World Bank's planned lending splurge: Do the numbers stack up?

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The first signs of a promised dramatic increase in World Bank lending are emerging, but critics continue to attack the Bank's lending practices, including its controversial use of conditionality.

In October last year, the Bank made a splash in the papers, promising to nearly triple its lending from the current $13.5 billion to $35 billion in 2009, with a total additional $100 billion earmarked over three years to middle income countries hit by the economic crisis (see *Update 63*). The Bank's private sector lending arm, the International Finance Corporation (IFC) has also been actively seeking to increase its spending (see *Update 64*).

This $100 billion would be raised by the International Bank for Reconstruction and Development (IBRD, the part of the Bank that lends to governments on commercial terms) borrowing money on the bond market. Shaken investors, seeking safe havens for their cash, are keen to buy safe IBRD bonds, meaning interest rates are at historically low levels and the Bank can borrow cheaper than ever.

There was a sharp upturn in IBRD borrowing at the end of the last calendar year, with close to $20 billion IBRD bonds issued in 2008, compared to just over $10 billion the previous year. The IBRD expects to raise $25-35 billion this financial year, which ends in June. The first sign of lending specifically tagged as responding directly to the financial crisis, has been $500 million over five years for Ukraine for 'structural reforms'.

In January, the Bank announced that it had raised $350 million, mostly from Scandinavian investors, through issuing 'green' bonds to raise money for "projects or programmes that support low-carbon activities in client countries." This is part of the Bank's climate change strategy, which envisages greatly increased Bank activity in this area in the coming years (see *Update 62*). Given the ongoing controversy over the Bank's approach and its significant carbon footprint, the projects these bonds support are likely to be watched carefully by NGOs.

Donors asked for more cash

In January, World Bank president, Robert Zoellick called for donors to donate 0.7 per cent of their stimulus packages to a 'vulnerability fund', to be managed by the Bank. Priorities for the proposed fund, to which no one has yet contributed, would be safety nets, infrastructure, microfinance and finance for small and medium enterprises.

World Bank chief economist Justin Lin upped the ante in mid-February by calling for the establishment of a $2 trillion Global Recovery Fund to help the low-income countries to cope with the current financial crisis. The proposed five-year fund at $400 billion dollars annually is equivalent to about one per cent of rich country GDP. Lin proposed that the fund help low-income countries participate in a coordinated global stimulus and invest in bottleneck areas. He suggested that, in addition to funding from rich countries, resource-rich and reserve-rich nations should also be asked to contribute.

The Bank has also indicated that it will front-load its IDA expenditure, presumably expecting to gain more money later either from donors or from IBRD profits. The first indication of this intention is a new $2 billion facility to expedite IDA funding, for the broadly set priorities of safety nets, infrastructure and health.

Bank lending still controversial

A big increase in Bank lending will stir up existing controversies, both over the kinds of projects the Bank supports, and the conditions attached to the loans the Bank gives directly to governments (see *Update 60*,58).

A recent report critical of Bank conditionality was released by the Dutch NGO A SEED, based on desk research from case studies in Mali, Malawi, Nicaragua, Zambia, Bangladesh and Mozambique. It concludes that "privatisation and liberalisation policies that are neither designed, nor desired by the affected communities or countries, are still pushed through by the World Bank". It continues: "on several occasions, the implementation of the World Bank promoted policies seems to be correlated with an increase in levels of poverty." A SEED ends by calling for the Dutch government to demand a phase out of economic policy conditionality; a position which would bring it in line with other European governments, including the UK and Norway.

University of London economics professor, Jane Harrigan, had harsh words for the Bank's role in the Arab world. Research undertaken for her book *Aid and Power in the Arab World*, co-authored with Hamed El-Said and published late last year, examined Egypt, Jordan, Morocco and Tunisia. "IMF and World Bank lending to the four has been governed as much by geo-political considerations as the need for economic reforms", she said. " Lending has often responded to such political factors as a regime's shift towards a pro-Western foreign policy, peace overtures to Israel or opposition to the rise of Islamic fundamentalism."

The Bank is currently planning a review of its development policy lending between 2006-2008. This will be a repeat of its controversial 2006 review, which was criticised for miscounting controversial conditions, and putting too much emphasis on the numbers of conditions rather than their impact (see *Update 58*). As part of this review, the Bank aims to consult stakeholders in April.

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