Why the Banks Must Go

By Patricia Adams

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For more than ten years citizens groups from around the world have been trying to stop the World Bank and the other multilateral development banks (MDBs) from wreaking environmental havoc, financial ruin, and social harm across the Third World. Countless petitions have been collected, massive demonstrations held, endless hearings conducted, legislation in lending countries passed, proposals for disclosure of information and environmental assessments submitted, independent reviews conducted, and demands have been made to shift decision-making power to Third World citizens who must pay for MDB activities with their environments and their economies.

While this unprecedented pressure has led the MDBs to introduce some changes, they are superficial public relations efforts and have failed to make the MDBs instruments of good government and to stop harmful projects. This unsuccessful decade-long reform effort is now at a crossroads, with NGOs wondering whether to continue trying to reform the MDBs, and if so, how. Instead, perhaps we should return to first principles, recognize that it is the Third World and not the MDBs we're here to save, and work to replace the MDB system with alternative methods of promoting Third World development.

NGOs have succeeded in exhaustively testing the banks' responsibility to the citizens of their member countries, and confirmed repeatedly that the MDBs are above the law. Had we not relentlessly pursued every avenue, tested every roadblock, made every detour, we could not have concluded that reform efforts are futile.

The legal immunity of staff; the inviolable nature of MDB documents; the unenforceability of MDB guidelines; the bizarre voting structure of the Boards of Executive Directors (in which borrowers and lenders alike vote on loans, with some Executive Directors representing both); the multilateral nature of MDBs and the resultant demands of diplomacy; and the coinciding pork-barrel interests of member governments make democratization of the banks impossible.

Reform in Theory or For Real?

Reform is possible only in theory. For example, amending the World Bank's Articles of Agreement—the Bank's Constitution which establishes its immunity—requires three-fifths of the members representing 85 percent of the total voting power. But roughly four-fifths of the members are borrowers, giving them an iron grip on the Bank's affairs, and leaving the lending countries emasculated. Pleading with Third World countries—few of them democracies—to democratize, respect human rights, and open their affairs to scrutiny can be attempted, of course—that's just what we reformers have been attempting for 10 years now—but no one should be deluded any further into thinking that we are doing anything more than elaborate jaw-boning.

In response to criticisms, the World Bank did hire additional environmental staff, but they are powerless and sabotaged by entrenched interests and institutional structures. Its inaugural annual environmental report, a Kafkaesque public relations document, claimed that its notorious Polonoroeste project, which was responsible for massive Amazonian destruction, provided benefits in raising public consciousness about the need to protect rainforests. Its billion-dollar Global Environment Facility attempts to buy environmental respectability while the Bank spends $20 billion annually on environmentally destructive projects.

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The MDBs would like the world to believe that their environmental problems can be fixed by their ever-changing (but never binding) operational directives, by a World Development Report, or by "green funds." In fact, the MDBs' environmental woes flow from their legal structure, which entrenches the rights of remote bureaucracies to make unaccountable decisions.

Reeducating staffers to change the culture of the MDBs (as some NGOs advocate), or getting "good language" into new policies (which NGOs have succeeded in doing) has ultimately not stopped bad projects from going ahead. As the World Bank's U.S. Executive Director said in an unsuccessful appeal to other Executive Directors to change their culture and abandon the notorious Narmada dam: "[Failure to do so] will signal that no matter how egregious the situation, no matter how flawed the project, no

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World Bank U.S. Executive Director

matter how many policies have been violated, and no matter how clear the remedies prescribed, the Bank will go forward on its own terms." (Public pressure later did force the World Bank, while abdicating all responsibility, to abandon the nearly completed Narmada project; India is now completing the dam on its own.)

Quixotic campaigns aimed at the adoption of toothless policies and guidelines should end, and NGOs should begin to explain the single most remarkable discovery made in their MDB campaigns: that MDBs are governed by unaccountable and unamendable constitutions.

Let's Listen to the Third World

Instead, NGOs should start identifying, analyzing, and promoting the alternative mechanisms needed to finance accountable development. Our preoccupation with MDB reform, in fact, has blinded us to a plethora of viable financial instruments. One is the savings and investment systems currently employed for, and run by, the Third World's people.

While international commercial banks are lucky to recover half their Third World loans and state banks require frequent bailouts, Bangladesh's Grameen Bank (and those in other countries modeled after Grameen), with its pint-size loans to investments in everything from sewing machines to candy vendor carts, maintains an exemplary repayment record. Its projects—the tangible, self-selected investments that the Third World's poor choose for themselves—have an economic reach and impact unmatched by the billion-dollar megaprojects of the international financiers. In Africa, traditional savings and lending systems have thrived out of the limelight of ribbon-cutting ceremonies that glamorize the state vanity projects. Whether a system of rotating funds in which members—usually neighbors, fellow workers, or relatives—alternately act as saver and borrower; or insurance funds that protect members in case of death or sickness, loss of job, or arbitrary imprisonment; these time-tested financial systems have financed small businesses and facilitated international trade with repayment records worthy of a triple-A credit rating.

Along with the need for accountable financial mechanisms that respect the environmental rights or the customary property rights of those potentially harmed by any investment, the Third World's citizenry yearns for accountable, home-grown taxation systems and detests the financing that undermines Third World values. In Bangladesh a team of prominent activists and academics, including the Grameen Bank's founder, recently called for the country to wean itself off foreign aid, blaming aid for the "fast erosion of national self-respect." China's most famous dissident, astrophysicist Fang Lizhi, in asking the world's leaders to withdraw foreign capital from China, starting with a suspension of World Bank loans and credits, said: "We must make our government realize that it is economically dependent on its citizens."

Weaning away from foreign aid

Our failure to listen to these voices from the Third World and intelligently to articulate our failure to reform the MDBs would be a disservice to our supporters, to the public, and to the Third World citizens whose communities, economies, and environments are slated for destruction by MDB projects. Accountable alternatives to MDB financing should be pursued—seized upon where they exist, nurtured where they're nascent. The longer we delay this necessary task, the longer the Third World's populace will suffer.

GROWING THE ECONOMY

By Stephen Viederman

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As I peeled off the two layers of plastic from my *New York Times* on the morning of April 8, I was attracted by a story on the front page that offered some good news for New York City, not something you see everyday. The headline read: "Trade Center Blast Providing Economic Lift, Experts Find." (*Crain's*, on April 12, was even more explicit: "World Trade Center Repair Spurs Economy".) The article went on to report that, "(i)n the first attempt at a comprehensive analysis of the economic damage caused by the bombing of the World Trade Center, Port Authority economists and consultants have concluded that the explosion has actually provided a lift to the local economy." Aware of the apparent insensitivity of such an analysis, the "(o)fficials of the Port Authority of New York and New Jersey made no