia before and after the Economic Crisis," *Asian Economic Journal*, Vol. 17, No. 1 (2003).

Growth only returned in 2000 and between 2000 and 2004 averaged 4.6 per cent, still two percentage points below even the poorer phases of the Suharto era.⁷⁶ Inflation seems to be back under control; in 2004, it was just over six per cent, despite a spike in 2001-02. Foreign direct investment remains very weak, the major outflows continued into 2000-01 but levelled off in 2002-03 before some modest growth in 2004 (just over \$1 billion). Formal unemployment jumped to 9.9 per cent and poverty remains higher than in 1996.

Official Development Assistance to Indonesia After 1966

According to James Soemijantoro Wilson, Cold War aid practices were central to perpetuating a post-colonial political economy in Indonesia built around "...a wealthy indigenous class that reaped its primary economic rewards from neither feudal nor market structures, but from transfer payments from a foreign government."⁷⁷ These practices, he suggests, continued throughout the Suharto regime and only with its fall, did the façade collapse revealing facts that donors had never properly taken into consideration.⁷⁸ The Cold War context was central to the US and Western support for the New Order's murderous take-over of Indonesia. Once it had taken legal control and aligned itself publicly with the West it received "unprecedented" Paris Club debt rescheduling and a very large aid package — \$300 million in credits was provided in 1966 and \$200 million in 1967.⁷⁹ Aid was coordinated through the Inter-Governmental Group on Indonesia (IGGI) — which later became the Coordinating Group on Indonesia (CGI). From 1967, when Indonesia rejoined the IMF and World Bank, the Bretton Woods twins became key avenues of support. The Bank's first loans were approved in September 1968 — a quick turnaround for the Bank. The support for

⁷⁶ The figures here are from the World Bank, *Indonesia: Key Indicators*, available <http://www.worldbank.org>, access date: February 2006.

⁷⁷ James Soemijantoro Wilson, "Why Foreign Aid Fails: Lessons from Indonesia's Economic Collapse," *Law and Policy in International Business*, Vol. 33, No. 1 (2001), p. 153.

⁷⁸ *Ibid.*, p. 177. The Bank's post-Washington Consensus suggests that it is able to do this, thus here is already a question for this case study: to what extent does the Bank's lending program in the post-New Order not perpetuate the rent-seeking behaviour of Indonesia's post-colonial political economy?

⁷⁹ On the debt restructuring see, *ibid.*, p. 148. Note 16 cites a World Bank publication calling the debt restructuring as "...unprecedented because of its unusually generous terms." On the aid package and debt see also Theodore Friend, *Indonesian Destinies* (Cambridge: The Belknap Press of Harvard University Press, 2003), Kingsbury, *Politics of Indonesia.*, Brian May, *The Indonesian Tragedy* (London: Routledge and Kegan Paul, 1978) and Hamish McDonald, *Suharto's Indonesia* (Sydney: Fontana/Collins, 1980).

Suharto was clearly politically motivated, reflected in the initial form of aid from the IGGI — over 80 per cent of aid was program (or adjustment) not project aid — a quick disbursing, direct and relatively untraceable form of support for a pro-US and Western regime.⁸⁰

By 1974, aid was predominately in project form and shortly thereafter, program aid accounted for only a tiny portion of aid flows.⁸¹ As oil revenue increased, aid flows declined in importance to Indonesia, measured both as a percentage of GDP and as a percentage of government revenue. The need to conform to the agenda of donors and to attract foreign capital declined and, as outlined earlier, a range of more nationalist economic policies were introduced.⁸² From 1977, aid flows slowly became more important peaking in 1986-89 with the decline in oil and gas revenues impacting government receipts and an economic downturn. Aid accounted for only 1.5 per cent of GDP in 1977 and for almost 6.5 per cent in 1988.⁸³ So from the early 1980s, the technocrats and international donors again had more influence on New Order policy. This influence was visible in significant trade liberalisation, devaluations in the *Rupiah*, relaxations in the foreign investment regime and some liberalisation of the finance sector — all Washington Consensus prescriptions.

After 1989 the proportion of aid to GDP declined slowly, averaging two per cent in 1995-97. However, as a percentage of government revenue, ODA remained significant — it comprised between 15 and 30 per cent of (official) revenues between 1982 and 1997.⁸⁴ During the Asian Financial Crisis, aid flows peaked at over four per cent of GDP in 1998-99.⁸⁵ What was different after this crisis was how quickly aid declined — by 2000 aid was back down to two per cent of GDP. During both 1986-89 and 1997-99 the proportion of program/adjustment to project aid increased significantly and declined quickly as each crisis subsided.

⁸⁰ Chowdhury and Sugema, "How Significant and Effective Has Foreign Aid to Indonesia Been?," pp. 188-189 and Hill, *Indonesian Economy*, p. 79.

⁸¹ Chowdhury and Sugema, "How Significant and Effective Has Foreign Aid to Indonesia Been?," p. 188.

⁸² See also Berger, "Old State and New Empire in Indonesia," pp. 342-343.

⁸³ Chowdhury and Sugema, "How Significant and Effective Has Foreign Aid to Indonesia Been?," pp. 188-190.

⁸⁴ Robison and Hadiz, *Reorganising Power in Indonesia*, p. 72.

⁸⁵ Chowdhury and Sugema, "How Significant and Effective Has Foreign Aid to Indonesia Been?," p. 189. ODA excludes IMF loans, if these are added in the aid to GDP ratio increases to around ten per cent of GDP in 1998. ODA was also the major source of development expenditure, accounting for over 80 per cent during 1998 — up from just over 30 per cent in the previous year, *ibid*, pp. 189-191.

Historically, Indonesia has received aid from a range of agencies and countries. The most important sources have been the World Bank, the ADB and Japan's JBIC; other notable but less important sources are the US (USAID), Germany, France and the Netherlands. Since the 1990s, Japan has been the largest bilateral donor, the World Bank and ADB remain the major multilateral donors.⁸⁶ According to Anis Chowdhury and Iman Sugema, in the first half of the 1990s the largest sectors of aid were: mining and energy, transportation, agriculture, education and national defence.⁸⁷ Since the Asian Financial Crisis,

[t]he aid share of the mining and energy sector declined from around 20 per cent to less than 10 per cent. But the share of education, health and social welfare sector increased significantly and that helped cushion the poor to some extent from the adverse impacts of the crisis. The share of regional development, too, increased markedly. This shows the importance the donors are giving to the decentralization process that Indonesia undertook in 2001 following the crisis. There have also been significant increases in aid allocated to national defence since 2003.⁸⁸

Interestingly the law, justice and public administration sector received only a minor increase in funding under the sectoral categorisation used by Chowdhury and Sugema. However, as we shall see later, the World Bank boosted funds in this area significantly. The discrepancy may partly be due to categorisation — Chowdhury and Sugema used Indonesian Ministry of Finance data that includes a regional development and transmigration category, which the World Bank does not. Nevertheless, it seems that other donors have not had the focus on this area that the Bank has. Debt relief has also been a major component of bilateral donors' contributions to Indonesia.⁸⁹

⁸⁶ As in the case of the World Bank, the Asian Financial Crisis led to a range of revelations regarding corruption in the Japanese aid program, for a discussion see Friend, *Indonesian Destinies*, pp. 237-238.

⁸⁷ Ibid, p. 192. Note that National defence is included in this section of their analysis as data is drawn from the Indonesian Ministry of Finance, which apparently defines aid more broadly than the OECD definitions used in other parts of their paper (and through this thesis), which exclude military and commercially-linked funding from ODA/OA.

⁸⁸ Ibid.

⁸⁹ OECD Development Assistance Committee, "International Development Statistics Online."

Indonesia's relationship with the IMF was historically based more on technical assistance and advice than on a large lending program. From 1970 to the end of 2004, Indonesia accessed IMF loans on only six occasions — 1972, 1983, 1987, 1997, 1998 and 2000; notably three of the six occasions were during the Asian Financial Crisis.⁹⁰ The first Crisis loan was under the IMF's stand-by arrangement (SBA) and involved a fairly standard set of conditions including reductions in government social expenditures and cuts to food and fuel subsidies despite the fact that the budget was broadly in balance. It also specified closure of 16 banks, which led to a run on other banks, and a rise in interest rates that did little to attract international investors whilst squeezing domestic creditors. Subsequent loans were under the IMF's Extended Fund Facility (EFF), indicating its determination to pursue a program of structural adjustment for a now full-blown Crisis.⁹¹ However, as Chowdhury and Sugema pointed out, Indonesia did not require the full SBA package. Despite paying interest and charges on the loan, Bank Indonesia only drew down 44 per cent of it. Indonesia's reserves were at a healthy level when the assistance was requested; its purpose was psychological — part of the attempt to restore market confidence.⁹² Of course, it did no such thing. Rather the IMF was seen as pushing for accelerating political as well as economic change in Indonesia — a position visible to all in the photo of Michel Camdessus standing over Suharto as he signed the second loan deal.⁹³

As the IMF assumed a larger role in Indonesia, relations with the World Bank were not always smooth. Mallaby contended that it was not disagreement regarding the appropriate policy response behind the poor relations. Rather, it was Wolfensohn's anger at the Bank's failure to respond quickly to the crisis, which resulted in it being seen in a poor light against its Bretton Woods twin.⁹⁴ The Bank has acknowledged the tensions stating in one report that it "...eventually developed a productive working relationship, playing a key role in the government's Extended Arrangement with the

⁹⁰ See IMF Website, URL: <http://www.imf.org>, access date November 2005. Further, between 1997 and 2000, Indonesia signed 16 Letters of Intent to the IMF, Hadiz and Robison, "Neo-Liberal Reforms and Illiberal Consolidations: The Indonesian Paradox," p. 225.

⁹¹ Chowdhury and Sugema, "How Significant and Effective Has Foreign Aid to Indonesia Been?," p. 195.

⁹² Ibid, pp. 196-197. See also Kevin O'Rourke, *Reformasi: The Struggle for Power in Post-Suharto Indonesia* (Crows Nest: Allen & Unwin, 2002), p. 45.

⁹³ Stiglitz, *Globalization and Its Discontents*, p. 40.

⁹⁴ Mallaby, *The World's Banker*, p. 193.

IMF.”⁹⁵ It took until around January 2000 for the Bank, IMF and ADB to agree on a division of responsibilities for Indonesia’s recovery period. This gave the IMF the lead in macroeconomic policy; the Bank the lead on structural and social policies, including corporate restructuring; and the ADB responsibility for privatisation and SOE reform. In addition, all three agencies agreed to support bank restructuring and financial sector reform.⁹⁶ The Indonesian Government eventually terminated its arrangements with the IMF and it has returned to its more traditional role of advice and monitoring.

The World Bank in Indonesia

Indonesia rejoined the Bank in 1967 and they quickly formed a close relationship. After Suharto took control, high-level World Bank visits culminated in a visit from President McNamara in mid-June 1968. McNamara had set out to expand the Bank and his visit:

...may have been the most consequential that a Bank president has paid to a borrowing country. It galvanized the president into making Indonesia, from the Bank’s side, an instant special case.⁹⁷

The unique operations in Indonesia involved the establishment of the Bank’s first resident mission —its largest and most significant for many years with very broad terms of reference and initially direct responsibility to the President of the World Bank.⁹⁸ This direct relationship may have been more to do with the Cold War than anything regarding Indonesia *per se*. It resulted in fundamental agreement on macroeconomic policy bound by “...intimate, ongoing” dialogue with Indonesia’s technocrats.⁹⁹ The Resident Mission worked most closely with BAPPENAS, the Indonesian National Development Planning Agency but also with other core central government agencies.

⁹⁵ World Bank, "Project Performance Assessment Report Indonesia 2003," p. 5, emphasis added.

⁹⁶ World Bank, "Country Assistance Strategy of the World Bank Group for Indonesia" (Report No. 21580-IND, January 4 2001), p. 8.

⁹⁷ Kapur, Lewis and Webb, *World Bank*, p. 469. See also the first official history, Mason and Asher, *World Bank since Bretton Woods*, pp. 323-324.

⁹⁸ Hettne, *Development Theory and the Third World*, pp. 58-60. According to Shapley, McNamara decided to establish the resident mission prior to his visit, Shapley, *Promise and Power*, pp. 475-476.

⁹⁹ Kapur, Lewis and Webb, *World Bank*, pp. 469-470. Mason and Asher claimed that the “...Bank’s resident mission in Indonesia, which normally included nine or ten professionals, has added substantially to the number of persons in that country able to deal competently with problems of economic policy.” Mason and Asher, *World Bank since Bretton Woods*, p. 696.

Kapur, Lewis and Webb's official Bank history argued that Indonesia's honeymoon with the Bank was coming to a close by 1972 due to tensions between the Bank's Washington and Jakarta offices regarding the close personal relationships between the Jakarta office and the Suharto administration.¹⁰⁰ By this time, they suggested, the Bank was also concerned about corruption and the large-scale, public sector development program being funded by oil revenues parallel to the government budget. Bank staff aligned with Indonesia's technocrats to oppose the expenditure but they had lost political influence as oil revenues and the economy grew. As the technocrats' influence declined so too did that of the Bank.¹⁰¹ Yet as Kapur, Lewis and Webb also acknowledge, the Bank's public response to the Pertamina scandal was to express confidence in Indonesia.¹⁰² They did not speak out publicly on corruption until late in McNamara's term, which may only have been due to a 1977 *The Wall Street Journal* report stating that corruption increased the cost of Bank projects in Indonesia by ten to 15 per cent.¹⁰³ In 1980, a World Bank mission produced a 600-page report critical of the bureaucracy and corruption. However, Indonesian officials "...refused to accept it" and the World Bank:

...blinked first — perhaps realizing that the country's oil revenues greatly diminished the bank's structural leverage and fearing that a decade and a half of good relations with Indonesia might be jeopardized if it pushed too hard in such circumstances. Said the World Bank's top official in Jakarta, 'They didn't need our money and they didn't listen to what we said.'¹⁰⁴

The report was rewritten extensively but it was submitted to the 1980 IGGI (and the story leaked to the *Far Eastern Economic Review*) along with a recommendation of no increase in ODA — the first since 1967.¹⁰⁵ There was an ongoing problem with slow

¹⁰⁰ Kapur, Lewis and Webb, *World Bank*, p. 489. By this time too, the Bank wanted to see Indonesia more focused on export promotion and local grain production, this was part of the logic of its support for controversial transmigration programs from the mid-1970s.

¹⁰¹ Jeffrey A. Winters, *Power in Motion: Capital Mobility and the Indonesian State* (Ithaca, N.Y.: Cornell University Press, 1996), pp. 95-96. On the Bank's willingness to apply special sensitivity regarding the Indonesian administration see, pp.147-9.

¹⁰² Kapur, Lewis and Webb, *World Bank*, pp. 491-492.

¹⁰³ Caufield, *Masters of Illusion*, p. 246.

¹⁰⁴ Winters, *Power in Motion*, p. 147.

¹⁰⁵ *Ibid*, pp. 149-152.

disbursement of loans that indicates some curtailment of the relationship.¹⁰⁶ However, the Bank quickly returned to its softly-softly approach and, overall, Kapur, Lewis and Webb appear to overstate the change in the relationship with Indonesia in the light of the large ongoing lending program and the 'miracle' economy tag. Indeed, it seems more accurate to conclude that Bank staff in Indonesia closely identified with the New Order regime and were largely 'captured' by it.¹⁰⁷

Loans to Indonesia increased through the 1980s when it was one of the World Bank's biggest borrowers. From 1981 new loans were only IBRD funded as Indonesia graduated from IDA funding, although after the Crisis in 1998 it again became eligible for IDA funding. The oil slump in 1982 increased the technocrats and Bank's influence and they were behind much of the structural adjustment that took place from 1986, outlined earlier.¹⁰⁸ Lending peaked in 1988-1991 with \$6.2 billion in new loan approvals. Thereafter lending declined "...partly because the Bank was reaching its exposure limits and the Bank shifted its approach to smaller, diversified projects."¹⁰⁹ However, lending still averaged \$1.3 billion per annum between 1990 and 1997.¹¹⁰

During Wolfensohn's tenure it seems that the Bank's resident mission became divided between two factions: one trusting the Suharto regime and another that Mallaby labelled "corruption fighters."¹¹¹ During a visit by Wolfensohn in mid-1996, he privately expressed concern over corruption but the corruption fighters were losing the internal debate as the "...Bank's old Indonesia hands refused to alienate their star client."¹¹² This was partly due to the fact that, at the time, the only notable mechanism for responding to corruption was cutting lending. Given Bank lending to Indonesia had already been

¹⁰⁶ Kapur, Lewis and Webb, *World Bank*, pp. 493-494 and 322-3. Interestingly, Kapur, Lewis and Webb's two volume history of the Bank only devoted around twelve pages to Indonesia, plus a few other short references, and said nothing of the relationship through the 1980s and 1990s. The volumes were published in 1997 thus it is difficult to tell whether the quietness on Indonesia is because they presumed the relationship to be rather unproblematic or whether the problems were already clear and perhaps too sensitive to deal with.

¹⁰⁷ Jonathan Pincus, "The Post-Washington Consensus and Lending Operations in Agriculture: New Rhetoric and Old Operational Realities," in Ben Fine, Costas Lapavistas and Jonathan Pincus (eds.), *Development Policy in the Twenty-First Century: Beyond the Post-Washington Consensus* (London: Routledge, 2001), pp. 189-202.

¹⁰⁸ Winters, *Power in Motion*, pp. 155-156.

¹⁰⁹ World Bank, "Project Performance Assessment Report Indonesia 2003," p. 5.

¹¹⁰ World Bank, "Indonesia CAS 2001-2003," p. 38.

¹¹¹ Mallaby, *The World's Banker*, pp. 180-181.

¹¹² Ibid.

reduced, this option was unpalatable both to many individual loans officers, whose jobs depended on lending, and to their managers who are focused on the Bank's perpetuation, which requires ongoing increases in lending.

The World Bank plays a key role in coordinating donor programs in Indonesia – across the case study period, it chaired the CGI and it was represented in the Partnership for Governance Reform.¹¹³ The Bank leads many projects that receive grant financing and/or co-lending from other donors. It has a close partnership with the United Kingdom and the Netherlands.¹¹⁴ The Bank itself notes:

[e]ven where it is not in the lead, Government and donors rely on it for strong analytical and advisory support (decentralization, SMEs, corporate governance, privatization). The Bank plays a key role in Government's Extended Arrangements with the IMF... And its relationship with key policymakers continues to be good—although where it differs on policy it tends to do so more openly than in the past.¹¹⁵

As chart 7.2 shows (see over), in terms of sectors of lending the Bank's historical focus has been on energy (electricity), agriculture fishing and forestry and transport. Though as we will see, there was a dramatic shift in Bank lending in the PWC period.

¹¹³ Indonesia took over as chair of the CGI in 2005 after the International NGO Forum on Indonesian Development pointed out that the Bank being chair was an anachronism in the supposed age of country ownership of its development program. They argued that only with Indonesia itself as chair would:

...the government and people of Indonesia... be able to make their own choices about the type and model of development that would be adopted. And this would mean that Indonesia could be fully responsible for its implementation and for the loans it borrows.

International NGO Forum on Indonesia Development, "Overview of the Process and Substance of Indonesia's PRSP" (2004), available from: <http://www.infid.de>, accessed: November 2005, p. 10.

¹¹⁴ World Bank, "Indonesia CAS 2001-2003," p. 33. The Netherlands has also played a key role in donor coordination, it chaired the IGGI until at least the late 1970s.

¹¹⁵ Ibid, p. 18.

Chart 7.2 World Bank Approvals to Indonesia 1968-2004, by Sector

Data Source: World Bank projects database¹¹⁶

The World Bank's Key Planning Documents: the Country Assistance Strategy and Poverty Reduction Strategy Paper

The first publicly available CAS is 2001, but references in other Bank literature indicate that the 1994 CAS had the following objectives:

- (a) maintaining economic growth with macroeconomic stability;
- (b) reducing poverty and enhancing human resource development;
- (c) enhancing private sector development and competitiveness;
- (d) improving public sector management; and
- (e) improving environmental management.¹¹⁷

¹¹⁶ The chart utilises World Bank sectoral classifications except for transmigration, which is included as a separate category. Older projects were classified under a different system, which was quite similar so most projects could be easily shifted to current classifications. For example, the old system separated electricity from oil and gas and mining, whereas now there is an energy and mining classification. Some projects required more analysis, for example there was an urban development category but of these most projects from this were transferred to water, sanitation and flood protection as this was the major activity.

¹¹⁷ Listed in a range of Bank loans from the mid-1990s, e.g. World Bank, "Staff Appraisal Report: Indonesia Integrated Swamps Development Project" (Report No. 12166-IND, May 17 1994), p. 9.

The framing of the objectives around economic growth and macroeconomic stability indicates the predominance of the Washington Consensus. In terms of lending directions, there was a major shift from agricultural lending towards infrastructure, education and health and water supply and sanitation during the 1990s that was not envisaged in the 1994 and other CASs. Actual allocations for agriculture were “consistently far below the amount in the CAS.”¹¹⁸ Nevertheless, the Bank lending program fits within the themes outlined by the Bank; given the breadth of the themes this is hardly surprising.

The Bank’s Board approved the 1997 CAS eight days after the Thai Baht was floated and it presented an essentially optimistic assessment of Indonesia’s economic prospects. The:

...objectives of the Bank’s 1997 country assistance strategy remained broadly unchanged from those of the previous 1995 strategy, focusing on macroeconomic stability; increasing efficiency and productivity in the public and private sectors; reducing poverty; and sustainable management of natural resources.¹¹⁹

The July 1997 CAS had only a meagre discussion of the PWC theme of governance and it relegated poverty to third on the agenda behind the efficiency and productivity of the public and private sectors. This is unsurprising given that poverty had not received adequate attention in general in Indonesia since 1990.¹²⁰ This may have been because of absolute poverty had substantially declined, nevertheless, prior to the Crisis over 20 million people were living in absolute poverty and around 50 per cent of the population lived on less than \$2 a day. The CAS did note the fragility of the Indonesian banking system but did not consider a crisis likely. Even in mid-August after the *Rupiah* depreciated 20 per cent “...the Bank did not revise its strategy or develop a contingency plan for addressing the deteriorating situation.” Rather, they reported to the Bank Board that the Crisis was under control.¹²¹ The Bank’s first solid response to the Crisis was a

¹¹⁸ World Bank, “Indonesia Country Assistance Note,” p. 13. Between 1992 and 1997 the Bank also completed a high number of economic and sector technical reports (31 in total), these focused on macroeconomic management, incentives, human resource development, infrastructure and institutional development. Thereafter such work declined to below the regional average, *ibid*, p. 14.

¹¹⁹ World Bank, “Project Performance Assessment Report Indonesia 2003,” p. 6.

¹²⁰ World Bank, “Indonesia Country Assistance Note,” p. 22.

¹²¹ *Ibid*, p.6.

technical assistance loan in the finance sector (Banking Reform Assistance Project, \$20 million); it was not approved until December 1997. This is the only direct Crisis response loan that comes under the first case study period. It took a further seven months for the Bank's large SALs to be approved.¹²²

The Bank is now relatively frank regarding the failures of the July 1997 CAS and the failure to develop contingency plans after the Crisis started. Surprisingly though a 1999 Operations Evaluation Department *Country Assistance Note* classified Bank performance in Indonesia over the 1990s as "marginally satisfactory."¹²³ Mixed messages are apparent in relation to corruption — on the one hand, the Bank has acknowledged that a significant portion (30 per cent is the commonly cited figure) of Bank funds were misappropriated by the Suharto regime. On the other hand, the 1999 report referred only on page 10 to "...past allegations of improprieties in Indonesia." Its review of sectoral achievements utilises old project evaluations without questioning their integrity.¹²⁴ The report translates the 'special relationship' with Indonesia into an argument that Bank operations there were fully client-driven and that this was the reason for it not pursuing 'unwelcome' policies.¹²⁵ This reticence and lack of leverage may have predominated in some sectors (in particular finance) but the idea that the Bank did not pursue an agenda or possess any leverage is equally absurd.¹²⁶

The 2001 CAS contained a more substantial analysis of social, political and economic forces than the earlier CASs, or indeed the 2002 CAS for Vietnam.¹²⁷ It focused strongly on the PWC themes of participation, decentralisation, poverty and governance. The Bank claimed that the CAS is informed by consultation with 'civil society

¹²² Interestingly, Mallaby explained the Bank's slow response as partly the product of Wolfensohn's chaotic management style that created dysfunction at senior levels. In the East Asia region, a new Vice President had only recently been appointed, Mallaby, *The World's Banker*, pp. 190-191.

¹²³ World Bank, "Indonesia Country Assistance Note," p. 25.

¹²⁴ Ibid, pp. 15-19.

¹²⁵ Ibid, pp. 15-16.

¹²⁶ On the way the Bank largely withdrew from the finance and banking sector after some critical reports on projects see *ibid*, p. 20. On the "...Bank's tendency to understate its own leverage over the Indonesian government" particularly regarding problematic projects see, Bernadette Whitelum, "Rhetoric and Reality in the World Bank's Relations with NGOs: An Indonesian Case Study," (A thesis submitted for the degree of Doctor of Philosophy: Australian National University, Canberra, January 2003), p. 282.

¹²⁷ World Bank, "Indonesia CAS 2001-2003." The report noted that the need to "...absorb the political, institutional and social dimensions more fully in our country assessments" was one of its key lessons from the Asian Financial Crisis, *ibid*, p.16.

organisations,'¹²⁸ but it actually revealed a Bank vision of civil society as something requiring structuring into organisations that can be trained, evaluated and finally legitimated by the very process of their incorporation into Bank consultation. Bernadette Whitelum's study of World Bank/NGO relations in Indonesia found that this was precisely what the Bank was doing with the NGO sector, which it regards as lacking capacity, maturity and an appropriate view of the Bank and of Indonesian development.¹²⁹ Whitelum demonstrates that the Bank "...has assigned itself a role *in shaping* Indonesian NGOs in order to further *its* vision of Indonesia."¹³⁰ Perhaps because of this view, it struggled to find NGOs willing to engage with it on its own terms.

On decentralisation, the Bank believed it "...makes good economic sense" but was concerned about implementation of such radical change.¹³¹ Decentralisation also offered the opportunity for selective support for provinces implementing appropriate reforms, that is, for introducing competition amongst provinces.¹³² However, as Tania Li pointed out, there is a tension between the project to "...institute competitive practices at various levels" and the Bank's supposed mission of poverty reduction.¹³³ Thus where provinces have been performing poorly the Bank leaves open the option to support "bottom-up" reform via community development projects.¹³⁴

On levels of lending during the CAS period, the Bank forecasted a base-case "muddle-though" scenario with core lending at around \$400 million per annum.¹³⁵ This was what transpired and as a result, net Bank disbursements have been negative since 2002. The CAS also notes the "...significant *possibility of a crisis scenario*."¹³⁶ If this were the case, the Bank's planned response was to *cease all lending*. This is a surprising position

¹²⁸ Because of the suspicion in which the Bank is held in Indonesia, it struggled to recruit an organisation to conduct the consultations with civil society, Whitelum, "Rhetoric and Reality in the World Bank's Relations with NGOs," p. 190.

¹²⁹ Ibid, pp. 199-200.

¹³⁰ Ibid, p. 188.

¹³¹ World Bank, "Indonesia CAS 2001-2003," p. 1.

¹³² Ibid.

¹³³ Tania Li, "Government through Community: The World Bank in Indonesia," *Invited Paper for the Hauser Colloquium: Globalization and Its Discontents* (New York University School of Law: 2005), p. 11.

¹³⁴ World Bank, "Indonesia CAS 2001-2003," p. 26.

¹³⁵ Ibid, p. 11.

¹³⁶ Ibid, p. iii.

because it would not have suited the needs of international capital or the poor;¹³⁷ but the group that would have been most effected was Indonesia's political society. The Government's resources were substantially reduced by the Crisis and a stop to Bank lending would likely have produced a drying up of private capital flowing to the state. It may even have prompted further capital outflows. The impact on the relatively weak presidency of Abdurrahman Wahid (which lasted just six months after the CAS's release) would have been major. This then is quite a formidable example of the Bank's coercive power undoubtedly designed to ensure that the Wahid Administration undertook Bank-supported 'reform.'

The Washington Consensus themes visible in the 1995 and 1997 CASs dominated the 2001 CAS as well — its first theme of "sustaining economic recovery and promoting broad-based growth" was little more than a reformulation of the 1994 CAS's economic growth and macroeconomic stability theme. The second priority was "national institutions for accountable government," again a new expression for an old theme of efficiency and productivity in the public sector. However, the theme was given new legitimacy by the international financial institution's reading of the Asian Financial Crisis that focused on Indonesia's institutional weakness and corruption. This justified a more interventionist role for the Bank. The third theme, "delivering better services to the poor," also rehashed the public and private sector efficiency theme but for the newly decentralised service delivery environment. It was the component that covered the Bank's series of *Kecamatan* Development Projects and Urban Poverty Projects, which actually operate outside of local government administration. Yet the justification in the CAS for this theme was support for the government "...to maintain service delivery through the transition" to decentralisation.¹³⁸

The 2003 CAS was thematically similar to 2001. Theme one was re-focused in PWC terms, where the state has a role in creating an enabling environment for business; it became: "improving the climate for high quality investment." Services for the poor were relegated to second on the list. The national institutions theme from the 2001 CAS

¹³⁷ A point made in Whitelum, "Rhetoric and Reality in the World Bank's Relations with NGOs," p. 328.

¹³⁸ World Bank, "Indonesia CAS 2001-2003," p. 26.

became in 2003: “the core issue of governance.”¹³⁹ The forecast for lending remained at the base case, though evidence “...of decisive momentum in implementing the reform package could lead to an ‘enhanced’ base case, in which the Bank would *offer* an adjustment loan in late 2004.”¹⁴⁰ The Bank did offer the adjustment loan — the First Development Policy Loan, which is analysed in the following chapter.

Regarding adjustment lending, the 2001 CAS gave a sense of a new Bank view, which was comprehensively stated in the 2003 CAS. In this view, adjustment lending does not offer good leverage in countries that have widespread governance issues and lack ‘deep’ commitment to governance reform.¹⁴¹ This is now precisely how the Bank views Indonesia, thus it proposed restrictions on the use of adjustment lending, making it a reward for ‘good’ past behaviour.

Indonesia is not a Highly Indebted Poor Country and thus was not required to prepare a PRSP to gain IDA access. However, developing a PRSP was part of the 2001 CAS’s conditions for moving to a higher lending scenario. An interim-PRSP was completed in early 2003 and submitted to the World Bank Board in March of that year. As in Vietnam, the interim document was produced fairly quickly with limited public participation.¹⁴² The full PRSP process was due for completion in mid-2004 but was only finalised and released in October 2005. There is remarkably little information available on the PRSP or the process for its completion, the PRSP itself is not on the World Bank website, indeed there is barely a mention of it. According to Rudsi Tagaroa, the PRSP proposes a strong rights-based approach to development, derived from a participatory process. The Government of Indonesia has committed to integrating the PRSP action plan into its medium-term expenditure framework, however, there is little commitment from most portfolios, and indeed they have refused to implement it.¹⁴³

¹³⁹ World Bank, "Indonesia Country Assistance Strategy FY 2004-2007" (Report No. P080082, Washington: World Bank, December 2003), p. i.

¹⁴⁰ Ibid, p. ii.

¹⁴¹ Ibid, p. 11.

¹⁴² International NGO Forum on Indonesia Development, "Overview of the Process and Substance of Indonesia's PRSP," p. 7.

¹⁴³ Rudsi Tagaroa, "Indonesian PRSP," (Jakarta: GAPRI (Anti Impoverishment Movement In Indonesia), 2006).

Conclusion

Indonesia is an important case study because for most of the first period examined here, 1993-1997, it was relatively stable, showed generally steady economic growth and progress and it was a Bank 'favourite.' Early in 1998 things changed, the often brutal and certainly authoritarian reign of Suharto and the New Order finally collapsed and were replaced by a series of relatively weak governments. The Bank seemed to support the first of these led by Habibie, who was a New Order crony turned reformist. Its support waned during the governments of Wahid and Megawati. The presidency of Yudhoyono from October 2004 seemed to herald a return to relative stability, even though it has not challenged entrenched interest in Indonesian society more than other post-New Order presidencies. Nevertheless, his presidency has seen some rebuilding in Bank support.

The next chapter explores the Bank's lending practices in Indonesia in detail, which will give more insight into how the Bank's underlying development philosophy has progressed and the tactics it utilised to achieve its goals.

Chapter Eight

World Bank Lending in Indonesia

In 1993, the start of the first case study period, the Bank and Indonesia were in a ‘business as usual’ phase of their relationship. Indonesia was one of the Bank’s bigger lenders but the Bank’s influence on the New Order was not particularly strong. This relationship is clear in the sectoral analysis of Bank lending that leads this chapter. What also becomes clear is the profound impact that the Asian Financial Crisis had on the Bank’s program with Indonesia. It resulted in both a large decline in the size of the Bank’s program and in major shifts in its sectoral support. The underlying rationale of these changes and how strongly they are connected to the post-Washington Consensus versus other factors, are opened up as the chapter analyses Bank adjustment and investment lending in Indonesia.

A Sectoral Analysis of World Bank Lending in Indonesia

This section examines the evolution of Bank lending in terms of sectoral focus, types of loans and the size of loans in the two periods, 1993-1997 and 2000-2004 and provides a brief overview of lending during the Asian Financial Crisis. Like the case study on Vietnam, the analysis broadly utilises the Bank’s sector classification system of new loans approved during the case study periods. However, more so than in Vietnam, there were a significant number of multi-sectoral projects and projects with anomalous Bank sector classifications. For example, *Kecamatan* Development Project (KDP) I was classified transport, its extension was classified as health and other social services and KDP II was classified as law, justice and public administration. Therefore, the loan analysis does not strictly follow the Bank’s sectoral classification as was the case for Vietnam, rather it groups similar projects. These anomalies also make the sectoral analysis somewhat problematic — it least affects sectoral classifications in energy and mining, education, transport and health (with KDP I as an exception) and is most prominent in agriculture, fishing and forestry, water sanitation and flood protection and law, justice and public administration.

Table 8.1 World Bank New Loan Approvals to Indonesia by Sector, as a per cent of total lending: 1993-97 and 2000-04

Sector	1993-1997 (%)	2000-2004 (%)
Energy	24	6
Water, sanitation and flood protection	20	4
Transportation	15	18
Education	13	5
Agriculture, fishing and forestry	10	6
Law, justice and public administration	7	47
Information and Communications	6	<1
Health and other social services	4	14
Industry and Trade	1	0
Finance	<1	0

Data source: World Bank Website, Projects & Operations, Projects Database

Between 1993 and 1997 a total of \$5.35 billion in new loans were approved — a little over one billion per annum. There was *no* structural adjustment lending. As per Table 8.1, the key sectors of lending were: energy and mining — comprised totally of power projects — and water, sanitation and flood protection — predominately urban development projects. Transportation projects were mainly road projects while education lending covered the junior secondary school level and above. Agriculture, fishing and forestry lending was focused on irrigation and water management projects, two area development projects and the first Village Infrastructure Project.

Between the case study periods, 1988-1999, Bank new loan approvals were over \$1.67 billion per annum of which just over 70 per cent was structural adjustment lending. Indonesia has only ever received ten SALs: five between 1987 and 1990, four in 1998-1999 and one in 2004 (note the parallel to IMF loans). The overall average of 13.8 per cent of loans being SALs is largely due to the large-scale loans of 1998/99. Net World Bank disbursements 1997-2002 were only \$322 million, due to repayments of older loans and delays or cancellation of tranches from active loans that were tarnished by New Order corruption (and World Bank complicity).¹

¹ The total amount cancelled between 1998 and 2000 was over \$1.6 billion, World Bank, "Indonesia CAS 2001-2003," p. 14.

Bank lending dropped dramatically in 2000-2004 to \$2.18 billion. With only one large structural adjustment loan, adjustment lending was 13.8 per cent of the value of loans. In contrast to the limited changes in the scale, type and sectors of lending in Vietnam, in Indonesia there were major shifts not just in volume but also in the sectoral focus. Most prominently, lending in the law, justice and public administration sector shifts from seven per cent of lending to *47 per cent*, of which KDP projects account for just over 56 per cent. IDA loans comprise 27.6 per cent of the value of all new loan approvals. In the 2001 Indonesia CAS, the Bank estimated that Indonesia's eligibility for IDA lending would phase out in four to six years.²

On the average and median size of loans — an indicator of the Bank's trade off between project quantity and quality — in 1993-1997 there were 54 loans with an average and median size of \$99 million. In 2000-2004, the average loan approval remained around the Bank's standard at \$108 million but the median declined to \$77 million. However, if the two small (less than \$5 million) learning and innovation loans are discounted, the median was \$100-103 million. The average number of conditions jumped dramatically from 15.5 (median 13) in the first case study period to 25.5 (median 24) in the second.

Structural Adjustment Lending in Indonesia

As noted earlier, structural adjustment lending in Indonesia is, as with Vietnam, well below the Bank's overall average of 33 per cent. Nevertheless, SALs are often good indicators of Bank priorities. Take for example, the two trade adjustment loans in 1987 and 1988 (each for \$300m) and the two private sector development adjustment loans (1989 - \$350 and 1990 - \$250), these had *no* conditionality at a time when the Bank was in the midst of its Washington Consensus linked-conditionality period.³ This indicates the extent to which Indonesia remained a special case for the Bank through the 1980s, despite the increasing levels of corruption and cronyism. Even the large-scale Policy Reform Support Loans (PRSL) I and II (in 1998 and 1999 for respectively \$1,000m and

² Ibid, p. 40.

³ World Bank, "Indonesia Country Assistance Note," p. 19. Part of the performance being rewarded under this loan was paying its customs officers to stay at home whilst the work was contracted to a Swiss company, Vickers, *History of Modern Indonesia*, p. 188. The fifth adjustment loan in this period was the Urban and Water Supply Sector Adjustment Loan Project, approved in 1987 for \$270 million.

\$500m) were not highly conditional for their size, containing respectively 12 and 18 conditions.⁴

The conditions on the PRSLs though were core Washington Consensus ones — macro-economic stability, banking reform, tariff reductions, eliminating trade restrictions, privatisation, liberalising markets and increasing competition (especially in crony conglomerates such as cloves, palm oil and forestry). In PRSL I, the only PWC theme was governance, in the second loan corruption and decentralisation appeared. The lack of strong conditionality was the subject of criticism in the Operations Evaluation Department's review of these loans — it argued that this was a missed chance to "...move the reform program forward."⁵ Given that the loans conditions were predominately Washington Consensus concerns, there is little doubt about the type of reform being referred to here.

The \$600m Social Safety Net Adjustment Loan (1999) ostensibly provided one-off assistance to those negatively impacted by the crisis but its underlying objective was to drive reform of government social expenditures. It sought to make social programs more targeted and thus constrain expenditure in the medium-term. The Bank largely designed the loan and saw it as a vehicle for 'reform,' which resulted in a high level of conditionality. This contradicts other elements of the PWC rhetoric, in particular country ownership.⁶ The loan contained 57 complex conditions covering everything from expenditure levels in specific safety net areas to public involvement in monitoring and evaluation and "[s]pecific corrective actions taken against an identified list of problems in implementation of safety net programs."⁷ The Bank used the loan conditionality extensively, even in an unrelated (but core Washington Consensus) area — it held off disbursement of the first tranche as leverage for banking sector reform.⁸ The program suffered from design and corruption problems and eventually, the second

⁴ See World Bank, "Project Performance Assessment Report Indonesia 2003."

⁵ Ibid, p. 27.

⁶ As of December 2005, the Bank had only ever made three social adjustment loans worldwide. The other loans were to India in 1992 and Bolivia in 2003, details are available from: World Bank, "Projects & Operations" (2005), available from: <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,menuPK:115635~pagePK:64020917~piPK:64021009~theSitePK:40941,00.html>, accessed: February 2005. The logic of these loans is clearly that of the PWC — 'adjustment with a human face.'

⁷ World Bank, "Report and Recommendations of the President of the IBRD on a Proposed Social Safety Net Adjustment Loan to the Republic of Indonesia" (Report No. P7307-IND, April 27 1999), Annex II. The loan was co-financed by the Japan Bank for International Cooperation (JBIC) for \$600m.

⁸ Whitelum, "Rhetoric and Reality in the World Bank's Relations with NGOs," p. 303.

tranche of the loan (\$300m) was cancelled. The Bank stated the cancellation was "...because of lack of progress on governance issues"⁹ — and indeed, many conditions were not met even after extension in timeframes. Undoubtedly the extensive conditionality was administratively difficult for the Government of Indonesia (GoI) particularly in the midst of decentralisation and other reform. The conditionality also made the loan a political liability for the Wahid Government.¹⁰

The Water Resources Sector Adjustment Loan (WATSAL) (1999, \$300m, \$150m disbursed) was the most controversial of the Bank's package of Crisis adjustment operations due to its introduction of the concept of tradeable water rights and its facilitation of further privatisation of water resources management and operations.¹¹ WATSAL was proposed *by the Bank* to progress reform in line with sectoral work carried out by itself and the ADB in 1997.¹² Legislation, produced as part of the loan, was the subject of a challenge by NGOs and individuals to Indonesia's Constitutional Court in 2005. Its most interesting aspects were its conditionality and the level of country ownership in relation to the legislation. The legislation was drafted with little public consultation¹³ and, because of the controversy surrounding it, was the subject of intense debate and amendments by the DPR. These amendments, and some changes in interpretations by the responsible Ministries, led to the Bank delaying the second and third loan tranches and eventually cancelling the third loan tranche.

Nevertheless the Bank's report on the completed loan regarded it as quite successful in driving reform. The discussion of lessons learned includes a detailed discussion on the "...necessary and sufficient conditions for ambitious, major sector reforms."¹⁴ Conditions identified include: ...“an overriding trigger, such as a national or sector ‘crisis,’” a local leader to champion reform, a clear strategy and a conducive political-

⁹ World Bank, "Project Performance Assessment Report Indonesia 2003," p. 25. This report referred to an Implementation Completion Report on the Social Safety Net Adjustment Loan, however, interestingly this is not available on the Bank's website.

¹⁰ Whitelum, "Rhetoric and Reality in the World Bank's Relations with NGOs," p. 311

¹¹ See Oleh Nadia Hadad, "Indonesia's Water Resources Policy: Effects of Globalization and World Bank Policy," *Jurnal Konstitusi*, Vol. 2, No. 2 (2005).

¹² Ibid, p. 67.

¹³ Mishka Zaman, "Restructuring of the Water Sector in Indonesia: An Institutional and Legislative Challenge" Bank Information Centre, (2002), available from: <http://www.bicusa.org>, accessed: July 2005.

¹⁴ World Bank, "Implementation Completion Report on a Loan to the Republic of Indonesia for the Water Resources Sector Adjustment" (Report No. 32665, June 29 2005), p. 35.

economic environment.¹⁵ Next, the report considered the most effective form of adjustment assistance to drive “reform operations” in various circumstances.¹⁶ In other words, how to ensure the most leverage from loans in various circumstances. Finally, it explored ways of implementing reform that minimise political opposition and ensure full compliance. Issues discussed range from minimising legislation amendments to having broad participation in reform and regulation design. On technical assistance, it argued that “...reform ‘ownership’ is crucial” thus “preparation of reform deliverables by expatriate consultants should be decidedly avoided.”¹⁷ This is more than a classic piece of Bank-speak, the inverted commas around ‘ownership’ indicates precisely how the Bank seeks to manage reform processes in such a way that they seem to be locally owned, whilst in reality establishing and managing the agenda itself.

With the new view that adjustment lending does not provide enough leverage where a regime does not follow the (Bank-determined) ‘right’ agenda, there was no adjustment lending to the governments of Wahid or Megawati. Whereas Habibie, who lacked a strong domestic power base and was thus particularly reliant on the support of international agencies, received three large, quick disbursing program loans within the six months prior to the election.

Two months after Yudhoyono was sworn in, he was rewarded for his strong talk on increasing economic growth, creating the right investment environment and fighting corruption with the First Development Policy Loan (\$300m) in December 2004. This loan was less conditional than those made in 1999. It contained ten ‘prior actions’ (i.e. conditions) before release and twelve indicative conditions for a second loan. The conditions covered three areas, the first two of which are consistent with Washington Consensus concerns: reducing government debt and improving the investment climate. The third core area was a PWC one: governance and anti-corruption (expressed in a focus on accounting standards, accounting operations, corruption investigations).¹⁸ The loan was relatively tightly focused but, as in the Vietnam case study, it clearly demonstrates the PWC’s role to extend and deepen financial discipline and

¹⁵ Ibid.

¹⁶ The debate covers the relative merits of balance of payments versus import support, see *ibid.*, p. 36.

¹⁷ Ibid, p. 37.

¹⁸ World Bank, “Program Document for a Proposed First Development Policy Loan to the Republic of Indonesia” (Report No. 30418-IND, November 23 2004), pp. 44-46.

transparency. Under the governance heading, one of the prior actions was development of a timetable for adoption of a Treasury single account.¹⁹ The completion report for the First Development Policy Loan claimed there was country ownership of the reform program but it provided little evidence in support of the claim and it is difficult to gauge its accuracy.²⁰

Overall, in adjustment lending to Indonesia the Social Safety Net Adjustment Loan stood as indicative of the influence of a strong version of the PWC. Yet, the high level of conditionality and cancellation of the second tranche indicated the level of unease with the loan. The 2005 Implementation Completion Report on WATSAL signified the Bank preference for driving reform regardless of country ownership. Starting with the proposition that crisis provides the opportunity for 'reform,' it suggested use of the form of lending that provides the most leverage in the circumstances. Implementation, it argued, need to be done incrementally to minimise backlash. This is a clear indication of the Bank's hegemonic predisposition using coercion combined with little more, in this case, than a veil of consent.

Investment Lending in Indonesia

The analysis of investment lending in Indonesia commences with an analysis of the law, justice and public administration sector, which was by far the major sector of lending in the second case study period. This sector is divided into three sub-sectors: general law, justice and public administration project; rural area development projects; and urban area development projects — this includes the series of Urban Development Projects which were classified by the Bank predominately as water, sanitation and flood protection but were multi-sectoral and the forerunners to the Urban Poverty Projects.

Given that the law, justice and public administration sector incorporates a large number of projects originally classified as water, sanitation and flood protection, this leaves only a small number of projects in this sector, which is the second sector analysed.

¹⁹ Ibid, p. 46.

²⁰ World Bank, "Simplified Implementation Completion Report: Republic of Indonesia First Development Policy Loan (Loan No. 4761-IND)" (Report No. 33213-ID, August 2 2005), p. 7.

Transportation is the third sector examined, as it is a substantial sector during both periods, followed by energy and mining, health, agriculture and fishing and forestry and, lastly, education. There was one loan in both the finance and industry and trade sectors. The finance loan is included with law, justice and public administration and the industry and trade loan is included with education sector loans, as it was a human resource development project. The information and communications sector is not analysed as there was only one loan in each period and the loan in the second case study period was a learning and innovation loan for \$2.66m, thus it would be impossible to undertake a meaningful analysis. The loans could also not usefully be included in another sector.

Law, Justice and Public Administration

General Law, Justice and Public Administration Projects

Table 8.2 World Bank General Law, Justice and Public Administration Sector Lending to Indonesia: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)
Loans 1993-1997		
Flores Earthquake Reconstruction Project	1993	\$42.1
Integrated Swamps Development Project	1994	\$65.0
Land Administration Project	1994	\$80.0
Second Accountancy Development Project	1994	\$25.0
Industrial Technology Development Project	1995	\$47
Second Technical Assistance Project for the Public and Private Provision of Infrastructure	1995	\$28.0
Human Resources Capacity Building Project	1996	\$20.0
BEPEKA Audit Modernization Project	1997	\$16.4
Information Infrastructure Development Project	1997	\$34.5
Banking Reform Assistance Project*	1997	\$20.0
Loans 2000-2004**		
Private Provision of Infrastructure Technical Assistance Loan	2003	\$17.1
Land Management and Policy Development Project	2003	\$65.6
Government Financial Management and Revenue Administration Project	2004	\$60.0

* This loan's classification is finance, it is the only loan in the sector and thus included here.

** The First Development Policy Loan was approved in this period — it was analysed above.

This is quite a hodgepodge of loans, however, there are three reoccurring themes: land titling, private sector participation and public financial management. Land titling is a theme in three projects — Integrated Swamps Development, Land Administration and the Land Management and Policy Development Project. This Bank's interest in land titling derives partly from its lack of ease with the Indonesian Constitution's vesting of ultimate control of land, water and airspace with the state due to its social function.²¹ Combined with the *Pancasila* commitment to social justice, land in Indonesia is not a mere commercial commodity as in the West.²² This is a problem for the Bank because they see that private ownership facilitates land markets that underpin "modern economic development."²³ As noted in the Vietnam case study, land markets as a way to create and reproduce private property are more than a core Washington Consensus, they are central to the broader liberal capitalist project that the Bank exemplifies.

The Integrated Swamps Development Project was a so-called second-stage transmigration project, that is, one focused on rehabilitating original transmigration sites.²⁴ Rehabilitation was a necessity because transmigration loans were not only an environmental disaster, they often did little to improve the living standards of transmigrants, let alone those of local indigenous populations.²⁵ The project aimed to reduce poverty in 20 swamp transmigration locations in Sumatera and West Kalimantan. It included components on water control, rural infrastructure, and food and tree crop production as well as land titling. The land-titling component focused on providing titles to original inhabitants — most of whom did not receive titles, whereas transmigrants did!²⁶ By the mid-1990s when this scheme was approved, it was well-

²¹ World Bank, "Staff Appraisal Report: Indonesia Land Administration Project" (Report No. 12820-IND, August 16 1994), p. 5.

²² Craig C. Thorburn, "The Plot Thickens: Land Administration and Policy in Post-New Order Indonesia," *Asia Pacific Viewpoint*, Vol. 45, No. 1 (2004), p. 35.

²³ World Bank, "Staff Appraisal Report: Indonesia Land Administration," p. 2.

²⁴ Between 1976 and 1989, the World Bank approved \$630 m (disbursed = \$500 m) to support transmigration. This part-financed the official resettlement of over 2.3 million people, which then prompted the spontaneous resettlement of a further 2 million people. The Bank's loans were a catalyst for funding from other bilateral and multilateral donors. In 1987, the Bank decided against new funding for projects but in 1992, it began support for second stage transmigration projects, see Rich, *Mortgaging the Earth*, pp. 34-38.

²⁵ The average cost of moving a family under the program was \$7,000, see M. Adriana Sri Adhiati and Armin Bobsien, "Indonesia's Transmigration Programme — an Update" Down to Earth, International Campaign for Ecological Justice in Indonesia, (2001), available from: <http://dte.gn.apc.org/ctrans.htm>, accessed: November 2005, p. 2. Yet a World Bank review found that 50 per cent of transmigrants were living below the poverty line and 20 per cent below subsistence, Rich, *Mortgaging the Earth*, pp. 36-37.

²⁶ World Bank, "Staff Appraisal Report: Indonesia Integrated Swamps," p. 15.

known that transmigration projects had systematically violated the customary land rights of indigenous groups. Yet the Staff Appraisal Report claimed that "...swamp lands are usually uninhabited before drainage, and therefore relatively free of land claims which often hinder large scale development elsewhere."²⁷ The project exhibited a surprising faith in the capacity to farm swamp lands and in transmigrant labour as the key to developing, in this case, a large-scale tree cash-cropping industry.²⁸ It focused on private sector participation in infrastructure development, but had virtually no discussion of community participation in design and implementation and equally no discussion of gender issues including regarding land titling.

Limited community participation and gender analysis were also features of the Land Administration Project, which had the rather lofty goals of not just fostering "...efficient and equitable land markets" but also alleviating "...social conflicts over land."²⁹ Apart from the rather tricky notion of what 'equitable' land markets are, the idea that titling will resolve social conflict in the context of large-scale dispossession of indigenous peoples is rather problematic.³⁰ The Land Management and Policy Development Project (2003) in the second case study period, exhibited more awareness of such issues and as a result it focused on the policy and regulatory framework rather than titling. It explicitly excluded areas with traditional land rights issues from pilot titling activities. The project also had a much more participatory approach — a lesson learned from the Land Administration Project.³¹

The Land Management Project's gender analysis was only slightly more developed than that of the Land Administration Project. The latter project argued that women's rights would be strengthened by titling of land because, under Indonesia law, land that either partner own prior to marriage remains their property; titling would ensure that women

²⁷ Ibid, p. 5.

²⁸ Tree cash-cropping was an explicit focus of both the World Bank and Asian Development Bank in Indonesia from the 1970s on, Adhiati and Bobsien, "Indonesia's Transmigration Programme — an Update," p. 10.

²⁹ World Bank, "Staff Appraisal Report: Indonesia Land Administration," p. i.

³⁰ Having said that, the project evaluation was indicated the project was well received and largely free of conflict, see Thorburn, "The Plot Thickens," p. 35. The good outcomes were undoubtedly assisted by the geographical focus on Java where there are relatively few conflicts regarding indigenous land.

³¹ World Bank, "Project Appraisal Document on a Proposed Credit to the Government of the Republic of Indonesia for a Land Management and Policy Development Project" (Report No. 28178-IND, March 31 2004), p. 13.

retain their rights in cases of marriage dissolution.³² There was no mention, though, of the proportion of land owned by women prior to marriage, which is small. Further, it claimed that property acquired during marriage is under marriage law joint property and thus joint titling was not essential. Yet the Land Management Project acknowledged that titling in the husband's name only weakened the position of women.³³ To remedy this, the project merely aimed to ensure that 90 per cent of participant women were *informed* of the right to have joint property titles.³⁴ There was no discussion in either loan of women's rights in the case of property acquired jointly by unmarried couples — this is not an insignificant issue in Indonesia as marriage can be expensive (bride price and the costs of registering marriages) and thus out of reach of some of the poor.

Private sector participation was a key theme in four loans: the Industrial Technology Development Project, the Information Infrastructure Development Project, the Second Technical Assistance Project for Public and Private Provision of Infrastructure and the Private Provision of Infrastructure Technical Assistance Loan. The Industrial Technology Project (1995) aimed to improve the competitiveness of Indonesian industry, especially small to medium enterprises (SMEs) via improvements in research and development (R&D), industrial measurement, standards, testing and quality and improvements in industrial technology policy. The Bank's evaluation of the loan, completed in 2005, noted three major issues with the loan, which they cannot, or do not wish to explain, yet which can be contextualised by anyone with a rudimentary knowledge of Indonesian politics.

First, the evaluation stated that it is “not clear” why the project was approved given the context of significant budgetary restrictions on R&D institutions.³⁵ One explanation is that Habibe was then Minister for Science and Technology and was an up and coming favourite in the administration. Second, the evaluation pointed to the inconsistency of having SMEs as the target of R&D and quality programs that are normally the domain of big business. The unmentioned context here is the sensitivities of New Order support

³² World Bank, "Staff Appraisal Report: Indonesia Land Administration," pp. 30-31.

³³ World Bank, "Project Appraisal: Indonesia Land Management and Policy Development," p. 21.

³⁴ Ibid.

³⁵ In the lessons learned, this problem is reduced to a sequencing issue, World Bank, "Project Performance Assessment Report Indonesia Industrial Technology Development Project (Loan No. 3972)" (Report No. 32733, July 5 2005), p. 5.

for Chinese big business versus indigenous business concentrated in the SME sector — when the indigenous SME sector felt too excluded, political and social disturbances often resulted. This project then, might be explained by the New Order's need to be seen supporting indigenous SMEs. Third, the evaluation pointed out design defects in the technology transfer grant scheme also targeted at SMEs. It was demand-driven and operated on a first-come-first-served basis, which did not guarantee the best projects were supported. Indeed, it may have facilitated corruption, or at least nepotism, in scheme administration; this later issue is not discussed.³⁶ Yet, nepotism was central to the New Order's distribution of wealth. Thus this design 'fault' may have been deliberate. For a project evaluated in the PWC period the lack of analysis of politics or corruption is quite striking.

The 1997 Information Infrastructure Development Project aimed to enhance private sector participation in providing information technology, post and tourism services. It had a strong focus on legal and regulatory 'reform' and in particular the protection of intellectual property rights — a core Washington Consensus concern. The project also subsidised a science and technology network, a tourism information service and a program to expand private sector access to technology. These are justified on the basis of the "strong positive externalities" they generate.³⁷ This is an interesting departure from the Bank's standard (Washington Consensus) position on the necessity for cost recovery in other infrastructure sectors (e.g. power or water supply).

These two projects — Public and Private Provision of Infrastructure and Information Technology — were clearly more the product of the New Order's agenda than the Bank one. Given too the Bank acknowledgement that the New Order creamed substantial amounts from its loans, this indicates, albeit in a rather negative form, a fairly high level of regime 'ownership' of the Bank program.

³⁶ Ibid, pp. 5-6. The matching grant component was run by a subcontractor at a cost of \$826,007, in order to hand out \$516,450 in subsidies to SME! Ibid, p.10. Despite all the problems the Bank evaluated its own performance as satisfactory, *ibid*, p.15.

³⁷ World Bank, "Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for an Information Infrastructure Development Project (IIDP)" (Report No. 17106-IND, October 16 1997), p. 11.

The 1995 Second Technical Assistance Project for Public and Private Provision of Infrastructure acknowledged, implicitly more than explicitly, corruption but its solution was purely technical — development of effective regulatory frameworks. This solution reflected the background analysis which presented Indonesia as engaged in linear development from: “...a primarily natural resource-based economy to a more human capital productivity-based economy;... from a largely rural economy to a more urban society...”, complimented by (liberal democratic) “...political transition featuring a more open debate of public policy issues and a rethinking of the role of Government, private sector and community organisations.”³⁸ The project covered public as well as private sector provision of infrastructure because, it argued that the GoI was “still at an early stage” in the supposedly cost-effectiveness driven transition of government from a supplier to a facilitator of services.³⁹ Given the technical, problem-solving approach of the project, there was no discussion of political or community commitment to the new regulatory frameworks or of private interest in participating in infrastructure provision.⁴⁰

Regulatory frameworks were also the focus of the Private Provision of Infrastructure Technical Assistance Loan from 2003. This loan more explicitly acknowledged corruption (a PWC theme) but private provision of infrastructure moved from being an option to an “imperative” about which no debate is required (core Washington Consensus).⁴¹ Mistrust of public debate is quite evident in the loan documents, which claimed for example, that the public debate on the failings of private investments in infrastructure under the New Order regime was “poorly-informed” and “...open to exploitation by those with vested interests in maintaining the status quo.”⁴² And while “civil society” was to be involved in project oversight it seems that public perceptions needed to be shaped to support private sector provision of infrastructure and privatisation.⁴³ The project demonstrated that private infrastructure provision has become a Washington Consensus hegemonic principle. PWC influences were visible in

³⁸ World Bank, “Technical Annex on the Republic of Indonesia Second Technical Assistance Project for the Public and Private Provision of Infrastructure” (Report No. T-6606-IND, June 2 1995), p. 1. The hope regarding political transformation was likely the product of the period of relative openness in Indonesia from the late 1980s. However, this was coming to an end just as this project was being prepared.

³⁹ Ibid.

⁴⁰ Ibid, p. 3.

⁴¹ World Bank, “Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for a Private Provision of Infrastructure Technical Assistance Loan” (Report No. 25820, April 25 2003), p. 9.

⁴² Ibid, p. 7.

⁴³ Ibid, pp. 12-14.

the allowance that tariff increases be accompanied by well-targeted subsidies and through the strong emphasis on transparency.

Public financial management was a theme in four loans — the Second Accountancy Development Project, the BEPEKA Audit Modernization Project, the Banking Reform Assistance Project and the Government Financial Management and Revenue Administration Project. The Second Accountancy Project (1994) aimed not just to modernise the GoI accountancy system but to improve overall public and private sector accountancy standards via implementation of exams for public accountants and development and enforcement of internationally-based accounting standards. The BEPEKA (state audit agency) Project (1997) aimed to improve audit capacity. The focus here on GoI accountancy systems and auditing fits with the Washington Consensus focus on government failures but interestingly they can be seen as early examples of the PWC focus on governance ‘reforms’ that expand financial discipline over the state. Both projects implicitly acknowledged corruption though largely in the Washington Consensus sense as a problem of government. On local ownership, the Second Accountancy Project appraisal stated only that while “...the Government is committed to improved enterprise reporting and disclosure, resistance to the changes which are introduced could come from some stakeholders.”⁴⁴ The BEPEKA Project appraisal listed a range of commitments by GoI to the project, yet the Bank’s Implementation Completion Report stated that the required political will for project implementation was lacking.⁴⁵

The Banking Reform Assistance Project (1997) was, as noted earlier, the Bank’s first lending response to the Asian Financial Crisis. It is included under the public financial management theme because it had a strong focus on reforming government regulation and supervision of banking. It also assisted with the restructuring of private banks and

⁴⁴ World Bank, "Staff Appraisal Report: Indonesia Second Accountancy Development Project" (Report No. 12883-IND, July 29 1994), p. 23.

⁴⁵ For the risk analysis see, World Bank, "Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for the BEPEKA Audit Modernization Project" (Report No. 16602-IND, May 21 1997), p. 9. On the evaluation see, World Bank, "Implementation Completion Report on a Loan to Indonesia for the BEPEKA Audit Modernization Project" (Report No. 31858, March 28 2005), p. 3. Interestingly this report also claims that Asian Financial Crisis and the associated upheaval in Indonesia did not impact project implementation, World Bank, "Implementation Completion Report Indonesia BEPEKA Audit Modernization," p. 10. However, only \$14.63m of the planned \$16.4m was disbursed and there were two partial loan cancellations.

preparation of state-owned banks for full or partial privatisation.⁴⁶ The project clearly promoted core Bank Washington Consensus concerns, it was also spectacularly unsuccessful even in the Bank's own terms. There was clearly little GoI support for it as they failed to appoint counterparts or undertake other supposedly agreed actions.⁴⁷

In the second case study period, the Government Financial Management and Revenue Administration Project (2004) seemed to be underpinned by a Washington Consensus view of government failure but its detail was shaped by the PWC governance agenda. Its overall objective was to facilitate "...poverty-reduction goals through higher resource mobilization and more effective public resource management."⁴⁸ The link to poverty reduction was a very indirect link at best as there was no requirement that any savings generated through efficiencies or reduction in corruption be targeted to poverty reduction expenditures. Rather, the project relied on the generic PWC claim that better institutions and good governance assist in poverty reduction.⁴⁹ The project sought to reduce possibilities for corruption and misuse of funds and had a strong focus on: GoI ownership; sequencing of further reforms; safeguards in procurement; and risk analysis and minimisation. It is a further example of a PWC project to extend the fiscal discipline on the state through financial management systems.

Two projects do not fit any of the themes explored: the Flores Earthquake Reconstruction Project and the Human Resources Capacity Building Project. The Flores Project (1993) had no documentation just a web entry. It seems to have focused on infrastructure reconstruction but was classified as law, justice and public administration perhaps due to a focus on government planning and response to natural disasters.⁵⁰ The Human Resources Project (1996) promoted human resource development in the health and education sectors via funding technical assistance for sectoral and feasibility studies, planning frameworks and training. It had a strong focus on decentralisation as, indeed, did four other loans in the first case study period (Integrated Swamps, Land

⁴⁶ World Bank, "Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for a Banking Reform Assistance Project" (Report No. 17165-IND, November 20 1997), p. 4.

⁴⁷ World Bank, "Project Performance Assessment Report Indonesia 2003," pp. 12-14.

⁴⁸ World Bank, "Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for a Government Financial Management and Revenue Administration Project in Support of the First Phase of the GFM RAP Program" (Report No. 29910-IND, November 22, 2004), p. ii.

⁴⁹ Ibid.

⁵⁰ See the World Bank Website, Projects & Operations, available from: <http://www.worldbank.org/external/projects>, access date: March 2006.

Administration, Public and Private Provision of Infrastructure and the BEPEKA Project). This is because decentralised project administration was a Suharto-initiated reform from around 1992, albeit one with limited impacts. The Bank, however, systematically pursued the issue in its lending program during the first case study period. In the second case study period, decentralisation was a reality and a problem for implementation not an agenda to be pursued by the Bank.

Projects in this general law, justice and public administration sector demonstrated an increase in participatory rhetoric from the first to the second case study periods. The form of involvement was predominately NGOs undertaking monitoring and evaluation of projects. This form does not challenge the "...political insulation of technocrats" presiding over project design and implementation.⁵¹ The limited loans in the second case study period make it difficult to analyse ownership in this period, certainly all three loans are on issues that have been on the public agenda in Indonesia, however, the Bank approach clearly drives the reform agenda in particular directions.

Rural Area Development Projects

Table 8.3 World Bank Rural Development Lending to Indonesia: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)
<i>Loans 1993-1997</i>		
Village Infrastructure Project	1995	\$72.5
Second Village Infrastructure Project	1996	\$140.1
<i>Loans 2000-2004</i>		
<i>Kecamatan</i> Development Project (supplement)	2000	\$48.2
Second <i>Kecamatan</i> Development Project	2001	\$320.2
Third <i>Kecamatan</i> Development Project	2003	\$249.8

The Village Infrastructure Projects (VIPs) provided block grants to targeted poor villages in Java and Sumatera to construct small-scale infrastructure. Villages who formed local community groups could select an infrastructure project to undertake from

⁵¹ Hadiz, "Decentralization and Democracy in Indonesia," p. 698.

a project 'menu.' The community managed construction using contractors or local paid labour. The project built on two existing GoI programs providing funds to villages — the Program for Villages Left Behind (IDT), a grant program that utilised government-paid community facilitators to assist community groups to decide and implement local projects; and the Presidential Instruction village grant program. This program funded inputs for infrastructure projects, with labour provided by the village as an in-kind contribution.⁵² Community facilitators from the IDT project were available to assist villages participating in VIP plus they received Bank-funded engineering assistance.

VIP pioneered a range of innovative approaches for the World Bank in Indonesia:

[t]he project is innovative for the Bank in the extent of its decentralization/grassroot approach: the villages selected are to decide the works they want and that comply with a simple economic criteria; technical assistance is to be provided directly to village groups; financing will be provided directly through subdistrict bank units and be delinked from late budget releases. The focus is also on employment: villagers doing the work are to be paid cash in proportion to work progress and works are to be organized seasonally or as convenient for labour availability.⁵³

So, VIP was innovative in three ways: first, it operationalised a scaled-up community development approach in a Bank-funded project; second, it adopted and promoted decentralised administration; and third, it departed from the Bank's standard project approach of only funding goods and services that are competitively procured by funding community labour at a subsistence pay rate as well as procuring goods and specialised labour competitively. Though, on this last point, *Kecamatan* Development Project (KDP) literature suggests that, in fact, contractors, rather than directly engaged labour, undertook most of the work on VIPs.⁵⁴

⁵² World Bank, "Staff Appraisal Report: Indonesia Village Infrastructure Project for Java" (Report No. 13776-IND, April 26 1995), pp. 2-4.

⁵³ Ibid, p. 7.

⁵⁴ World Bank, "Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for a Kecamatan Development Project" (Report No. 17397 IND, April 21 1998), p. 6.

The first KDP (for \$225m) was approved in June 1998 and was the second project of any size or significance funded by the Bank after the onset of the Crisis.⁵⁵ This was just four months after a trip by Wolfensohn to Jakarta. After being briefed on the Bank's current lending program, which was focused on macroeconomic stabilisation, Wolfensohn reportedly responded: "I can't tell the bloody press that these reforms are being financed by our money! I've got to tell them we're buying medicines, food for the poor, that's what I need to say!"⁵⁶ KDP showed the Bank supporting the rural poor to earn a wage to purchase food.

KDP quickly became a flagship program for the Bank — its sheer scale relative to lending in this period indicates its centrality to Bank strategy in Indonesia. KDP was the face of the new Bank in Indonesia, it was 'under the radar' as Bank strategy required and also populist. It funds lots of small projects in poor communities, not big infrastructure or central government 'reform.' It was great for PR as it showed money going to poor communities.⁵⁷ In Mallaby's book, the program received a very positive analysis. He presented it as innovative and even claimed that, in shifting the focus from human capital to social capital, the program promoted "...revolutionary political and social change."⁵⁸

In reality KDP is quite similar to VIP in both its stated operations and objectives and VIP, of course, built on existing GoI programs. The key differences between them are that KDP operates a more extensive community planning and training component (based on its social capital analysis). It directly trains and funds thousands of community facilitators as well as engineers. The KDP community planning component generally takes four to six months. Community participation is more self-selecting in KDP than under VIP, although both projects are targeted at poor villages.⁵⁹ KDP's project menu is larger than VIPs; to infrastructure it added social expenditures (for example, for school scholarships and materials) and economic activities (essentially

⁵⁵ The first sizeable project — \$103.5m — was the West Java Basic Education Project.

⁵⁶ Quoted in Mallaby, *The World's Banker*, p. 196.

⁵⁷ In 2000, Wolfensohn returned spending a night in one of the project villages, *ibid*, p. 205.

⁵⁸ *Ibid*, p. 205 and 337.

⁵⁹ KDP claims a better targeting system than VIP but it maintains the requirement to fund clusters of poor villages to reduce costs for facilitation and support, see World Bank, "Project Appraisal Document Indonesia KDP", pp. 4-6. On VIP targeting see World Bank, "Staff Appraisal Report: Republic of Indonesia Second Village Infrastructure Project" (Report No. 15467-IND, September 13 1996), p. 3.

microfinance which are referred to as ‘revolving funds’). Until 2004, infrastructure was by far the largest activity (70 per cent of *kecamatan* grant funds) followed by microfinance (25 per cent), while social expenditures only accounted for around five per cent of grants. KDP also has a strengthened focus on information sharing, transparency and participatory monitoring and evaluation. It often engages local NGOs to undertake these activities.

The KDP appraisal documents were strongly informed by, and imbued with, the literature of social capital — yet, despite the prominence of social capital in PWC rhetoric, the case studies in this thesis indicate that overall it has had limited influence on lending. The exception here is not surprising because a number of members of the social development team in Jakarta, which supervised KDP, researched and promoted social capital from Bank headquarters in Washington before their shift to Indonesia.⁶⁰ Indeed, Indonesia was one of a small number of Bank sites selected for testing the impact of social capital on development. KDP was designed, or rather justified by, social capital studies, some of which were not completed until after the project was designed. According to Li, the key finding of the studies was that Indonesian villages “...already do — or could do, with appropriate facilitation and incentives — everything good governance and village development require.”⁶¹ Further, they characterised the state as largely a hindrance to village development despite many examples of its positive impacts. It is difficult to know whether this hostility to the state was the result of neoliberal opposition to it or due to specific concerns about the Suharto regime — KDP’s designers were undoubtedly part of the corruption-fighter grouping in the Jakarta office.

The identified sources of poverty in the KDP background analysis were lack of access to the state and the state’s lack of responsiveness and inefficiency. There was no discussion of the impact of capitalist accumulation or state economic and social policy on poverty. This confirms Fine’s finding that PWC social capital does not extend to social scientists engaging with ‘economic’ issues. The political-bureaucratic-business

⁶⁰ For an insider’s account see, Bebbington, et al., “Exploring Social Capital Debates at the World Bank.” There is also a recent edited book that includes a number of insider’s accounts, see the reviewed by Harriss, “Book Review: *The Search for Empowerment*.”

⁶¹ Li, “Government through Community: The World Bank in Indonesia,” p. 15.

patronage system received only passing comment, via its impact on local level governance, which was the proposed site for addressing poverty through "...improved planning and control of projects and resources close to home."⁶² Here is the Keynesian commitment to planning at the core of the establishment of the Bank itself, rewritten and reformulated for a NIE-influenced neoliberal age.

The Bank claims that KDP is different from its normal project because its focus is on process not outputs; it is the most developed expression of the Bank's version of participation in the case studies. Yet as Li pointed out, every aspect of the process is delineated in a huge array of project manuals and other documents.⁶³ Despite the Bank's rhetoric that the overarching design principle of the project is maximising end-user choice,⁶⁴ there is no choice for communities in how participation is undertaken or how projects are planned and approved, the only choice is which activity communities undertake from the KDP menu. Once an activity is chosen, there are whole sets of manuals and rules instructing how activities are to be planned, implemented, administered and monitored. Even 'independent' local media monitoring of projects is organised and funded.

The four design principles of KDP are:

- i. maximising 'contestation,' which in practice means competitive procurement of goods and services;
- ii. direct negotiation, which means making *kecamatan* responsible for adjudicating in a forced competition between the proposals of various villages;
- iii. active sharing of project information — a principle derived from NGO community development projects and NIE theorising, which is rendered technical by the Bank's checklist approach; and
- iv. utilisation of existing village organisations — so long as they meet the Bank's checklist of what a participatory organisation looks like. This is another example

⁶² Ibid, p. 16.

⁶³ Ibid, p. 18. On this theme see also, Kapoor, "Participatory Development, Complicity and Desire." It is interesting to note the parallel to the PRSP process, which also specifies content and process and claims if things are done in the specified way they will be country owned.

⁶⁴ World Bank, "Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for a Third Kecamatan Development Project" (Report No. 25538-IND, June 2 2003), p. 29.

of partial adoption of NGO community development principles rendered technical by the Bank.

KDP claims a strong gender focus — there must be women on the village community groups and the committee that competitively selects the projects to be supported across each *kecamatan*. Where a village wishes to submit two proposals, one must be from a local women's group.⁶⁵ It does not require gender equity and it certainly does not challenge women's position in Indonesian society. KDP II contained additional measures to ensure gender sensitivity. Nevertheless, KDP III found that gender (and inclusion) has been problematic. It seems that women's participation has not improved over the course of the project and, in some cases, it has worsened. This was explained as the result of decentralisation reviving traditional social institutions, not because of the gendered impact of the Crisis.⁶⁶

Li demonstrated that KDP does not challenge traditional power structures (despite them being mapped under the project). In one example, she deconstructed a project success story about the transformation of village culture. It celebrated a village protest regarding a delivery of lumber, which was less than specified in the contract. The village head and council of elders utilised traditional symbols in an orderly protest at the district parliament. The Bank saw the protest as one to celebrate because it was culturally authentic, "...quiet and orderly... [and] directed at the appropriate authority... They acted autonomously and responsibly *within* the limits experts prescribe."⁶⁷ This example also indicates that village groups under KDP have been dominated by the village elite (represented in the story by the villages head and elders). Further, corruption in relation to materials procurement has been a significant problem for the project and the Bank's own studies indicate that community participation is not effective in controlling it.⁶⁸ What Li's deconstruction also demonstrated was that KDP promotes an instrumental focus for people as project or contract managers in their community.

⁶⁵ World Bank, "Project Appraisal Document Indonesia KDP," p. 11.

⁶⁶ World Bank, "Project Appraisal Document Indonesia KDP III," p. 39.

⁶⁷ Li, "Government through Community: The World Bank in Indonesia," pp. 23-24.

⁶⁸ These are finding from a large, Bank-funded study of corruption under KDP: Benjamin A. Olken, "Monitoring Corruption: Evidence from a Field Experiment in Indonesia" (National Bureau of Economic Research Working Paper # 11753, 2005), available from: <http://papers.nber.org/papers/w11753>, accessed: April 2006, on the dominance of the village elite see p. 8; on materials see pp. 4-5. The fact that an economist rather than a social scientist undertook this large study of corruption also confirms Fine's analysis of the limits of social capital under the PWC.

KDP largely bypasses local and district governments other than as a conduit for funds. Provincial bureaucracy plays a limited role in project management and supervision via a coordinating committee. Line ministries, such as the Department of Transport, etc, normally responsible for the provision and maintenance of infrastructure are bypassed. Of course, managing and administering such a large project requires a whole range of structures and a program of accountability that parallels the state. As Li states, “KDP is unabashedly governmental.”⁶⁹ But this is neoliberal governmentalism — run by the community and lacking permanence because of the separation from the state. The lack of permanence also creates a dilemma for the Bank in terms of sustaining project outcomes, a dilemma that is finally partially acknowledged in KDP III.

Bank staff recognise the frailty of the changes they promote but do not propose activities to achieve more fundamental transformations.⁷⁰ Despite the undoubtedly progressive aspirations of the Bank team working on KDP, the more pertinent question is not how transformative KDP is, but how much it actually supports current state-society relations and networks of power. To return to Li:

...the KDP process (backed by its rule books, monitors, and auditing devices) is designed to *shape* desires and act on actions, setting the conditions so that people will be disposed to behave as they should.⁷¹

And, as we saw above, how people should behave is as “critical customers” and as rational, competitive actors responsible for, and focused on their own development within the market.⁷² Equally, they are not required or supposed to focus on intangible national or international political or economic issues supposedly beyond their control. The “project telos” of KDP, indeed of all Bank community development projects, is according to Li the need for training and facilitation to enable communities to

⁶⁹ Li, “Government through Community: The World Bank in Indonesia,” p. 22.

⁷⁰ See for example, Bebbington, et al., “Exploring Social Capital Debates at the World Bank,” or the review of a new book by Bank insiders on social capital, Harriss, “Book Review: *The Search for Empowerment*.” This is a point also made by Li, “Government through Community: The World Bank in Indonesia,” pp. 24-25. In the article on social capital, Bank insiders, including Guggenheim, defend the depoliticising nature of social capital projects on the basis that Bank projects prior to KDP, were equally depoliticising, Bebbington, et al., “Exploring Social Capital Debates at the World Bank,” p. 137.

⁷¹ Li, “Government through Community: The World Bank in Indonesia,” p. 13.

⁷² ‘Critical customers’ is the Bank’s expression. The argument runs that to achieve critical customers “...few additional policy reforms are needed for this (just lots of practice).” World Bank, “Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for a Second Kecamatan Development Project” (Report No. 22279-IND, May 23 2001), p. 18.

“become.” Become what? — neoliberal communities that take “...responsibility for their own improvement by engaging with markets” and learn “...how to conduct themselves” in a competitive market.⁷³ Indeed, Porter and Craig note that this inclusion of communities in “...wider governance and market relations in subordinated, disaggregated ways... as regions coordinating their own service delivery” is one key purpose of the PWC.⁷⁴ It is a project to embed neoliberal social, political and economic relations. The poor are included — but in a peripheral way so that their “...poverty can be ‘locally owned’, and services imputed to them as ‘social income’ while they work their way back step-wise into the global economy.”⁷⁵

Urban Area Development Projects

Table 8.4 World Bank Urban Development Lending to Indonesia: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)
Loans 1993-1997		
Surabaya Urban Development Project	1994	\$175.0
Semarang Surakarta Urban Development Project	1994	\$174.0
Kalimantan Urban Development Project	1995	\$136.0
Second East Java Urban Development Project	1996	\$117.0
Second Sulawesi Urban Development Project	1996	\$155.0
Bali Urban Infrastructure Project	1997	\$110.0
Loans 2000-2004		
Second Urban Poverty Project	2002	\$100.0

The six Urban Development Projects (UDPs) were part of a series of Bank-funded projects supporting the GoI's Integrated Urban Development Program (originally the Integrated Urban Infrastructure Development Program). All of the projects operated with decentralised administration — central and provincial governments played key coordinating roles but implementation was undertaken by local government. However,

⁷³ Li, "Government through Community: The World Bank in Indonesia," p. 5. This is equally the case for NGOs involved in such Bank projects, see Whitelum, "Rhetoric and Reality in the World Bank's Relations with NGOs," pp. 198-204.

⁷⁴ Porter and Craig, "The Third Way and the Third World," p. 393.

⁷⁵ Ibid.

not all GoI agencies supported this approach and thus some of the projects took a long time to prepare — six years in the case of the Kalimantan UDP.⁷⁶ The projects all had as core objectives improved urban infrastructure provision and enhanced institutional capacity amongst local governments. In addition, some included a specific focus on urban poverty alleviation and others on environmental sustainability.

All projects involved competitive tendering of activities in urban transport, water supply, solid waste management, sanitation and sewerage, drainage and technical assistance and training. Two important elements of UDP were the *Kampung* Improvement Program (KIP) and Market Improvement Program (MIP). The *Kampung* Improvement Program was a government-assisted urban community self-help program that has been operating in Indonesia since the 1960s. It was partly funded through a number of Bank loans since the 1970s.⁷⁷ After the Asian Financial Crisis hit, KIP was expanded in a number of the UDPs and most projects added a component to fund labour-intensive civil works. The KIP/MIP components were the main avenue for community participation in the UDPs but participation was a strong theme in the project documentation.

Equally, all the projects had a strong focus on private sector participation, for most components this involved tendering infrastructure construction or rehabilitation. However, in at least four projects privatisation of services, particularly water supply and solid waste management, was proposed.⁷⁸ The three available implementation completion reports indicated that there was resistance from both the community and local administrations to water supply privatisation.⁷⁹ In general this is attributed to difficulties in raising water tariffs (a condition of *all* the UDP loans) in the wake of the Asian Financial Crisis. However, the Bali project also acknowledged that:

⁷⁶ World Bank, "Implementation Completion Report on a Loan to the Republic of Indonesia for a Kalimantan Urban Development Project" (Report No. 25720-IND, June 24 2003), p. 21.

⁷⁷ This is outlined in World Bank, "Staff Appraisal Report: Indonesia Surabaya Urban Development Project" (Report No. 12516-IND, March 15 1994), p. 9.

⁷⁸ These are Semarang-Surakarta, Kalimantan, East Java and Bali. See for example, World Bank, "Staff Appraisal Report: Indonesia Semarang-Surakarta Urban Development Project" (Report No. 12656-IND, May 16 1994).

⁷⁹ Reports are available for Kalimantan, Sulawesi and Bali. The report on the Kalimantan UDP referred to an implementation completion report for the Semarang-Surakarta UDP but it is not available on the Bank website, World Bank, "Implementation Completion Report: Indonesia Kalimantan Urban Development Project."

[p]roblems encountered in the Jakarta water concessions likely contributed to the unwillingness of Bali local governments to complete restructuring as a prelude to initiating PSP [private sector participation] in water supply.⁸⁰

The three implementation completion reports provide three very different stories about the outcomes of these projects from poor (Sulawesi), OK (Kalimantan) to good (Bali). The Sulawesi project was expanded from 18 to 32 small and medium cities across Sulawesi at the behest of the GoI,⁸¹ thus the project was much more complex than in Bali, which had a tight geographical focus or in Kalimantan, which only incorporated five regional centres. Why the Bank, despite its misgivings, approved the expanded geographical focus, was not addressed by the completion report. A likely reason is GoI concern with “regionally balanced development,” a concern regarded as “legitimate” by the Bank as indicated by the geographical spread of the urban and rural area development projects.⁸²

The Kalimantan and Sulawesi reports, written respectively in 2003 and 2004, provided some insight into the PWC view of corruption — or “misprocurement” as it was called in a wonderful piece of ‘Bank-speak.’ In Sulawesi, “irregularities” were found in 56 out of the 60 contracts reviewed by the Bank and there were “...weak fiduciary practices in procurement, implementation and financial management systems.”⁸³ Here corruption is addressed in precisely the way that the analysis of PWC rhetoric suggests — a technical problem of market and government failure.

The Urban Poverty Projects (UPP) can be understood as an urban version of KDP and the PWC version of UDP-type interventions.⁸⁴ The projects provide block grants to community units, which are neighbourhoods (*kelurahan*) rather than subdistricts

⁸⁰ World Bank, "Implementation Completion Report on a Loan to the Republic of Indonesia for a Bali Urban Infrastructure Project" (Report No. 31464-IND, June 28 2005), p. 11.

⁸¹ World Bank, "Implementation Completion Report on a Loan to the Republic of Indonesia for a Second Sulawesi Urban Development Project" (Report No. 25719, March 31 2004), p. 2.

⁸² This was expressed in a number of the loan appraisal documents including, World Bank, "Staff Appraisal Report: Indonesia Surabaya UDP," p. 10.

⁸³ World Bank, "Implementation Completion Report: Indonesia Second Sulawesi UDP," p. 9.

⁸⁴ A third UPP was approved by the Bank in May 2005 and additional funding of \$135.5 million for UPP 2 was approved in May 2007.

(*kecamatan*) as is the case for KDP.⁸⁵ To be eligible for funding, neighbourhoods need to be constituted as democratically elected community committees, whereas in KDP the *kecamatan* group responsible for funding decisions is actually an informal group though it includes the (government appointed) Council of Village Heads. UPP neighbourhood committees competitively allocate grant funding between proposals from members and resident groups. As in KDP, those submitting proposals need to undertake training. In UPP I, over 90 per cent of grants were used for microfinance activities.⁸⁶

The role of microfinance as a neoliberal replacement for social safety nets was discussed extensively in the Vietnam case study. However, it is worth noting here that KDP/UPP view microfinance through the Bank's commercial/financial paradigm, meaning it should operate profitably and not require donor support after establishment. However, repayments rates for both KDP and UPP microfinance funds have been poor. KDP III included a project component to address the poor performance of KDP-funded microfinance projects and the broader legal and regulatory framework for microfinance.⁸⁷

The Second Urban Poverty Project departed notably from the earlier project on the role of the state. It posited that construction and management of urban infrastructure is often too big or complicated for community groups and requires involvement of local government. It also noted that bypassing local government may harm the relations between it and community organisations in the short- and medium-term and thus harm local development.⁸⁸ It therefore included a component for projects to be undertaken through a partnership between local government and the local community. While this

⁸⁵ See Ke Fang, "Designing and Implementing a Community-Driven Development Programme in Indonesia," *Development in Practice*, Vol. 16, No. 1 (2006), pp. 74-76 and World Bank, "Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for the Second Urban Poverty Project (UPP 2)" (Report No. 23810-IND, May 15 2002).

⁸⁶ World Bank, "Project Appraisal Document Indonesia UPP 2," p. 10. Ke Fang suggests the different priorities of KDP and UPP groups may be due to democratically-elected UPP groups being more focused on long-term sustainability than village leaders "...who have no direct stake in the funds." Fang, "Designing and Implementing a Community-Driven Development Programme in Indonesia," p. 78. However, without primary research this seems a rather long bow to draw.

⁸⁷ World Bank, "Project Appraisal Document Indonesia KDP III," p. 24. Surprisingly, KDP/UPP funded establishment of new community-based funds, rather than building on Indonesia's already extensive network of microfinance providers. For an overview of the microfinance system in Indonesia see Kieran Donaghue, "Microfinance in the Asia-Pacific," *Asia Pacific Economic Literature*, Vol. 181, (2004), pp. 43-47.

⁸⁸ World Bank, "Project Appraisal Document Indonesia UPP 2," pp. 6-8 and 20.

component is only around 17 per cent of Bank funds, it does indicate a shift in thinking on the role of the state.

Urban and rural area development projects were a significant component of Bank lending in both case study periods though their relative importance increased in 2000-2004 as Bank overall lending declined. KDP accounted for 28 per cent lending in the 2000-2004 case study period and 33 per cent with UPP, whereas VIP and UDP projects only accounted for 20 per cent (but of a larger lending program) in 1993-1997. Cumulatively, to the end of 2005, KDP lending was \$1,003.2m. By 2005, the program was expected to have reached 30,000 of Indonesia's 65,000 rural villages.⁸⁹ Three UPPs have now been approved with lending totalling \$474.2 m. These are large-scale projects in anybody's terms and they direct urban and rural lower classes towards becoming 'critical consumers' focused on local administration. Are these projects, as critical analysts of World Bank area development programs in the 1970s and 1980s argued, about ensuring stability by "defusing discontent" amongst the urban and rural poor?⁹⁰ And do they also divert citizen's attention away from questions about national and international political economy?

These projects are also a modern version of McNamara's urban and rural lending activities that aimed to address poverty without trading-off growth. KPD goes further aiming to make villagers efficient contributors and replicators of capitalism, via training in the "...habits of transparency, accountability, efficiency, and the rule of law."⁹¹ Li described KDP in Foucauldian terms as a powerful example of a 'governance' or a 'conducting conduct' project.⁹² In Gramscian terms, governance is a method of organising consent to create the 'common sense' of neoliberal hegemony.

⁸⁹ World Bank, "Project Appraisal Document Indonesia KDP III," p. 27.

⁹⁰ Bello, Kinley and Elinson, *Development Debacle*, p. 15.

⁹¹ Li, "Government through Community: The World Bank in Indonesia," p. 17.

⁹² The theoretical framework is explained in *ibid*, pp. 1-9.

Water, Sanitation and Flood Protection

Table 8.5 World Bank Water, Sanitation and Flood Protection Sector Lending to Indonesia: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)
Loans 1993-1997		
Water Supply and Sanitation for Low Income Communities Project	1993	\$80.0
Loans 2000-2004		
Second Water and Sanitation for Low Income Communities Project	2000	\$77.74
Western Java Environmental Management Project	2001	\$17.45

The first Water Supply and Sanitation for Low Income Communities (WSSLIC) project aimed to provide infrastructure and hygiene/health education for underserved poor communities, whereas the second aimed to improving their “...health status, productivity, and quality of life” — a PWC reformulation focused more on poverty.⁹³ Core Washington Consensus themes visible in both projects are private sector participation and treating water, “...as an economic as well as social good.”⁹⁴

The WSSLIC projects evolved and operated in a similar way to VIP/KDP but funded only water supply and sanitation construction and rehabilitation and related health interventions. Project administration was the same as KDP's with communities, after undertaking a planning phase, managing the construction of their own facilities. The projects cannot claim KDP's menu of choices in the use of funding, instead much was made of the choice between: “...a variety of appropriate technical options” in infrastructure and the choice to: “...select and plan the construction of health infrastructure that the benefiting families want and *are willing to pay for*.”⁹⁵ Participation was instrumentally focused — WSSLIC II claimed that the main reform promoted by the project was: “...strengthening the participatory planning process in

⁹³ World Bank, "Project Appraisal Document on a Proposed IDA Credit to the Republic of Indonesia for a Second Water & Sanitation for Low Income Communities Project" (Report No. 20132-IND, May 16 2000), p. 2.

⁹⁴ Ibid, p. 4.

⁹⁵ Ibid, p. 7, emphasis added.

order to foster increased beneficiary *demand responsiveness* in project outcomes.”⁹⁶ These projects were essentially a variant on the area development projects analysed above, which promoted the ‘common sense’ of commodified social relations in all areas of human endeavour.

The West Java Environmental Management Project was a small loan focused on improving solid waste management with a particular focus on increased cost recovery and “privatisation of commercial services.”⁹⁷ It included a grant component to assist with commercialisation of compost production, which was meant to assist reduce greenhouse gas emissions. There was a strong focus on participation, a PWC theme, but it was secondary to the focus on commercialisation and privatisation, Washington Consensus themes.

Transport

Table 8.6 World Bank Transport Sector Lending to Indonesia: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)
Loans 1993-1997		
Eastern Indonesia Kabupaten Roads Project	1993	\$155.0
2 nd Highway Sector Investment Project	1994	\$350.0
Fifth Kabupaten Roads Project	1994	\$101.5
Strategic Urban Roads Infrastructure Project	1996	\$86.9
Railway Efficiency Project	1996	\$105.0
Loans 2000-2004		
Eastern Indonesia Regional Transport Project	2001	\$200.0
Second Eastern Indonesia Regional Transport Project	2004	\$200.0

With one exception (a rail project), lending in this sector was focused on road transport. In the first case study period, loan objectives centred on reducing road transport costs, expanding the road networks and/or dealing with transport bottlenecks and building institutional strength in government agencies. The primary objective of the first project

⁹⁶ Ibid, p. 8, emphasis added

⁹⁷ World Bank, "Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for the Western Java Environmental Management Project" (Report No. 21029-IND, May 15 2001), p. 10.

in the second case study period – the Eastern Indonesia Regional Transport Project (EIRTP 1, 2001) — was in contrast formulated in PWC language. It aimed to: “...support efforts to stimulate economic growth and improve social welfare” in Eastern Indonesia.⁹⁸ But this PWC formulation for transport projects disappeared by EIRTP II and the traditional focus on costs and institutional strengthening returned.

The appraisal document for the Fifth Kabupaten Roads Project (1994) claimed that reductions in vehicle operating costs will result in a reduction in input costs (particularly agricultural inputs) and thus to increase rural incomes.⁹⁹ EIRTP 1 (2001) is slightly more cautious about the benefits of reduced costs claiming only an increase in the, “...competitiveness of local products from the affected areas.”¹⁰⁰ Even this more cautious formulation indicates the neoliberal belief in linear development but subject to existence of the appropriate enabling environment and increased local engagement with national or international markets. EIRTP 2 is also cautious but still claims that reduced vehicle operating costs and increased access to markets, etc will assist in combating rural poverty.

All of the Bank loans in the sector expressed concerns about the lack of cost recovery in the transport sector. The road projects all had components to promote increases in vehicle taxes (in particular heavy vehicles, which they suggest are relatively under-taxed in relation to their contribution to road damage) and/or to reduce, or end, fuel subsidies.¹⁰¹ In other words, all the road transport loans actually aspired to *increase* overall vehicle operating costs but claimed their objective was reducing them. This is really an extraordinary contradiction and one only exacerbated by the feeble claims in the loans regarding access and poverty reduction. To be clear, the argument is not one in favour of fuel subsidies — they can disproportionately benefit the non-poor and their impact needs to be studied on a case-by-case basis — rather, the point is that claims

⁹⁸ World Bank, "Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for the Eastern Indonesia Region Transport Project" (Report No. 22273-IND, November 12 2001), p. 2.

⁹⁹ World Bank, "Staff Appraisal Report: Indonesia Fifth Kabupaten Roads Project" (Report No. 12671-IND, April 19 1994), p. i.

¹⁰⁰ World Bank, "Project Appraisal Document Indonesia Eastern Indonesia Region Transport," p. 3.

¹⁰¹ There is no detailed documentation on the Eastern Indonesia Kabupaten Roads Project but this is a theme from 1994 through to 2004, see for example, World Bank, "Staff Appraisal Report: Indonesia Second Highway Sector Investment Project" (Report No. 12161-IND, February 7 1994), p. 21 and World Bank, "Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for the Second Eastern Indonesia Region Transport Project" (Report No. 28071-IND, May 18 2004), p. 4.

about the impact of transport projects on poverty require more substantial socio-economic analysis and this argument indicates a purely rhetorical use of PWC language.¹⁰²

The Bank was not successful in increasing road user charges, which made tariff increases in railways impossible, particularly given the existing discrepancy in the relative levels of costs recovery and thus prices for the two services.¹⁰³ This was a problem for the Railway Efficiency Project, which aimed to establish preconditions for the privatisation of railways, whilst also improving infrastructure. The project was not fully successful in its objectives, however, it did belatedly achieve a change in the structure of the railways corporation from a public corporation to a limited liability company and formal separation of the rural and urban networks (unbundling).¹⁰⁴ The Bank claimed the project substantially increased knowledge of key stakeholders regarding reform and provided them with an understanding where resistance lay and how those who resisted could be “socialized.”¹⁰⁵ For an evaluation written in the PWC period, there is no indication here of a commitment to country ownership.

In the road projects, private sector participation was a strong theme in all the first case study period loans. In the highway and urban roads projects, Bank documents indicated existing extensive participation in both construction and maintenance of roads. With regards to rural roads, the Fifth Kabupaten Roads Projects observed that the Bank had achieved a high level of private sector involvement in road construction but not in maintenance. Thus, increased private sector participation in rural road maintenance was its goal. A key mechanism for this was packaging of contracts in ways that made them attractive to medium and larger-sized contractors.¹⁰⁶

In EIRTP 1 and 2 the focus was on increasing the level of competition between private providers and the transparency and efficiency of government procurement and contract

¹⁰² Fuel hikes finally happened in 2005, there were two fuel price hikes, the second of which in October increased the price by of gasoline and diesel by almost 127 per cent. The government attempted to cushion the impact on the poorest via a large-scale program of direct cash payments to the very poor.

¹⁰³ World Bank, "Implementation Completion Report on a Loan to Indonesia for a Railway Efficiency Project" (Report No. 31719, June 29 2005), p. 11.

¹⁰⁴ Ibid, p. 2. The report also indicated that earlier Bank lending was central to the 1991 change in structure of the railways from a dependent agency to commercially oriented public corporation.

¹⁰⁵ Ibid, pp. 9-11.

¹⁰⁶ World Bank, "Staff Appraisal Report: Indonesia Fifth Kabupaten Roads," pp. 14, 18-19.

management in the new decentralised environment. In other words, the focus was on reducing corruption — though in EIRTP 1 corruption was only explicitly referred to on page 25 of the appraisal document in relation to decentralisation. The discussion clarifies that decentralisation could either make corruption better or worse (!) and that the overall “risk of error” is high.¹⁰⁷ EIRTP 2 was a little more explicit on the issue, and included a project anti-corruption plan. In both projects, anti-corruption measures were a matter of getting procurement and contracting arrangements, training, contract supervision, complaints handling, information provision and sanctions right.¹⁰⁸ Thus corruption remained a technical issue requiring no analysis of the political environment in project areas.

One other interesting aspect of the road projects was their high level of conditionality. This is not so much in terms of the number of conditions, though both the railway project and EIRTP 2 have a high count with 22 and 27 conditions respectively, rather it is the broad nature of conditions.¹⁰⁹ For example, the Second Highway Sector Investment Project required that the Directorate General of Highways, “...formulate its work program and budgets on the basis of criteria, principles and procedures satisfactory to the Bank, and taking into account comments by the Bank.”¹¹⁰ This condition appears to refer to the Directorate’s whole program, not just Bank-funded sub-projects! The EIRTP 2 project supported development of a pilot road fund — a mechanism for expanding user charges in roads. A related condition was that a report on the road fund’s implementation be furnished to the Bank for review and thereafter the GoI had to, “...prepare and carry out an action plan for further expansion and continuation of the road fund activities taking into account the comments of the Bank on the report.”¹¹¹ The road fund was, in other words, only a pilot in the sense of getting the functioning of the road fund right not to assess its applicability in the Indonesia context.

¹⁰⁷ World Bank, "Project Appraisal Document Indonesia Eastern Indonesia Region Transport," p. 25.

¹⁰⁸ See World Bank, "Project Appraisal Document Indonesia Second Eastern Indonesia Region Transport," pp. 21-22.

¹⁰⁹ Further, most of the railway project conditions are multi-part, see World Bank, "Staff Appraisal Report: Republic of Indonesia Railway Efficiency Project" (Report No. 15646-IND, October 17 1996), pp. 52-54.

¹¹⁰ World Bank, "Staff Appraisal Report: Indonesia Second Highway Sector," p. 46.

¹¹¹ World Bank, "Project Appraisal Document Indonesia Second Eastern Region Transport," p. 32.

In the transport sector, the PWC appears to have had limited impact. This was also the case in Vietnam, which is not surprising given that this is a traditional ‘technical’ area of Bank lending and project staff still tend to be technical specialists. There was an increased focus on corruption but, as anticipated in the analysis of the Bank’s approach to it, corruption is a technical issue to be dealt with by the right type and amount of procurement, supervision, etc. In the second case study period, there was increased focus on ensuring that Bank social and environmental safeguards were actually adhered to.

Energy and Mining

Table 8.7 World Bank Energy and Mining Sector Lending to Indonesia: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)
Loans 1993-1997		
Cirata Hydroelectric Phase II Project	1993	\$104.0
Sumatera and Kalimantan Power Project	1994	\$260.5
Second Rural Electrification Project	1995	\$398.0
Second Power Transmission and Distribution Project	1996	\$373.0
Solar Home Systems Project	1997	\$20.0
Renewable Energy Small Power Project	1997	\$66.4
Loans 2000-2004		
Java-Bali Power Sector Restructuring and Strengthening Project	2003	\$141.0

As was clear from chart 7.1 on Bank lending, the energy and mining sector has been a major area of activity since lending began. The sector is dominated by power projects — 21 of the 25 loans prior to 1993 were in power and all the loans in the case study periods are power projects though the Java-Bali Power Restructuring and Strengthening Project did include a small component to restructure the State gas company. The power sector has been popular with other donors too, in particular the ADB, JBIC and USAID.

World Bank lending in the Indonesian power sector shifted around 1993, when the Bank began pursuing privatisation of utilities. Its approach has been very similar to that outlined in detail in the chapter on Vietnam. To briefly recap, the electricity

privatisation model contains two core components: unbundling of profitable urban components of electrical utilities from unprofitable rural ones, effectively removing any capacity to cross-subsidise operations; and separation of electricity generation, transmission and distribution functions. Privatisation can be promoted gradually starting with the introduction of independent power producers (IPPs) in generation or more radically, through rapid restructuring and privatisation in both generation and distribution.¹¹² Transmission functions are often left in state hands.

As the Cirata Phase II project appraisal report stated, in the early 1990s the Bank entered a new phase of its power program in Indonesia. This involved shifting focus, "...towards the restructuring of the sector's regulatory framework and PLN's [the State electricity utility] organization, and increased private sector participation."¹¹³ Some of the groundwork for restructuring was undertaken earlier with Bank studies and reports influencing the 1985 *Electricity Act*, which permitted private power production, and Presidential Decree 37/1992. This Decree authorised private sector participation in build-own-operate schemes in generation and permitted: "...cooperatives and other legal entities to generate, transmit, and distribute power for public use."¹¹⁴

Cirata Phase II's contribution was its requirement for an automatic adjustment mechanism for electricity tariffs, this was duly introduced in 1994. Conditions in the 1992 Suralaya Thermal Power Project included compulsory reorganisation of PLN to give regional units autonomy (i.e. geographical unbundling), as well as progressive corporatisation and unbundling of the generation, transmission and distribution functions in the Java-Bali system (the urban, profitable side that is distinguished from the power system in the rest of Indonesia).¹¹⁵

From the early 1990s, the GoI entered into contracts with a range of IPPs. Proposals were unsolicited and the subsequent contracts, backed by government guarantees, were at inflated prices. The process involved kickbacks to the Suharto regime and sweetheart

¹¹² Yi-chong, "Models, Templates and Currents," pp. 655-656. See also Amenga-Etego and Grusky, "New Face of Conditionality: World Bank and Water Privatization in Ghana."

¹¹³ World Bank, "Staff Appraisal Report: Indonesia Cirata Hydroelectric Phase II Project" (11544-IND, April 14 1993), p. 17.

¹¹⁴ World Bank, "Staff Appraisal Report: Indonesia Second Rural Electrification Project" (Report No. 12920-IND, February 3 1995), p. 3.

¹¹⁵ World Bank, "Staff Appraisal Report: Indonesia Cirata Phase II," p. 20.

deals for business cronies.¹¹⁶ The Bank washed its hands of the arrangements, yet it was clearly initially supportive of getting private participation in the sector. For example, the Cirata Phase II appraisal stated that:

[t]he Bank is providing technical assistance to the 'Private Power Team' of the Ministry of Mines & Energy to negotiate the first [IPP] project at Paiton in East Java consisting of the construction of 2 x 600 MW coal-fired thermal units... Also, the Government is encouraging private sector participation by facilitating the sale of power to the grid from unsolicited power projects, as well as the wheeling of such power supplies through the grid to third parties. In order to *accelerate these developments*, the Bank is assisting in the reform of the regulatory framework in the sector.¹¹⁷

The 1994 Sumatera and Kalimantan Power Project required conversion of PLN from a state utility to a limited liability corporation, which duly happened that year.¹¹⁸ It obliged the GoI to develop and implement regulations to frame private sector participation in the sector. By the 1996 Second Power Transmission and Distribution Project, conditionality was clearly endeavouring to constrain the growth of IPPs via unsolicited proposals. All of the reports and evaluations written subsequent to the Crisis — when the cost of IPP deals became public — emphasised that the Bank warned GoI of the drawbacks of the unsolicited proposals and government guarantees (although in 2004 it happily provided a guarantee to get an IPP in Vietnam).¹¹⁹ A 2003 report claimed that the Bank's capacity to influence the GoI had waned in the mid-1990s and it was, "...unlikely that a loan suspension on this issue would have had any impact on events either."¹²⁰ While the Bank cannot be held responsible for GoI actions, its complete washing of its hands is equally inappropriate given that it was actively involved in establishing the conditions for IPPs and privatisation in a country known for its

¹¹⁶ On this issue see, Hisako Motoyama and Nurina Widagdo, "Power Sector Restructuring in Indonesia: A Preliminary Study for Advocacy Purposes" (Bank Information Centre USA, 1999), available from: <http://bicusa.org>, accessed: May 2006.

¹¹⁷ World Bank, "Staff Appraisal Report: Indonesia Cirata Phase II," p. 21, emphasis added.

¹¹⁸ See World Bank, "Indonesia Power Sector Thematic Overview and Project Performance Assessment Report Suralaya Thermal Power Project and Sumatera and Kalimantan Power Project" (Report No. 25960, Operations Evaluation Department, May 21 2003), World Bank, "Staff Appraisal Report: Indonesia Sumatera and Kalimantan Power Project" (Report No. 12662-IND, May 27 1994).

¹¹⁹ See for example, World Bank, "Indonesia Power Sector Thematic Overview," p. 7.

¹²⁰ Ibid.

increasing levels of corruption and cronyism. Equally, while suspending loans may not have ended corrupt practices, it is difficult to see how continuing them did not demonstrate public confidence for the regime's activities. The hand washing strategy is not surprising though, as it is how the Bank has responded in other instances where the utility privatisation model has failed in practice — it's not anything wrong with the model, it's the imperfect world that needs to adapt.¹²¹

The functional unbundling of PLN began with the creation of two generation subsidiaries in Java-Bali in 1995. In the same year, the Bank funded its second Rural Electrification (RE II) Project. This built on an earlier project promoting greater private sector involvement in rural electrification through cooperatives and community organisations. The RE II project aimed to further expand private sector participation. The appraisal report claimed that the major factor inhibiting PLN's RE operations was its mixing of them with its urban-industrial (i.e. the Java-Bali system).¹²² It (not surprisingly) recommended separating, "...the RE and non-RE missions, with appropriate transfer prices set for any inter-unit transactions."¹²³ This was to prevent cross-subsidisation of operations. Planning for and implementing unbundling were conditions of the loan.

The Solar Homes Systems Project and the Renewable Energy Small Power Project, both from 1997, focused on renewable energy but were squarely designed to advance RE privatisation. In the Solar Homes Project, it was expansion of private sector participation in rural areas through subsidising the acquisition of solar systems from private dealers. The dealers were made managers of a combination of grants (made from a related Bank Global Environment Fund grant) and hire-purchase loans. To fund the hire-purchase, dealers were provided access to Indonesian bank loans, which were guaranteed by on-lent funds from the World Bank.¹²⁴ The Renewable Energy Project operated along similar lines with a Global Environment Fund-funded grant component and access to credit from banks on-lent World Bank funds. But, in this project, the target was the creation of private sector led renewable power generation. The grant

¹²¹ Yi-chong, "Models, Templates and Currents," p. 652.

¹²² World Bank, "Staff Appraisal Report: Indonesia Second Rural Electrification," p. 18.

¹²³ Ibid, p. 19.

¹²⁴ World Bank, "Staff Appraisal Report: Indonesia Solar Home Systems Project" (Report No. 15983-IND, December 17 1996).

component was to assist with feasibility studies and the credit to support construction.¹²⁵ Due to the Crisis, the Renewable Energy Project never became active and the Solar Homes Project only disbursed just over \$80,000.

The 1996 Second Power Transmission Project sought “functional decentralization (unbundling)” of PLN generation, transmission and distribution operations in Java-Bali. The Bank’s completion report noted that the plan to develop a regulatory framework to achieve unbundling and a competitive electricity market was inconsistent with, “...the prevailing electricity law, No. 15/1985, [which] was intended for a vertically integrated monopoly.” The absence of a new law was a problem for regulation implementation because: “...regulations are normally [*sic*] derived from laws.”¹²⁶ In other words, the project attempted to bypass legal process in order to drive its agenda — which was also the case in Vietnam due to the Bank’s haste to have IPPs operating in the country.

Ultimately though, the report regarded the project as a success because the restructuring agenda outlined in it, and in loans since 1993, was largely completed albeit at a much slower pace than envisaged.¹²⁷ In 1998, the Habibie government, with much assistance from the Bank and the ADB, hastily finalised a Power Sector Restructuring Policy, which provided the blueprint for a radical geographical unbundling as well as functional unbundling and privatisation of the Java-Bali system. The plan had privatisation initially focused on generation but within a short period it was meant to apply to distribution too. Separate independent regulatory bodies were to govern the Java-Bali and rural systems. The new Electricity Law designed to frame this process was not passed until 2002, not late 1999 as originally envisaged because, low and behold, the new, more democratic parliament wanted to debate and amend the legislation. Sectoral ‘reform’ was also supported by large loans from the ADB and JBIC,¹²⁸ whilst the Bank was relegated to supporting PLN’s restructuring, which it did though grants for technical assistance until a new loan was agreed in 2003.

¹²⁵ World Bank, “Project Completion Note on a Loan/GEF Grant to the Republic of Indonesia for the Renewable Energy Small Power Project” (Report No. 30244, October 12 2004).

¹²⁶ World Bank, “Implementation Completion Report on a Loan to the Republic of Indonesia for a Second Power Transmission and Distribution Project” (Report No. 27426, March 31 2004), p. 5. Moreover, the regulations were meant to be completed within five months and fully implemented in eight.

¹²⁷ The Bank acknowledges its footprint, see World Bank, “Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for a Java-Bali Power Sector Restructuring and Strengthening Project” (Report No. 25414-IND, June 4 2003), p. 4.

¹²⁸ ADB and JBIC provided loans of \$400m each in 1999.

The 2003 Java-Bali Power Sector loan provided support to PLN for investments in the transmission system, development of a resource planning system and development and implementation of an action plan to restructure PLN's Java-Bali operations into four or more generation companies, five distribution companies and one transmission company. Generation companies were to be spun-off first. The loan did not provide any assistance with new generation activities despite acknowledging that generation shortfalls in the near future are the: "...most critical issue facing PLN."¹²⁹ This loan continued the Washington Consensus Bank model for utility privatisation and PWC rhetoric regarding local ownership and participation had little discernible impact. It also demonstrates little interest in NIE-influenced ideas regarding market failure and sequencing.

One final issue is the extent to which there was local ownership of the 'reform' program. During the first case study period, World Bank loan reports claimed a "shared vision" between itself, GoI and PLN for the sector.¹³⁰ In one, at times, frank assessment report from 2003 it was acknowledged that the Bank's vision may not have been that of GoI.¹³¹ Actions during this time suggest that the Suharto regime was certainly interested in IPPs but not for the reasons the Bank supported them! Beyond that, the Suharto regime's position on radical privatisation is not clear.

In the post-Suharto period, the Habibie government took on unbundling and privatisation with gusto but the program may have been motivated by the need for donor approval (not just the Bank but also ADB, JBIC and USAID) and to secure funds. Privatisation may have been seen as a way of separating the government from the sector in community perceptions. Governments since have been increasingly lukewarm about the process, they took time with the reform program and the final version of the *Electricity Act* contained quite a number of provisions about what constitutes a competitive market which must be met before the full competitive provision of the legislation come into force. Since the Act was passed, the GoI has been slow in establishing the required

¹²⁹ World Bank, "Project Appraisal Document Indonesia Java-Bali Power Sector Restructuring and Strengthening," p. 9.

¹³⁰ Starting with the Cirata project, it continues across the loan, see World Bank, "Staff Appraisal Report: Indonesia Cirata Phase II," p. 17.

¹³¹ World Bank, "Indonesia Power Sector Thematic Overview," p. 3.

regulatory agency to oversee the process. Thus, on country ownership of the electricity privatisation program, it is reasonable to conclude that the evidence is shaky.

Health

Table 8.8 World Bank Health Sector Lending to Indonesia: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)
Loans 1993-1997		
Fourth Health Project: Improving Equity and Quality of Care	1995	\$88.0
HIV/AIDS and STD Prevention and Management Project	1996	\$24.8
Iodine Deficiency Control Project	1996	\$28.5
Safe Motherhood Project	1997	\$42.5
Loans 2000-2004		
Provincial Health Project I	2000	\$38.0
Provincial Health Project II	2001	\$103.2
Health Workforce and Services Project	2003	\$105.6

The World Bank only began funding health projects in the 1980s, prior to that it would only fund population projects — in Indonesia it approved five of these between 1972 and 1991. The first actual health project was in 1980 and, while the sector remained relatively small, there has been a steady flow of projects since. During the first case study period, World Bank-funded health projects conform to the Bank's two-pronged model outlined in the case study on Vietnam. This entails, "...the introduction of market forces into the health care sector, and the allocation of public resources according to criteria of technical and instrumental efficiency."¹³²

In the Fourth Health Project (1995) the re-direction and restriction of health services largely to preventative services for the poor was the main project objective. The Bank clearly stated that these services must: "...conform to affordable, cost-effective standards of care."¹³³ On the introduction of market forces, the project promoted increased fees for: "...*nonessential* health service provided by public facilities" and

¹³² Laurell and Arellano, "Market Commodities and Poor Relief," p. 192.

¹³³ World Bank, "Staff Appraisal Report: Indonesia Fourth Health Project" (Report No. 13991-IND, May 22 1995), p. ii.

“...expanding health insurance for the *better-off*.”¹³⁴ Which health services are non-essential was not defined in this report. Other Bank reports do define non-essential services though indirectly via the specification of essential services.¹³⁵ The pertinent point for this thesis is that the Bank considered it *their role* to define who shall get access to which health services on the basis of cost, rather than this being a role for the citizens involving complex questions of ethics. This approach continued throughout the second case study period. The project report did not define who the “better-off” or indeed the targeted “poor” are. In the second case study period, Provincial Health II referred to the lowest quintiles and the Health Workforce and Services project to the fact that only 30 per cent of GoI subsidies reach the poorest 40 per cent of the population.¹³⁶ Nevertheless, this is a crude analysis on which to justify major changes in spending and service provision.

The three subsequent projects in the first case study period were condition specific interventions that all form part of the Bank’s list of justifiable health interventions: HIV/AIDS prevention fits the Bank’s narrow definition of a public health good. Both iodine deficiency control and safe motherhood are considered as justifiable interventions as they significantly reduce the “global burden of disease” measured in “disability-adjusted life years” at relatively low cost.¹³⁷ The Safe Motherhood Project also focused on increasing market mechanisms in the health sector through performance-based contracts for community midwives and improved targeting of health care was pursued through vouchers for the poor. While both these mechanisms were dropped after the project, the Bank lauded the fact that their use, “...gained momentum and acceptability.”¹³⁸

The three Provincial Health Projects (the Health Workforce and Service Project was just a renamed provincial project) in the second case study period all pursued a clear Bank model for the health sector in Indonesia’s newly decentralised system. The model maintains the focus on government health services only supplying a Bank-delineated

¹³⁴ Ibid, p. 11, emphasis added.

¹³⁵ For an outline see, Laurell and Arellano, "Market Commodities and Poor Relief," pp. 194-196.

¹³⁶ World Bank, "Project Appraisal Document on a Proposed Credit and Loan to the Republic of Indonesia for a Health Workforce and Service Project" (Report No. 25294-IND, May 19 2003), p. 6.

¹³⁷ Laurell and Arellano, "Market Commodities and Poor Relief," pp. 195-196.

¹³⁸ World Bank, "Implementation Completion Report on a Loan to the Republic of Indonesia for a Safe Motherhood Project" (Report No. 32667, June 30 2005), p. 6.

package of predominately primary health care interventions. But the introduction of market forces was even more prominent in the second case study period than the first; these projects aimed to blur the:

...distinction between public and private health care delivery which are to operate under the same regulatory framework and thus be subject to the same criteria and standards in competing for service contracts on a level playing field.¹³⁹

Each project had a component to assist the central Ministry of Health in areas that are part of the Bank's model of essential public health roles. In Provincial Health I, it was the generic responsibility in, "...health advocacy, information gathering and analysis, standard setting and some regulatory functions."¹⁴⁰ In Provincial Health II, it was communicable disease control and in the third project, its health workforce regulation.

Overall then it seems that the Bank's Washington Consensus model for health remains dominant in the PWC period in Indonesia. Even the PWC theme of participation had little penetration here. Equally, NIE analysis of market failures appears not to have an effect.

Agriculture, Fishing and Forestry

Water was the dominant issue in five of the eleven loans in the agriculture, fishing and forestry sector. From the first case study period, the World Bank's focus in water was not just supporting investments in infrastructure, rather these were a platform for promoting sector 'reform.' That is, shifting the government's role from managing water and irrigation activities to regulating them and transferring responsibility for irrigation management to water user's groups.¹⁴¹ The water user's groups were designed to be

¹³⁹ World Bank, "Project Appraisal Document: Indonesia Health Workforce and Services," p. 23.

¹⁴⁰ World Bank, "Project Appraisal Document on a Proposed Credit to the Republic of Indonesia for Provincial Health I" (Report No. 20423-IND, May 10 2000), p. 5.

¹⁴¹ This is outlined by the Bank in World Bank, "Project Appraisal Document on a Proposed Loan and Credit to the Republic of Indonesia for the Water Resources and Irrigation Sector Management Program in Support of the First Phase of the Water Resources and Irrigation Sector Program" (Report No. 25941-IND, May 23 2003), p. 3.

Table 8.9 World Bank Agriculture, Fishing and Forestry Sector Lending to Indonesia: 1993-1997 and 2000-2004

Project Name	Year Approved	Approved Amount (USD millions)
Loans 1993-1997		
Integrated Pest Management Training Project	1993	\$32.0
Groundwater Development Project	1993	\$54.0
National Watershed Management and Conservation Project	1993	\$56.5
Dam Safety Project	1994	\$55.0
Java Irrigation Improvement and Water Resources Management Project	1994	\$165.7
Second Agricultural Research Management Project	1995	\$63.0
Kerinci-Seblat Integrated Conservation and Development Project*	1996	\$19.1
Nusa Tenggara Agricultural Area Development Project	1996	\$27.0
Sulawesi Agricultural Area Development Project	1996	\$26.8
Loans 2000-2004		
Water Resources and Irrigation Sector Management Project	2003	\$70.0
Coral Reef Rehabilitation and Management Program II	2004	\$56.2

* World Bank classification was health and other social services but the project undertakes agricultural area development activities.

independent entities with responsibility for implementing user-fees to recover the costs of their activities. This is Washington Consensus 'reform' intended to reduce government expenditure and responsibility and promote privatisation. Even the Dam Safety Project (1994) promoted the model through changing the government's role to monitoring and regulation (with the goal of establishing an independent regulatory agency) and separating these activities from those connected to undertaking remedial works. Remedial work to improve dam safety was funded only as an interim step before full responsibility for dam maintenance was handed to dam managers.¹⁴²

The 1994 Java Irrigation Improvement and Water Resources Management Project pushed radical privatisation through decentralisation of river basin water resource management and dramatic expansion of a program to transfer small irrigation schemes in four Javanese provinces to water user's groups.¹⁴³ The project ran into significant

¹⁴² World Bank, "Staff Appraisal Report: Indonesia Dam Safety Project" (Report No. 12815-IND, May 6 1994), p. 20.

¹⁴³ World Bank, "Implementation Completion Report on a Loan to the Republic of Indonesia for the Java Irrigation Improvement and Water Resources Management Project" (Report No. 26199, June 30 2003),

government opposition until Suharto's fall. Decentralisation, and Habibie's support for World Bank inspired water sector 'reform,' changed the picture. After WATSAL was approved in May 1999 (see structural adjustment lending above), the project predominately assisted preparation of WATSAL reforms. It piloted collection of water users' fees and privatisation of small and large irrigation schemes.¹⁴⁴

The Water Resources and Irrigation Sector Management Program (2003), in the second case study period, continued support for implementation of WATSAL reforms. It was the first of a three tranche eleven year adaptable program loan designed to provide the long-term "*hand-holding*" needed to implement reforms amongst local governments and water users who are, "...ill prepared to assume their new responsibilities."¹⁴⁵ It continues a Washington Consensus-inspired Bank vision for the water sector in Indonesia. There is no sign here of PWC concerns with sequencing. The PWC was apparent though in decentralised project implementation (already a reality) and participation. But participation was limited to project implementation; it was not visible in planning for the water sector, which was undertaken with minimal participation under WATSAL.

Of the other projects, there were three agriculture area development projects (Kerinci-Seblat, Nusa Tenggara and Sulawesi) all of which operated under the traditional 'top-down' approach of providing selected farmers with agricultural inputs to improve productivity plus some funding for roads to improve access to markets. The Bank regarded all three projects as unsuccessful and the Nusa Tenggara and Sulawesi projects were restructured after the Crisis to focus predominately on microfinance for villages run along the Bank's standard model. With Kerinci-Seblat much of the loan was cancelled after the onset of the crisis.

p. 2. The Java project was very complex with multiple components, each with a number of sub-components. It operated in multiple provinces and *kabupatens*. It did not heed the Bank's own warnings about the problems of complex loans, for example in, World Bank, "Implementation Completion Report on a Loan to the Republic of Indonesia for the Nusa Tenggara Agriculture Area Development Project" (Report No. 28036, March 31 2004), p. 18. The multiple components seem to be the product of the Bank's needs for scale in lending. Use of an adaptable program loan provided eleven years for implementation. Most projects in the second case study period again had standard Bank four or five year project cycles, nevertheless they maintained complex, multi-component program designs.

¹⁴⁴ World Bank, "Implementation Completion Report: Indonesia Java Irrigation Improvement and Water Resources Management," pp. 5-8.

¹⁴⁵ This is the Bank's language in World Bank, "Project Appraisal Document: Indonesia Water Resources and Irrigation Sector Management," pp. 2-3, emphasis added,

The only other project in the second case study period was the Coral Reef Rehabilitation and Management Project, which, as is clear from the title, aimed to improve local coral reef management. The project had a strong participatory focus and also included a large (\$10 million) village microfinance component.¹⁴⁶ There were only two projects in the second case and thus once again it is difficult to draw firm conclusions about World Bank directions in the sector, but relatively little appears to have changed and Washington Consensus themes still dominate lending.

Education

It is not possible to analyse shifts in World Bank policy on education in Indonesia given the dearth of projects in the second case study period. Nevertheless, the Bank's approach to education visible in the first case study period can be usefully outlined. The loans in this period can be grouped by their focus: vocational and skills, formal tertiary education and secondary, in particular, junior secondary education. All of the projects were underpinned by a particular understanding of Indonesia's stage of economic development, namely the idea that Indonesia was, to use Rostow's language, in the 'take-off' stage, moving from early industrialisation to complexly transformed manufacturing. Indonesia had, as was appropriate, focused on universal primary education resulting in, "...high *payoffs* with regards to *economic* and social *development*."¹⁴⁷ Thus, Bank logic runs, in order to compete at higher levels, Indonesia needed to focus on middle and higher-level skills. The Asian Financial Crisis demonstrated the frailty of even the achievements in primary education. It resulted in the re-direction of significant amount of funds from the World Bank and other donors to scholarships for poor children and block grants for poor schools to sustain achievements.

¹⁴⁶ World Bank, "Project Appraisal Document on a Proposed Loan and Credit and a GEF Grant to the Republic of Indonesia for the Coral Reef Rehabilitation and Management Project (Phase II)" (Report No. 28836-IND, May 3 2004), p. 13.

¹⁴⁷ World Bank, "Staff Appraisal Report: Indonesia Second Professional Human Resource Development Project" (Report No. 13537-IND, November 8 1994), p. 1, emphasis added.

Table 8.10 World Bank Education Sector Lending to Indonesia: 1993-1997 and 2000-2004

Project Name		Approved Amount (USD millions)
Loans 1993-1997		
Professional Human Resources Development Project II*	1994	\$69.0
Skills Development Project	1994	\$27.7
University Research for Graduate Education Project	1994	\$58.9
Book and Reading Development Project	1995	\$132.5
Secondary School Teacher Development Project	1996	\$60.4
East Java and East Nusa Tenggara Junior Secondary Education Project	1996	\$99.0
Higher Education Support Project	1996	\$65.0
Central Indonesia Junior Secondary Education Project	1996	\$104.0
Sumatera Junior Secondary Education Project	1996	\$98.0
Quality of Undergraduate Education	1997	\$71.2
Loans 2000-2004		
Library Development Project	2001	\$4.15

* The World Bank classifies this project as industry and trade—it is the only project in this sector and is similar to the Skills Development project classified as education, thus it is included here.

Three inter-linked themes were visible in all the loans: decentralisation of educational decision-making,¹⁴⁸ support for increasing the role of market forces in education and limiting government resources to those areas seen to have a significant economic payoff.¹⁴⁹ In university sector projects, the focus on increasing the role of market forces was explicit in the 1994 Higher Education Project's support for increasing the role of private universities and the use of incentive payments for staff in order to promote research. While the concern to limit central government expenditures remains prominent, the project justified GoI activity on the basis that it would improve quality in "priority areas" for research and reform policy. The new policies supported were to allow, "...greater emphasis on private providers" and thus create a more efficient

¹⁴⁸ In vocational and skills projects, decentralisation is presented as both an outcome and a *modus operandi* for project management. Further, greater skills training will, according to the Second Professional HRD project's objectives, facilitate decentralisation (and deregulation), see *ibid*, p. 9. See also World Bank, "Staff Appraisal Report: Indonesia Skills Development Project" (Report No. 12748-IND, February 14 1994), pp. 2-3.

¹⁴⁹ On these themes as being core to World Bank Washington Consensus education policy in general see Puiggrós, "World Bank Education Policy."

sector.¹⁵⁰ By the time of the Higher Education Support project in 1996, the Bank extolled the GoI's "New Paradigm" for higher education, which defined the state's role as shaping regulations and directing resources to high priority areas.¹⁵¹ This role effectively limits government expenditures and facilitates private participation in the industry.

In the Junior Secondary Education Project, the focus was originally decentralisation to the provincial level, however, after the decentralisation laws of 1999, implementation responsibility was shifted to *kabupatens/kotas*. The project included a demonstration component that had school communities contract managing school construction, which succeeded in having this approach promoted nationally as a cost-effective development activity.¹⁵² The logical extension of this approach, which the Bank promoted, is to give control of schools to community boards. In the Bank's approach, community boards should, in most cases, be private entities.¹⁵³ Given that encouraging private education was one of these project's original objectives, this was undoubtedly a back-door method of achieving that aim. The project also trialled the use of contracted teaching staff, which is also part of the Bank's focus on increasing market forces in education.¹⁵⁴

The implementation completion reports available on a number of the loans from the first case study period, which were produced during the PWC, provide no indications of a change in the World Bank's Washington Consensus policy for education. The policy involves limiting state expenditures via a focus on primary education; strategic investments in areas deemed to have notable economic payoffs; and increasing the market forces in the education sector. Indeed, as with the Vietnam case study the

¹⁵⁰ World Bank, "Staff Appraisal Report: Indonesia University Research for Graduate Education Project" (Report No. 12841-IND, May 16 1994), p. 9. The report boastfully claims that Indonesia is, "...well on track for developing a higher education system consistent with the Bank's recommendations."

¹⁵¹ World Bank, "Implementation Completion Report on a Loan to the Government of Indonesia for a Higher Education Support Project: Development of Undergraduate Education" (Report No. 26039, June 27 2003), p. 2.

¹⁵² World Bank, "Implementation Completion Report on a Loan to the Republic of Indonesia for East Java and East Nusa Tenggara Junior Secondary Education Project" (Report No. 32507, June 30 2005), p. 11. The Central Indonesia and Sumatera Junior Secondary Education Projects were replica projects and their completion reports are virtually identical.

¹⁵³ Puiggrós, "World Bank Education Policy," p. 184.

¹⁵⁴ World Bank, "Implementation Completion Report: Indonesia East Java and East Nusa Tenggara Junior Secondary Education," p. 13.

limited Bank resources devoted to the sector in the PWC are perhaps the most powerful indicator of the Bank's overall view.

Conclusion: World Bank Lending in Indonesia: More Change But...

This case study shows that World Bank lending in Indonesia shifted more notably than was the case in Vietnam. The shifts were driven as much by the Bank's public disgrace over its relationship with the Suharto regime as its political judgements about the capacity of post-Suharto leaders. On the post-Suharto or rather post-Habibe governments, the Bank considered they were not pursuing what the Bank (and IMF) saw as necessary economic reforms in Indonesia. When President Yudhoyono took office, there were some indications of renewed faith in the Indonesian government. To a lesser extent, change was driven by its mandate as a conservative lending institution — the concern about Indonesia's lack of creditworthiness overrode the Bank's disbursement imperative. The reduction in lending also served to lower the Bank's profile in Indonesia, useful for a disgraced organisation. This disgrace drove most of the shift from formal, large-scale projects in the electricity and water supply and sanitation sectors and towards community development projects. Even with the electricity sector, the disgrace shaped what the Bank funded. So while the Bank acknowledged that new generation capacity is the, "...most critical issue facing PLN" they will not fund a large-scale utility sector that has been a domain for corruption.¹⁵⁵

In the second case study period, the sectoral priority became broadly defined 'governance' projects. Along with the Bank's deeply interventionist program to shape the public sector, many governance activities focused on embedding civil society in market-based relations. It is really in the KDP and UPP projects that the impact and nature of the PWC is most transparent. Social capital analysis was at the forefront of the project justification; participation and community control and ownership are relatively strong themes and the Bank even steps away for a moment from its standard methods of procurement. But as the analysis here demonstrates, KDP and UPP aim to restructure social relations and create neoliberal communities — communities that take,

¹⁵⁵ World Bank, "Project Appraisal Document Indonesia Java-Bali Power Sector Restructuring and Strengthening," p. 9.

“...responsibility for their own improvement by engaging with markets” and “conduct themselves” appropriately in competitive markets.¹⁵⁶ The change in Bank procurement methods under the projects is possibly their most radical departure from the Washington Consensus. This change allows communities to pay community members to undertake components of small-scale infrastructure projects, though with the proviso that wages are below market rates for day labourers, which is below the cost of subsistence.

KDP and UPP also show a strong focus on poverty and there is a visible shift on Bank thinking on this issue between the two case study periods. In the first case study period, the Bank was of the view that Indonesia was in a second phase of industrialisation shifting from an initial ‘take-off’ based on low technology, labour-intensive manufactures towards higher technology manufacturing and less reliance on agriculture, forestry and fisheries. The Asian Financial Crisis showed that this analysis was premature at the very least and that poverty needed to be taken more seriously. This is not to say that during the New Order the Bank was not aware that rural and urban poverty represented a potential threat to stability — earlier funding for the Village Improvement Projects and Urban Development Projects, which were essentially a way of “defusing discontent” demonstrated this.¹⁵⁷ Rather, the Crisis discredited the idea that poverty was a peripheral issue that would be dealt with by economic growth. It would require specific measures. The Bank-supported measures start out as a strong version of the PWC with direct support for social expenditures under the Social Safety Net Adjustment Loan in 1999. However, after Habibie’s presidency ended, the Bank reverted to a much weaker version of the PWC providing only indirect support via day wage employment under KDP and to a lesser extent UPP. Its main focus became promoting fiscal restraint by the state.

The PWC theme of decentralisation is systematically pursued throughout Bank loans in the first case study period. This was a formal policy of the GoI but more at the level of rhetoric than action. The Bank’s insistence on decentralisation created implementation difficulties for projects approved early in the first case study period — the lack of country ownership led to slow disbursement and bureaucratic resistance. For those projects approved later in the period, however, it meant they could be more easily

¹⁵⁶ Li, “Government through Community: The World Bank in Indonesia,” p. 5.

¹⁵⁷ Bello, Kinley and Elinson, *Development Debacle*, p. 15.

adapted to the reality of decentralisation from 1999. In the second case study period, decentralisation is a reality and the Bank was concerned to make it work as they, "...have invested a lot of resources into decentralization programmes around the world. Thus they have an ever-increasing institutional stake in their success."¹⁵⁸ Hadiz continues:

[i]n ensuring the 'success' of these decentralization programmes, the Bank no doubt has to work with an array of entrenched elites, both national and local. This in itself restricts any serious consideration of factors of power, interest and conflict in the theoretical approach. The result is a theory of decentralization that tacitly endorses the non-disturbance of the existing social order to the greatest extent possible, while encouraging institutional tinkering in a supposed political vacuum.¹⁵⁹

This approach is clear in Bank lending in the second case study period in Indonesia. For example, the Provincial Health Projects do not analyse local power structures or indeed, in any detail local institutional arrangements and politics. They simply aimed to implement the same Bank-delineated package of interventions and increase the role of market forces in each location. It is a continuation of the one-size-fits all model of Bank lending that the PWC was meant to address.

During the first case study period corruption (unsurprisingly) rarely rated a mention. In the second case study period, corruption was reduced to 'misprocurement' and addressed by technical activities — an expanded program of procurement and financial monitoring. Surprisingly, a large number of Bank implementation completion reports on projects approved in the first case study period either did not mention corruption or claimed that there were only a couple of small instances affecting the particular project. It seems the Bank's earlier acknowledgement of the level of problems has itself been 'revised.'

In Indonesia, as in Vietnam, the Bank is engaged in a long-term 'war of position.' In the first case study period, it seems that the Bank understood itself as engaged with a

¹⁵⁸ Hadiz, "Decentralization and Democracy in Indonesia," p. 706.

¹⁵⁹ Ibid.

fundamentally market-oriented society that just needed the occasional push in the right direction. This was reinforced by its view of the New Order state as relatively strong and controlling. This view tempered its use of coercive techniques, indeed consensus-based action was the norm. The Bank wanted to stay engaged and continue lending to Indonesia, thus it funded projects that nominally pursued the Washington Consensus agenda but were, in fact, strongly manipulated by the New Order to enrich its cronies. In the PWC period, the Bank has in fact been more dogged in its pursuit of Washington Consensus hegemonic principles. It has had some formal, legislative ‘wins,’ in particular in water supply and electricity. However, it has not confronted New Order interests, which have reorganised themselves at the provincial and local level.

Chapter Nine

Conclusion

The first section of this thesis (re)interpreted the history of the World Bank utilising the Gramscian framework developed in Chapter One. The framework centred on the key Gramscian concept of hegemony as a way of understanding how the US historic bloc organises consent both in the West and internationally. Following the work of Cox, the current hegemonic historic bloc was labelled *pax americana*. Chapter Two opened with an overview of the changes in international power relations that accompanied *pax americana*. In keeping with the Gramscian framework, it explored not just changes in economic power but also issues of leadership, alliances, networks and ideology. This latter issue was central to the establishment of the Bank because it was the ideas unleashed by the Keynesian revolution in economic thought that provided the underlying rationale for international organisations in the economic, financial and subsequently trade spheres. While the ‘Keynesian, modernisation, welfare model’ provided the intellectual underpinnings of the Bretton Woods twins, US hegemony profoundly shaped the institutions too. The consequences for the IBRD include the weighted voting structure, conservative capitalisation and reliance on private capital markets, project lending, the Washington location and strong US executive influence.

Chapter Three traced the trajectory of the Bank from a relatively small organisation designed to assist with the postwar reconstruction needs of Europe to *the* most significant international development agency. This transition began with the 1947 Marshall Plan, which largely undermined the Bank’s role in postwar reconstruction and led to the search for a new focus. The Bank found this in developing countries, though it initially only lent to ‘creditworthy’ developing countries and it continued to lend to high income countries until 1979. Throughout the 1950s and for most of the 1960s, the Bank lent predominately for infrastructure projects. Decision-making was based on the Bank’s assessment of a project’s viability and its assessment of a country’s overall creditworthiness. These assessments involved ‘fly-in, fly-out’ consultants armed with newly available economic data and new tools of econometric analysis. Projects were scrutinised in-depth, judged on their estimated economic rate of return, subject to a

range of conditions and then their implementation was closely monitored. The lending program was underpinned by a neoclassical view of development, which held that developing countries would ‘catch up’ with the West given the right technical and financial assistance. The Bank grew slowly in the 1950s. The establishment of the IDA in 1961 provided a big boost to its profile, size and lending sectors, allowing it to expand slowly into what were previously regarded as ‘soft’ sectors such as agriculture, water supply, health and education. The IDA made the Bank a development agency.

The 1970s saw dramatic expansion and transformation of the Bank into the leading development institution — one no longer only reflecting *pax americana* but also able to assist in its creation and reproduction. This transformation took place during the presidency of Robert McNamara but should be understood in terms of the needs of the dominant US domestic and international markets. In particular, the Bank’s expansion was connected to the US strategy to centralise the role of its dollar in the world economy, which required increasing the flow of US private capital to the rest of the world — the Bank acted both as a conduit for this flow and as a ratings agency for other lenders. Throughout the Cold War, the Bank supported US geopolitical allies and from the 1970s significant Bank resources were directed at ‘defusing discontent’ amongst the rural and urban poor in developing countries who might be exploited by communist ideas. Expanding resources for the Bank was also a political strategy to counter the calls for a new development agency more directly under UN control. Thus the Bank was an agent of politico-economic change.

As McNamara’s presidency came to a close, neoliberalism swept the globe. His introduction of structural adjustment lending in 1980 reflected this new politico-economic climate. Neoliberalism’s rise in the Bank was as dramatic as it was across the West. The new President, A.W. Clausen — a particularly hardline advocate of supply side economics who removed a number of dissidents — assisted its advance, but neoliberalism’s rapid capture of the Bank equally indicates that the Bank was always a neoclassically-dominated, mainstream institution. Neoliberalism translated into a set of hegemonic economic prescriptions shared between the Bank, the IMF and the US Treasury: this was the Washington Consensus. It prescribed a two-phased re-writing of countries’ economic policy starting with large-scale changes to macroeconomic policy settings, which was largely the domain of the IMF, though the Bank became

increasingly involved as the organisations' missions meshed. Phase two was predominately the domain of the Bank, it covered microeconomic reform in everything from trade and tax to banking and governance.

The Washington Consensus was quite successful in facilitating the penetration of Western capital into all corners of the developing world. It also promoted more market-based forms of governance in many countries, which increased the access and security of Western capital. Yet there were many instances where 'agreed' reforms were never implemented or policy was reversed after a short period because it did not fit the needs of local elites and interest groups (i.e. national historic blocs). The Washington Consensus lacked an engagement with, and an understanding of differing national politics. Further, its social costs were simply too high and the backlash it provoked was too politically costly, even for the Reagan administration. Thus in 1986 the more politically astute Barber Conable replaced Clausen and some of the harsher Washington Consensus policies were moderated. Nevertheless, the US continued its turbulent (yet symbiotic) relationship with the Bank by cutting an IDA replenishment and implementing an administrative overhaul that further reshaped the intellectual terrain of the Bank in neoliberal directions. The worsening debt crisis did provide some relief for the Bank, as the US government's response gave it a central role in managing debt rescheduling and relief.

The Washington Consensus agenda did little to improve the quality of the Bank's project portfolio. Lewis Preston, appointed Bank President in 1991 by the administration of George Bush Snr, commissioned a staff member to compile a report on the outcomes of Bank lending. The resultant Wapenhans Report concluded that 37.5 per cent of Bank projects did not produce satisfactory outcomes according to the Bank's own standards. Despite concerns regarding the social costs of adjustment and some pressure from the Japanese government to acknowledge the role of the state in development, in 1993 the Bank was still fundamentally following the Washington Consensus agenda and declaring structural adjustment a success. A few issues were added to the Bank's agenda but its move beyond the Washington Consensus did not really occur until the Clinton administration appointee, James Wolfensohn, replaced Preston in 1995.

The gradual shift to the post-Washington Consensus, outlined in Chapter Four, did not substantially challenge most of the hegemonic principles of the Washington Consensus. Rather, it generally involved adding new issues to the policy 'reform' agenda for example, poverty reduction, local participation in development programs and a concern with the sequencing of reform. At a fundamental level then, this was an intellectual, political and social project to shore up Bank operations so that developing countries would continue to be able and willing to support *pax americana*: it was a passive revolution. Chapter Four identified ten core issues that Bank literature claims drive its current developmental approach, these are defining features of its PWC. It also discussed the impact of the Bank's project model on lending practices.

The second part of the thesis examined the impact of both the Washington Consensus and PWC on the lending practices of the World Bank via case studies of its lending practices in Vietnam and Indonesia. These detailed studies provide a framework on which to base some empirical conclusions about the extent to which the shift in rhetoric associated with the post-Washington Consensus has been incorporated into lending practices and thus providing insights into neoliberal development discourse more generally. As a way of concluding this study, I return to ten features of the PWC as well as the issue of Bank as project manager, to see what light the analysis and case studies sheds on each.

Approach to Monetary and Fiscal Policy

As suggested by the analysis of the PWC, the Bank still focuses on economic growth as *the* key determinant of development and poverty reduction and its view of growth is centred on a neoliberal approach to monetary and fiscal policy. The PWC has seen changes at the margins of this approach, in particular, capital market liberalisation has been questioned both in the theoretical literature and by the international financial institutions.¹ The focus on money supply as the key economic policy tool has also been discredited but 'getting the prices right' is still a hegemonic principle. Equally, an open current account remains 'law' as does the preference for consumption taxes over

¹ Broad, "The Washington Consensus Meets the Global Backlash."

income taxes and the belief in full cost recovery for many government provided services, especially utilities. The project to limit government expenditure has not been affected by the (rather limited) debate about the role of the state.

World Bank recommendations on monetary and fiscal policy in Vietnam and Indonesia did not display significant changes between 1993 and 2004. In Vietnam, across both case study periods, the Bank focused on price liberalisation to control the budget deficit and inflation and to ‘get the prices right’, currency devaluation and financial sector reforms and openness to foreign direct investment.² There was an expansion of the Bank’s structural adjustment program between 2001 and 2003 — health, education, environmental sustainability, government planning and legal reform were added but they were framed in ways that supported the Bank’s conservative fiscal policy agenda. For example, the Bank encouraged the GoV to limit education spending essentially to basic education and it encouraged the expansion of private education. Equally, health care in the PWC period was still regarded as primarily an individual responsibility; the Bank promoted spending only on a limited package of primary health care interventions for the (generally ill-defined) poor.

In the first half of the 2000s, the Bank’s view was that Vietnam needed to progress more quickly towards a floating exchange regime but it seemed to accept a role for controls on short-term capital flows. However, they promoted faster liberalisation in the foreign investment regime and interest rates policy following traditional Washington Consensus prescriptions.³ A moderated view on regulation of short-term capital flows appears to be the most significant impact of the PWC agenda on monetary and fiscal policy analysis by the Bank in Vietnam.

In Indonesia, the Bank increased its concern with tightening the fiscal restraint on the state in the post-Suharto period. It demonstrated increased concern with the level of government debt, which did indeed jump after the Asian Financial Crisis mostly due to the large devaluation of the *Rupiah*. The key outcome of the Bank’s concern was a decrease in the scale of its own lending program and an increase in the use of conditionality to remove price subsidies, in particular fuel subsidies. The Asian

² See World Bank, "Viet Nam - Structural Adjustment Credit I".

³ World Bank, "Vietnam CAS 2003-2006," Annex D1, pp.4-7

Financial Crisis resulted in the end of the quasi-fixed exchange rate system on which the Bank laid a part of the ‘blame’ for the Crisis (in combination with the liberalised current account and corruption). During the PWC case study period, the Bank was committed to floating exchange rates, a liberal current account and market interest rates — indeed, these Washington Consensus prescriptions were core criteria in determining the level of its 2002-04 lending program.⁴ Surprisingly, in Indonesia, neither the PWC nor the Crisis seems to have altered Bank hostility to capital controls even on short-term capital flows.

Macroeconomic fundamentals were still treated as essentially a ‘given’ in the PWC agenda. They do not require public debate as was clear from a 2002 study, which found that the PRSP process did not provide an, “...opportunity to debate the macroeconomic framework” in any of the fifty countries studied.⁵ This was also the case in Vietnam and Indonesia. Further, a 2006 review of fifty PRSPs found that only 14 per cent did *not* include a commitment to strict monetary policy and only four per cent did *not* include strict fiscal policy.⁶ It seems reasonable to conclude that conservative monetary and fiscal policy are hegemonic principles of the PWC and that they effectively frame and constrain all other policy approaches.

Country Specificity

The PWC claims to have left behind the ‘one-size-fits-all’ approach to development so negatively associated with the Washington Consensus. If this were the case, one would expect to see increased attention to and analysis of each country’s specific social, political and economic realities and an increased diversity of projects and approaches. At the level of the Bank’s CAS, the PWC approach could present itself in the form of better developed socio-economic analysis of local conditions as well as consideration of global and regional impacts.

⁴ World Bank, “Indonesia CAS 2001-2003,” pp. 11-12.

⁵ Panos Institute, “Reducing Poverty: Is the World Bank’s Strategy Working?” p. 18.

⁶ Andrew Sumner, “In Search of the Post-Washington (Dis)Consensus: The ‘Missing’ Content of PRSPs,” *Third World Quarterly*, Vol. 27, No. 8 (2006), p. 1408.

The social, economic and political analysis in the Vietnam CAS of 2002 was superficial. The economic analysis was brief and mainstream; it focused on the need for faster policy reform in order to build a market economy and achieve economic growth. The external environment was not analysed. The CAS claimed to promote the GoV's own agenda and be based on their planning documents, yet it simply did not accept the GoV objective of a "*socialist-orientated market economy*" which translated in Bank documents to a neoliberal vision of "[h]igh growth through a transition to a market economy."⁷ Despite the constraints apparent in the CAS, the Bank is regarded by GoV and others as having a quite open attitude in Vietnam and it has supported research and activities in a number of non-traditional areas.

In Indonesia, the 2001 CAS contained a more substantial social, political and economic background analysis than the earlier CASs, or indeed the 2002 CAS for Vietnam.⁸ Indeed, the CAS noted a need for its country assessments to more fully evaluate "...political, institutional and social dimensions."⁹ It had a strong focus on the PWC themes of participation, decentralisation, poverty and governance. Yet at the end of the day, the level of the Bank's lending program was determined chiefly by Washington Consensus concerns: "...prudent monetary, fiscal and debt management," bank restructuring privatisation, rice-trade liberalisation and reform of GoI procurement and financial management.¹⁰

The PWC lending program in Indonesia was strongly influenced by country specificity in the form of the large-scale KDP and UPP projects. In utilities though, country specificity was not as visible — the Bank's Washington Consensus model for utilities privatisation prevailed and country specificity was wanting. Indeed, the political instability after the fall of the Suharto regime offered the Bank the chance to pursue a radical approach to water and electricity privatisation, which they did. In an interesting

⁷ Socialist Republic of Vietnam, "Comprehensive Poverty Reduction and Growth Strategy," p. 6, emphasis added. For the Bank see, World Bank, "Vietnam CAS 2003-2006."

⁸ World Bank, "Indonesia CAS 2001-2003."

⁹ Ibid, p. 16.

¹⁰ Ibid, p. iii. Rice trade liberalisation is sold as pro-poor because it is assumed that trade barriers increase the price of rice and that this hurts the poor, *ibid*, p.21. Once again neoliberal economic theory is presented as fact — there is no reference to analytical work to actually demonstrate this in practice. Given the number of times such broad Bank claims regarding the impact of protectionism on prices have not been empirically the case, this is a good demonstration of how neoliberalism has become 'common sense' in the Bank.

statement on the Bank's commitment to country specificity, a 2003 loan in the electricity sector acknowledged that generation shortfalls in the near future were the, "...most critical issue facing" the country.¹¹ However, the Bank would not fund new generation capacity and gave no explanation as to why. Instead, it funded a project providing investments in the transmission system and implementation of an action plan to unbundle the Indonesian electricity company's urban operations.

In Vietnam, the Bank was constrained by the GoV to pursuit of a gradual approach to privatisation. In water supply, the Bank's major push has been to expand corporatisation and private participation to districts. In electricity, the Bank followed the model of introducing IPPs and separating urban and rural operations. It funded the separation of over one thousand rural electricity distributors from the national electricity corporation, yet the appraisal reports had virtually no analysis of the viability of these small operations, indicating a lack of country specific analysis. Equally on tariffs in both water supply and electricity, the Bank's only policy view across both periods studied in both Indonesia and Vietnam was that they must be increased. This position was pursued in the wake of the Asian Financial Crisis and there was no analysis of the economic, social or political impacts of immediate increases: the formula dominated.

The average size of loans can also be considered an indicator of the Bank's trade-off between project quantity, country specificity and quality. This is because the Bank tends to aim for scale in its operations to meet its need to disburse loans but also because of the needs for cost-effective project development and management.¹² In both Vietnam and Indonesia the average and median loan size remained, in both case study periods, close to the Bank's historically standard size of around \$100 million.

Recipient Government Ownership

The Comprehensive Development Framework emphasised that recipient governments should own and control their development program and projects. For the most part, the

¹¹ World Bank, "Project Appraisal Document Indonesia Java-Bali Power Sector Restructuring and Strengthening," p. 9.

¹² Ranis, "The World Bank near the Turn of the Century," p. 86.

Bank proposes to achieve this ownership by countries developing PRSPs in line with the Bank's sourcebook. For HIPC countries, a PRSP is a Bank condition for continued access to lending, but neither Vietnam nor Indonesia are in this category. PRSP are meant to be a pre-condition for access to structural adjustment lending. Of course, the irony that countries are meant to 'own' their development program through undertaking a Bank specified and delineated process has been noted by a number of critics. While the requirement for the Bank and IMF to approve PRSPs was dropped in 2005, they still do not necessarily form the basis of the Bank's lending program, rather, this remains the role of the Country Assistance Strategy. But given these provisos, the extent to which Vietnam and Indonesia took on board or 'owned' the process varied significantly.

In 1999, Vietnam requested involvement as a pilot CDF/PRSP country. An interim-PRSP was produced quickly in order to maintain access to structural adjustment lending and involved little public participation or country ownership.¹³ Yet, the GoV had a relatively strong degree of ownership of the full PRSP, renaming it the CPRGS. The World Bank, "...mobilised an immense effort to facilitate the process," following it at every step to ensure that research was transformed into policy.¹⁴ This intervention, while positively focused, nevertheless expanded the Bank's involvement. As Woods pointed out, there is a likelihood that:

...at a more political level, the greater presence on the ground by the Bank and the Fund and more intensive and widespread relations may well be further smothering local officials, reducing 'ownership' rather than fostering nationally owned initiatives.¹⁵

An evaluation of the process concluded that, despite the high level of ownership, the CPRGS had limited impact on GoV policy-making and provincial and communal level governments are unaware of it.¹⁶ This obscurity is largely because the CPRGS process was kept separate from the Government's existing planning processes, which involves debate in party cells and mass organisations across the country and approval by the National Assembly. The Bank originally wanted the CPRGS to become Vietnam's key planning document but (reluctantly) agreed to have the CPRGS incorporated into the

¹³ Wolff, et al., "Comprehensive Poverty Reduction and Growth Strategy in Vietnam," p. iii.

¹⁴ Nørlund, Ca and Tuyen, "Dealing with the Donors," p. 92.

¹⁵ Woods, *The Globalizers*, p. 190.

¹⁶ Nørlund, Ca and Tuyen, "Dealing with the Donors," p. 23.

existing process. The irony regarding country ownership is obvious — the GoV had to persuade the Bank to allow the process to be country-owned. But country ownership is high in Vietnam and the Bank's PWC agenda has at least allowed it to flourish.

Looking at the content of PRSPs, the analysis of fifty PRSPs showed that out of nine standard Washington Consensus policy prescriptions considered each averaged six and there were, "...very few instances of unorthodox policies being mentioned."¹⁷ Furthermore, it found that 72 per cent of PRSPs included policies on trade liberalisation; 90 per cent included policies on privatisation; 64 per cent included liberalising investment regimes; and 96 per cent had commitments to limiting state budgets.¹⁸ Notably, Vietnam was the one exception in policy on this last area, indeed overall its PRSP only shows three out of the nine Washington Consensus policies — the second lowest count of the fifty countries studied.

Indonesia voluntarily prepared an interim-PRSP in 2003 and a full PRSP in 2005. However, the process seems to be more obscure than in Vietnam and it appears to have little impact on GoI policy.¹⁹ Indeed, country ownership of Bank projects has declined in Indonesia since the fall of Suharto. Moreover, the Bank took advantage of the Crisis situation to drive through major legislative and other changes (for example, in the water sector), although it did so with the support of the Habibie Government who sought donor support in effect as a substitute for popular support. Despite a high degree of initial success in implementing its program, some Bank plans have been delayed in the parliament, subject to legal challenges and protested against by large sections of 'civil society.' It is also apparent that many of the Bank's projects in Indonesia were predominately prepared by Bank staff not government officials. In Vietnam, the GoV appeared to have more control over the sectors and contents of projects than GoI bureaucrats do for the Bank's Indonesia program. It still remains the case though, that documents submitted to the Bank's Board are fully prepared by Bank staff; whereas it seems obvious that country ownership would mean that recipient countries' themselves prepare the projects — perhaps with an appended appraisal by World Bank staff.

¹⁷ World Development Movement, "One Size for All: A Study of IMF and World Bank Poverty Reduction Strategies," p. 10.

¹⁸ Ibid, pp. 11-12. Sumner's study had very similar conclusions, see Sumner, "In Search of the Post-Washington (Dis)Consensus," pp. 1407-8.

¹⁹ Tagaroa, "Indonesian PRSP."

A reduction in conditionality could be considered an indication of the Bank handing over control to recipient governments. In Vietnam the median/average number of conditions did not change between the two case study periods (19/20.9) and in Indonesia there was a dramatic increase in the number of conditions from an average of 15.5 (median 13) in the first case study period to 25.5 (median 24) in the second. The Bank claims that the average number of conditions on loans across its whole portfolio declined from over 35 in the early 1990s to 12 in 2005.²⁰ Yet the number of 'benchmarks,' which supposedly do not determine Bank funding in the way that conditions do, increased from 15 in the early 1990s to 23-34 in 2004-05.²¹ The jump in conditions for Indonesia parallels Penny Griffin's finding that while the Bank's overall average number of conditions decreased, in countries the Bank regards as higher risks, the number of conditions and benchmarks significantly increased.²²

Analysed by sectors, the only area that saw a substantial *increase* in the number of conditions was public sector governance.²³ According to Griffin, not only has there been an increase in the number of conditions on governance issues but the form of these conditions has also become more abstract and invasive.²⁴ She labelled this 'post-conditionality' and concluded that it increases the Bank's, "...encroachment into the day-to-day governance of developing countries" including more systematic involvement with political and civil society.²⁵ The case studies demonstrated a significant increase in projects in the law, justice and public administration sector — in Vietnam, projects went from nine per cent of the value of new commitments in 1993-97 to 18 per cent in 2000-04; in Indonesia they skyrocketed from seven to 47 per cent. Further, while every condition did not become more invasive, as Griffin found, conditionality certainly remained very broad. For example, the Bank often required recipient governments to discuss with them their plans for a whole sector and for sector studies, plans or legislative reviews to be undertaken in line with terms of reference it approved. The

²⁰ World Bank, "Review of World Bank Conditionality" (Operations Policy and Country Services, September 2005), p. 9.

²¹ Ibid, p. 10.

²² Griffin, "The World Bank," p. 578. Interestingly, there is little information available in either the academic or Bank literature with regards to trends in the Bank's use of informal conditionality such as supplementary letters and oral agreements, which was a key avenue of conditionality in the 1980s, Woods, *The Globalizers*, p. 70.

²³ World Bank, "Review of World Bank Conditionality," p. 11.

²⁴ Griffin, "The World Bank," p. 579.

²⁵ Ibid, p. 578. See also Woods, *The Globalizers*, p. 78.

Poverty Reduction Support Credit (PRSC) III in Vietnam — the only operation studied that employed the post-conditionality tool of triggers — demonstrated the post-conditionality breadth of Bank involvement in Vietnam's governance. Conditionality clearly does not always result in the Bank getting its way, nevertheless the case studies provided limited indications that the Bank was prepared to reduce its influence in the name of country ownership. Equally, conditionality aimed to mould countries' structures in particular ways, in particular it increasingly effects not just the economic but also political and civil society.

The Role of the State

The PWC theoretically allows space for an expanded view of the role of state in contrast to the Washington Consensus hostility to it. The state can compliment, rather than compete with markets. In a weak form, the PWC only offers a state that provides a good policy environment for business, in other words an active, pro-capitalist state.²⁶ A further step provides more space for state institutions to engage with market imperfections (information and transaction costs). In a strong version, the PWC genuinely engages with the state as an actor; it promotes critical analysis of actors and interests in society and the distribution of power and resources between them.²⁷ The case studies indicated that the Bank utilised a weak version of the PWC role of the state that is framed by the Washington Consensus project of limiting the size of the state. The project to privatise utilities, contract out activities and limit expenditures in health, education and social safety nets prevailed. The PWC state is a technocratic and managerial one, where the, "...policy aims are implicit and not part of an open political negotiation."²⁸ None of this is surprising given it is the role of the state that best fits post-1970s *pax americana*, wherein globalisation is, "...being consolidated via the nation-state system."²⁹

The tensions and contradictions produced by the Washington Consensus hostility to the state competing with the PWC acknowledgement of its necessity are visible in Bank

²⁶ Cammack, "What the World Bank Means by Poverty Reduction," p. 5.

²⁷ Wodsak, "World Bank Reform — a Critical Investigation," p. 44.

²⁸ Masina, *Vietnam's Development Strategies*, p. 290.

²⁹ Berger, *The Battle for Asia*, p. 208.

lending. For example, in Vietnam, the 2004 PRSC III included as a condition the number of enterprises registered each month. The Bank justified this on the basis that “[e]ssentially private sector development is the combined outcome of policy actions in many areas, from financial sector reform to better governance and public administration”³⁰ — a PWC view of the state as a facilitator of business. In the same series of loans there were provisions for a redundancy package for workers from equitised SOEs. The package offered a single lump-sum payment and a retraining voucher for Vietnam’s non-functional vocational education system. It was both a passive approach to the labour market and a way to limit social safety nets expenditure to one-off payments — this is *adjustment welfare*. Equally, the Bank put much faith and money in microfinance (as a substitute for social safety nets). The point being that the Bank’s approach to redundancy and microfinance as tools for poverty reduction assisted in minimising the expenditure and role of the state in both welfare and finance, whilst at the same time, Bank logic made the state responsible for business development.

In Indonesia, World Bank lending in the PWC focused on two areas — community development projects and decentralised governance projects. The largest community development activities were the series of KDP loans. KDP has largely bypassed local and district governments whilst creating governance structures that effectively parallel the state but lack its permanence. This is another example of the PWC tension around the state resolved in this case through a form of neoliberal governmentalism.³¹ In the Bank’s decentralised governance projects (sector specific projects in health, transport and water supply) the tension was resolved by directing provincial and district governments toward neoliberal forms. That is, configuring them as far as possible as technocratic contract managers, and where they do provide services, limiting the scope of those services.

Market Failure and the Pace and Sequencing of Reforms

PWC rhetoric gives attention to market failure in addition to the Washington Consensus focus on government failure. It sees the sequencing of reform programs as critical to outcomes. In the study, examples were sought of analysis of market failure, increased

³⁰ World Bank, "Viet Nam PRSC III," p. 17.

³¹ Li, "Government through Community: The World Bank in Indonesia."

attention to the development of regulatory frameworks relevant to local conditions prior to liberalisation and analysis of local conditions prior to privatisation. There were virtually no examples to be found but there were a number of prominent examples where projects simply ignored issues of market failure and sequencing in order to implement Washington Consensus hegemonic principles.

Perhaps the key difference between the Bank and the GoV since at least 1998 is the pace of reform — the Bank has consistently urged faster and more dramatic reform whilst the GoV preferred a more cautious approach. The issue that most concerned the Bank was the pace and extent of equitisation of SOEs; it was pursued through conditions attached to the Bank's three PRSCs. Equitisation is a sensitive process in Vietnam as it impacts on multiple interests and involves many actors.³² Obtaining genuine commitment to reform would require time and political engagement but this did not concern the Bank. Privatisation is also administratively and managerially complex and has stretched the regulatory capacity of the government. Valuation of land and assets has been particularly difficult, yet the Bank pushed to have audit requirements prior to privatisation dropped because it was slowing the equitisation process. This has facilitated corrupt practices such as the undervaluation of assets. The Bank's continuing silence on this issue indicates PWC 'lessons' about market failure and pace and sequencing of reform are second to the Washington Consensus push for privatisation.

In the power sector, in 2004 the World Bank backed the introduction of an IPP in Vietnam two years prior to the introduction of a new National Electricity Law that made IPPs legal; concern with sequencing was not visible here. The IPP was built with the support of a Bank guarantee, ABD and JBIC funds and a 20 year, US dollar denominated, set price power purchase agreement with the state owned electricity company. At the end of the day, the GoV assumed virtually all the risk.³³ This is a strong indication that the Bank still regards government failure as more problematic than market failure.

In Indonesia, the Bank claimed after 1998 to have consistently warned against guaranteed (inflated) price IPP arrangements. However, public documents do not fully

³² Painter, "Politics of Economic Restructuring in Vietnam," p. 22.

³³ World Bank, "Appraisal Document — Partial Risk Guarantee to Mekong Energy Company Ltd."

support their claim, rather they indicate that the Bank was more concerned with increasing private sector involvement than with market or government failure. The studies of Vietnam and Indonesia indicate that PWC theorising on market failure and the pace and sequencing of reform has had little practical impact on Bank lending.

A Focus on Poverty Reduction and the Social Costs of Adjustment

In Vietnam the Bank assisted the GoV focus on poverty at a statistical and analytical level and it has devoted significant resources to assisting the GoV to both map and understand poverty. The Bank has played a role in sharpening the focus on, and understanding of, poverty in GoV policy-making. Loans in the PWC period utilised poverty more frequently in their project justification. For the most part, however, these justifications were highly generalised and often problematic, for example correlations were claimed between poverty reduction and all weather roads or between rural microfinance and direct, "...poverty alleviation and equitable growth."³⁴ Microfinance was a key area of Bank project activity to directly address poverty and the social costs of adjustments. Indeed, microfinance loans were among the first organised by the World Bank when it re-engaged with Vietnam. This was at a time when, following a period of restructuring broadly along neoliberal lines, poverty was declining, however the social welfare system, which had been neglected since the mid-1980s was in a state of disrepair. This resulted in increasing levels of unrest, especially in the countryside. The Bank's support for microfinance in Vietnam should thus be seen as part of a neoliberal policy response to problems arising from structural adjustment, as Weber so clearly puts it, microfinance is, "...a neo-liberal safety net *for* neoliberal political restructuring."³⁵ Moreover, the Bank publicly supports it as an approach to poverty reduction — but it is an approach that eschews the need for social safety nets as "a welfare-based approach to poverty alleviation that disenfranchises the poor and establishes new dependency relations."³⁶

³⁴ World Bank, "Project Appraisal Document: Vietnam Second Rural Finance Project," p. 3.

³⁵ Weber, "The 'New Economy' and Social Risk," p. 362, emphasis in original.

³⁶ Gibbons, et al., "Microfinance for and by the Poor," p. 266.

As a consequence of the Asian Financial Crisis, the Bank increased analytical work on poverty in Indonesia; it remained, however, significantly underdeveloped. The Bank did fund a Social Safety Net Adjustment Loan (in 1999 for \$600m) that aimed to provide one-off assistance to those negatively impacted by the Asian Financial Crisis. It also sought to make social expenditures more targeted, which had the added benefit of assisting the constraint of social expenditure in the medium-term. The Bank largely designed the loan and saw it as a vehicle for reform resulting in a high level of conditionality. But its uncomfortableness with the loan resulted in only part of the loan being disbursed. This loan is perhaps the strongest indication of the PWC social agenda in the lending studied, yet the neoliberal hegemonic principle of constraining state expenditure dominated.

The Bank's PWC approach to poverty reduction in practice involved support for basic education; health care expenditure on preventative measures and a limited number of curative services that it considers have a large impact on peoples' disability-adjusted life years; some adjustment welfare — that is, one off assistance after redundancy or an economic shock; and some funding for projects that employ day labour at below the minimum wage. Looking at this package, Porter and Craig's argument that the Bank approach to poverty reduction is to get the poor above one dollar a day but little more than that, seems to have substance.³⁷

Social Capital and Civil Society Participation

The PWC regarded civil society as a distinct realm for analysis and intervention. In the second half of the 1990s, the Bank tended to employ social capital analysis to understand civil society. Its social capital theory sees civil society as the glue that holds society together and a missing link in development. From this engagement, the PWC claimed a genuine appreciation for local knowledge and practices tempered by concerns about coherence and coordination.³⁸ It also focused on expanded local participation in the planning, design and implementation of activities.

³⁷ Porter and Craig, "The Third Way and the Third World."

³⁸ Wodsak, "World Bank Reform — a Critical Investigation," p. 91.

The case studies demonstrated how the PWC dichotomises between civil society and the state/market and between civil society and NGOs or civil society organisations. Civil society was constructed as a positive and natural arena in which individuals spontaneously collaborate. However, the Bank's social capital approach considers that this 'civil' component of society needs assistance or facilitation to achieve its full potential as neoliberal communities responsible for their own development and engaged with markets.³⁹ NGOs, in contrast, do not always share the Bank's vision of development and are often regarded by the Bank with suspicion.⁴⁰

Social capital was not utilised as an analytical tool in Vietnam although it may indirectly have influenced Bank directions and engagements. Bank engagement with civil society was, surprisingly, at one level both more extensive and more cooperative in Vietnam than in Indonesia, which has a much more developed and active NGO sector despite New Order repression. In Vietnam, the Bank reasonably successfully promoted itself as a 'white knight' supporting the rights of civil society organisations that are, in the Bank's story, suppressed by the communist regime. The Bank even claimed a shared development 'vision' with Vietnamese NGOs. Of course, the NGO community is quite small in Vietnam and, outside the party-based mass organisations, it is strongly linked to western developmental NGOs. Further, the Bank's reputation for participative practice was largely based on the operation of poverty studies and surveys rather than the operation of projects, where its practices were, in fact, less developed in the PWC case study period than in Indonesia. This was, in part, because the Bank operates with and through the GoV, which has largely been uninterested in accepting funds for community development type activities from the Bank. However, it was also because the Bank's practice of participation in project activities was narrow and instrumental. For example, in rural electrification projects, communities were consulted to determine the potential economic rates of return from electrification and their willingness to pay for it. Even the Bank's Operations Evaluation Department have questioned the real extent of participation and concluded that in general, "...the language of NGO/CBO involvement in Bank-supported projects outstripped the reality."⁴¹

³⁹ Li, "Government through Community: The World Bank in Indonesia," p. 5.

⁴⁰ Whitelum, "Rhetoric and Reality in the World Bank's Relations with NGOs."

⁴¹ World Bank Operations Evaluation Department, "Non-Government Organizations and Civil Society Engagement in World Bank Supported Projects," p. 1.

In Indonesia, the Bank only seriously started to engage with NGOs after the fall of Suharto and as a result of this and its closeness to the previous regime, many NGOs remained suspicious of the Bank. Bank officials, it seemed, did not understand this suspicion and remained tied to a sub-set of NGOs that have been willing to engage with them and that share, "...its development vision for Indonesia and values the Bank's development agenda as a way forward."⁴² As is to be expected, they essentially do not engage with more radical, transformative NGOs.⁴³

The Washington office of the Bank selected Indonesia as a trial country for social capital studies and projects. Its use was limited to the project under which it was trialled namely, KDP. It was not visible in other social sector projects and certainly not in economic or infrastructure analysis. In terms of the process and type of participation promoted under projects, KDP is the Bank's most sophisticated version of community development type activities. Yet, every aspect of its operations are specified in Bank approved manuals — everything from how the participatory process is undertaken to how the projects are planned, implemented, administered and monitored.⁴⁴ KDP demonstrates that the Bank's version of participation is instrumental not transformative and aimed at producing critical consumers — rational, competitive actors responsible for and focused on their own development, not critical citizens who may question domestic and international power structures or demand rights.⁴⁵

While KDP is still running, social capital was already going out of fashion in the Bank by 2004. But participation remains a key tool and it has impacted on the way the Bank does business. Yet it seems increasingly necessary to look critically at its purpose, form and outcomes. Kapoor's convincing deconstruction of participatory development concluded that its role is to, "...protect and advance institutional authority."⁴⁶ Indeed, he noted how:

⁴² Whitelum, "Rhetoric and Reality in the World Bank's Relations with NGOs," p. 197.

⁴³ Ibid, p. 210.

⁴⁴ On this theme see, Li, "Government through Community: The World Bank in Indonesia."

⁴⁵ It is interesting too that despite being derived from an analysis of conditions in Indonesia, KDP has become a model for projects in Afghanistan and Iraq.

⁴⁶ Kapoor, "Participatory Development, Complicity and Desire," p. 1212.

...in one fell swoop: participation becomes a disciplinary mechanism for the World Bank/IMF to hold the poorest Third World states 'to account'... and, in turn for these states to keep civil society organisations in check; and participations helps advance neoliberalism, promoting 'partnerships' to co-opt Third World states *and* (elite) NGOs into the structural adjustment program.⁴⁷

In Gramscian terms, participation has become a tool to pursue the PWC passive revolution — it is a moral, intellectual and educative engagement to construct civil society in the neoliberal image.

Decentralisation

Decentralisation is directly connected to participation because the Bank assumes that decentralisation means local participation in decision-making. As Hadiz notes, decentralisation has been an attractive policy for international development agencies because it appears to respond to the criticism of their past technocratic and one-size-fits all policies.⁴⁸ However, this claim is shallow because the PWC approach to decentralisation, derived from NIE, is strongly technocratic — it was a technical issue of choosing the form and amount of decentralisation in various policy areas. Further, it tended to place responsibility for policy-making on sectoral issues in the hands of (now locally situated) technocrats rather than political society.

In Vietnam, the Bank's support for decentralisation was political as well as technical. The Bank was not comfortable with Vietnam's consensus-based system combining mass organisations, the Communist Party and a formally elected government. It promoted the creation of legislative frameworks for formal liberal democratic institutions such as (Western-style) NGOs and trade unions.⁴⁹ This was central to the Bank's PWC project of transforming not just the economy but also the state. However, in terms of Bank projects, decentralisation was largely a technical issue, it manifested itself in issues like whether planning for rural roads should have been done by

⁴⁷ Ibid, p. 1214, emphasis in original.

⁴⁸ Hadiz, "Decentralization and Democracy in Indonesia," p. 701.

⁴⁹ Turk, "Interview."

bureaucrats at the district or commune level or which institutional framework was best for communities to manage electricity distribution.

In Indonesia, decentralisation was pursued throughout Bank loans in the first case study period, when it was a formal policy of the GoI but not actively pursued by it. The Bank's activity may have been because, despite its closeness to the Suharto regime, it felt a need to transform political and social relations to promote more liberal democratic forms of governance or to prevent instability. After Indonesia's radical decentralisation program in 1999, Bank projects focused on ensuring decentralisation worked. Indeed, the Bank has invested a lot of resources into decentralisation programs around the world and it has been the biggest donor to decentralisation projects in Indonesia.⁵⁰ It has, as Hadiz pointed out, "...an ever-increasing institutional stake" in decentralisation's success.⁵¹ This is a particularly difficult task in Indonesia because there is a clear tension between any project to reorder society through democratic decentralisation and the reality that projects have bound it to, "...entrenched elites, both national and local... [which] in itself restricts any serious consideration of factors of power, interest and conflict..."⁵²

The Indonesian Provincial Health Projects are a good example of the technocratic form of Bank projects. They did not analyse local power structures or indeed, local institutional arrangements and politics in any detail. Rather, they funded implementation of the same Bank-delineated package of health interventions and activities to increase the role of market forces in each location. In other words, there was little genuine local political or civil society input to the form and structure of local health services. The projects' directed provincial governments along a neoliberal model, where the state funded only limited interventions for the poorest and the role of the market was central.

⁵⁰ Turner, et al., *Decentralisation in Indonesia*, p. 130.

⁵¹ Hadiz, "Decentralization and Democracy in Indonesia," p. 706.

⁵² Ibid.

Health and Education

The PWC appears to have only marginally broadened the Bank's approach to health and education. Overall, focus remained on increasing the role of market forces but the PWC approach was visible in the encouragement for governments to direct resources to areas seen as having significant economic payoffs. In education, this meant basic education and in health it was a package of primary health care interventions plus limited curative treatments. Indeed, the most striking thing about the Bank's role in health and education in Vietnam and Indonesia was that while Bank resources devoted to research and policy development in health and education seem to have increased, project lending remained negligible. In Vietnam, education accounted for only six per cent of Bank approvals in 2000-2004 and health and other social services for one per cent. In Indonesia, education declined from 13 per cent of new loan approvals in 1993-97 to five per cent in 2000-04. Health expenditure did increase from four to 14 per cent thanks to the series of Provincial Health projects.

Corruption

The PWC continues the Washington Consensus concern with corruption but supposedly on the basis of quite different assumptions — the Washington Consensus focus on corruption derives from the New Political Economy's cynical and almost malevolent view of states in the Third World,⁵³ whereas NIE understands corruption as the result of government *and* market failures. Equally, the focus on property rights and institutions is rejuvenated as these are essential to minimising transaction and information costs and thus to economic growth, they are a prerequisite to 'getting the prices right.'⁵⁴ The PWC approach promotes the incorporation of conventions and norms in institutions and suggests that transferring Western systems to the developing world is unlikely, on its own, to improve performance. But the case studies provided no examples of Bank concern about corruption caused by market failure. Further, the project to apply Western legal, political and financial solutions to developing countries appears to be fundamentally intact.

⁵³ Toye, *Dilemmas of Development*, p. 135.

⁵⁴ North, "The New Institutional Economics and Third World Development," pp. 23-25.

The Bank as a Project Manager

By 2003-05, adjustment lending had declined again to 30 per cent of new approvals. This means that investment lending was again the dominant mode of Bank activity. The PWC had limited impact on the project model for investment projects and their procurement requirements. Yet, it may well be that these two structures are those that most profoundly shape the outcomes of Bank projects and they seem to have received less critical attention in the past decade than previously.

Investment lending generally operates with a three to five year project cycle and given the Bank's need to disburse and this short-term lending cycle, its main focus is always on negotiating the next project. Bank staff prepare most projects and the Bank funds pre-appraisal work through trust funds and grants or existing bank loans. Even in this latter case, where recipient governments control funds, the Bank's view on the appropriate consultants and contractors for jobs tends to predominate. The Bank also prepares the appraisal of each project that is submitted to its Board.

A raft of Bank requirements directs the operation of a project once approved. Bank investment loans can only be utilised for work that is tendered out. Tendering methods and types are specified for every dollar of a project. Project accounting must be done to Bank standards, generally with separate accounts, software and Bank approved staff. Project manuals, yearly work programs, project staff, sector restructuring plans and a whole range of other items must be undertaken "to the satisfaction of the Bank." As even Mason and Asher note in their generally very moderate 1973 history of the Bank:

[i]nternational competitive bidding, reluctance to accord preference to local suppliers, emphasis on financing foreign exchange costs, insistence on a predominant use of foreign consultants, attitudes towards public sector industries, assertion of the right to approve project managers — all proclaim the Bank to be a Western capitalist institution.⁵⁵

⁵⁵ Mason and Asher, *World Bank since Bretton Woods*, p. 479.

Procurement procedures for non-consultancy work must be undertaken in line with one of the Bank's three standards: ICB, NCB and local shopping. According to Caufield, in 1995 the amount of Bank procurement specified for ICB was 56 per cent.⁵⁶ For 2004, for non-consultant contracts subject to prior review, over 74 per cent were subject to ICB.⁵⁷ The overall figure for Bank investment loans may be lower as contracts subject to prior review would tend to be larger value loans that are mostly subject to ICB. Nevertheless, this figure is surprisingly high as Indonesia and Vietnam showed some move towards an increased use of NCB procedures in the second case study period, particularly in regional and rural infrastructure projects. But even here, the suggestion of change was generally superficial. The procurement procedures simply reflected the reality that international firms were very unlikely to bid for these projects. Even local contractors were difficult to find as much of the work had previously been done by the state (e.g. road construction). So, loans were accompanied by training for the private sector in bidding for projects. The use of NCB may well indicate a new level of penetration in the Bank's project to create markets.

The only project that deviated from standard Bank procurement arrangements was KDP. Here communities were able to pay workers for day labour at below minimum wages as well as using competitive procurement for goods and civil works. However, under the presidency of Paul Wolfowitz community development activities were not favoured, and Robert Zoellick's reputation as a hard-line free trader does not bode well for their future in the Bank.

Use of Bank consultants also influences recipient governments. In 2004, there were 3,581 consultant contracts worth \$1.33 billion under Bank investment loans subject to prior review.⁵⁸ Add to this consultants under investment loans not subject to prior review, those hired from the Bank's operating budget and those hired from trust funds

⁵⁶ Caufield, *Masters of Illusion*, p. 242. Further, "[y]ear after year the Bank's most powerful members are awarded contracts roughly in proportion to their shareholdings in the Bank. The Bank's five top shareholders... receive half the money the Bank spends on foreign procurement." Ibid, p. 243.

⁵⁷ World Bank Group Website, Projects and Operations, available from: <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:20251613~pagePK:84269~piPK:84286~theSitePK:84266,00.html>, access date: May 2007. Consultant contracts are not included as they are subject to different procurement guidelines. The total value of procurement subject to prior review was \$8.3 billion.

⁵⁸ Ibid.

or the associated operating budgets and the Bank's budget for consultants is likely to be over \$2 billion. Of the \$1.3 billion in prior review consultant contracts, just over 44 per cent were awarded to organisations or individuals from OECD countries. But this figure is deceptive because it hides the number of contracts now won by local subsidiaries of Western companies (for example, local operations of Price Waterhouse Coopers and Ernst and Young came up in the Bank's list quite a few times).

Actually there have been few academic studies of the impact of consultants (foreign or otherwise) but one recent effort by Natasha Hamilton Hart is illuminating.⁵⁹ She argued that the common impact of the use of consultants derives from the "commercially mediated" nature of the relationship.⁶⁰ Consultants produce and reproduce international standards that are then used to measure the performance of governments. Further, and perhaps more importantly, "...consultant use configures government organisations in ways that ensure their structural openness."⁶¹ This openness has a physical dimension in the presence of consultants in government agencies and an ideological dimension in that this presence has been: "...strongly associated with government receptivity" to managerial 'reforms.' Using donor-funded consultants trains and "...configures government organisations as contract managers." And it demands increasing compliance with the financial transparency schemes of the PWC era. Hamilton-Hart concludes that donor funds for consultancies spreads, "...a particular model of government, one that is not generically western or modern but specifically American."⁶²

Conclusion

The case studies showed only a few indications that the Bank has moved beyond its traditional concern with economic growth within a market capitalist framework. Indeed, it was clear that the concern with social issues rested, to a large extent, on their impact on social stability as well as on, "...economic development or the functioning of markets."⁶³ The changes that did occur were influenced by the East Asian

⁵⁹ Natasha Hamilton-Hart, "Consultants in the Indonesian State: Modes of Influence and Institutional Implications," *New Political Economy*, Vol. 11, No. 2 (2006).

⁶⁰ Ibid, p. 260.

⁶¹ Ibid, p. 266.

⁶² Ibid.

⁶³ Wodsak, "World Bank Reform — a Critical Investigation," p. 98.

‘developmental state’ model, New Institutional Economics, NGOs and the (now reversed) American political climate. So, the *post*-Washington Consensus in a hyphenated form is appropriate as it indicates the fundamental link to the hegemonic principles of the Washington Consensus. It also gives a sense that the PWC is not a new and stable form of hegemony, rather, while it has confronted some of the tensions and instability of the Washington Consensus both theoretically and as a *modus operandi* for the Bank, it has created new ones.

A number of critical IPE scholars have come to a similar view about the PWC, though from different perspectives and using different terminology. The PWC has been seen as a project to reinvent liberalism,⁶⁴ embed liberalism⁶⁵ or to legitimate and thus secure it.⁶⁶ Porter, whose focus was on the way recent shifts aimed at “...embedding, legitimating and securing liberal reform,”⁶⁷ analysed the shift using the Polyanian notion of a double movement:

[t]he first movement, economic liberalization and integration, involves the breaking up or disembedding of traditional and local social regulation by market relations, enabling increased, unfettered penetration of market forces... This is followed by the second, embedding movement, where acting almost intuitively a range of what Polanyi called ‘enlightened reactionaries’ rally to mitigate the social disruptions of market-led liberalization.⁶⁸

Li’s study on the KDP draws on the Foucauldian idea of government as a means to “conduct conduct,” which is quite similar to Gramsci’s idea about the role of political society in governing through, and organising, consent.⁶⁹ My study finds the Gramscian notion of passive revolution most illuminating in describing the nature of the shift to the PWC. In these terms, the PWC has essentially been a project of *pax americana* to manage change in order to ensure its dominant position is maintained and the possibility of progressive change is contained. It has been a global project and its implementation required (amongst other things) a global organisation that can appear to have broader

⁶⁴ Berger and Beeson, "Lineages of Liberalism and Miracles of Modernisation."

⁶⁵ Weber, "A Political Analysis of the PRSP Initiative."

⁶⁶ Porter and Craig, "The Third Way and the Third World."

⁶⁷ Ibid, p. 390.

⁶⁸ Ibid.

⁶⁹ Li, "Government through Community: The World Bank in Indonesia," p. 2.

interests and that can at the same time adapt to local social forces. Up until the appointment of Paul Wolfowitz at least, the World Bank was very successful in its ideological campaign, selling its focus on poverty reduction and country specific and owned development strategies, but this detailed examination of its lending exposed some example where this was little more than rhetoric, whilst other components such as decentralisation or participation served the expansion of capitalism more than would appear from a surface examination.

The conclusions above focused on the World Bank and policy outcomes, yet it would be remiss (and indeed, inadequate in terms of the Gramscian framework) to conclude without making a few comments about how Vietnam and Indonesia have moderated the impact of Bank policies, that is to say without acknowledging the undoubted ongoing relevance and capacity of states themselves. And, while this thesis did not aim to provide a comprehensive analysis of the autonomy or capacity of the Vietnamese or Indonesian states, it has provided some insights into both the shape of their historic blocs and the way in which these blocs have interacted with the Bank.

In Vietnam, the state has been committed to receiving public support from the Bank, though for a period in the late 1990s this was less the case. Despite the disinclination to publicly disagree with the Bank, Vietnam's policy implementation displayed a strong degree of autonomy. In some instances, the GoV utilised Bank assistance to follow quite a different path than that suggested by the Bank. More often though it used the assistance develop its own policy-making capacity, to improve the centre's financial relationship with the provinces or to undertake reform in a way that re-asserted the influence of the party and state.⁷⁰ The Bank has been part of the changing ideological terrain in Vietnam regarding the role of states and markets but neither the level of change nor the influence of the World Bank or other donors should be exaggerated.

In Indonesia, the Bank had a strong degree of influence on policy-making during the Suharto regime yet at the same time it suffered from quite a degree of 'capture.' Indonesia seems to have convinced the Bank that it was a developing Asian 'tiger' and that the authoritarian Suharto provided the required structure and stability. Yet the

⁷⁰ On all these themes see, Painter, "The Politics of State Sector Reforms in Vietnam," pp. 272-8. Painter concluded that "the party-state centre has used aid to help with its own political containment strategy." Ibid, p. 279.

Asian Financial Crisis and the Bank's embarrassment regarding its support for the corrupt regime led the Bank to re-write its view of Indonesia's economic status and to attempt to utilise the political crisis to pursue dramatic economic and political 'reform.' At the same time, the Bank program was not simply imposed as President Habibie utilised support from the international financial institutions as part of his political strategy. The PWC inherited a limited engagement with politics and in the end the Bank's decentralisation push, in the context of Indonesia's "rigid state-corporatist" system, only resulted in a re-constitution of entrenched elites under a new system.⁷¹ When Habibie departed, Indonesia's relations with the Bank shifted again as subsequent administrations did not need its public support to the same extent. In this context, the Bank significantly cut the size of its lending program and focused on governance at both a central government and civil society level. Despite this reduction in influence, the post-Habibie governments do not appear to have had the same capacity as was visible in Vietnam to direct the Bank's activities.

I used a Gramscian framework to emphasise that the World Bank has been a major agent in organising consent in an international environment where it should not be forgotten that US military power dominates. Equally, the Gramscian approach stressed that capitalism has required over the past few decades structured markets that are still largely imposed, controlled and protected by the state. This thesis has demonstrated that the World Bank has effectively taken on the role of organising a passive revolution to reorder the state-economy relationship: it has been a significant element in creating an emerging global (neoliberal) 'state.'

⁷¹ Hadiz and Robison, "Neo-Liberal Reforms and Illiberal Consolidations: The Indonesian Paradox," p. 236-7.

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