Hitotsubashi Journal of Law and Politics 18 (1990), pp. 15–63. © The Hitotsubashi Academy

THE WORLD BANK UNDER R. McNAMARA AND A. W. CLAUSEN (4)

—SECTORAL ALLOCATION IN THE WORLD BANK*—

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I. *The Bank Staff and the Incremental Lending Model*

As the largest multilateral aid agency in the world, the World Bank has taken a leading role in designing development strategies as well as providing resources for development. The changes in development strategies in the World Bank have led to changes in the policies of multilateral development banks and bilateral agencies.

The Bank undertook sophisticated socio-economic analyses of developing countries which formed the basis of the Bank's revised development policies. Therefore, the pattern of the Bank's sectoral lending policy is expected to respond to the socio-economic needs of developing countries. However, changes in the Bank's lending policies have not necessarily led to changes in the Bank's actual lending behavior, as there often exists a gap between decisions and implementation.

In this chapter, the characteristics of the Bank staff, which has decisive power over sectoral lending, will be investigated. An incremental lending model for the analysis of the Bank's actual sectoral lending will be presented. Then, the actual sectoral lending pattern will be analyzed empirically by applying the incremental model, and the extent of the gap between the changes in lending policies and the changes in the actual lending pattern will be examined. Also, various problems the Bank is faced with concerning sectoral lending will be discussed.

The Bank Staff in the Decision-Making Process

The Bank President, the Bank staff, and the Board of Executive Directors are the main players in Bank resource allocation among sectors. The Bank President basically has strong power in forming Bank lending policy. The President's ideas on lending policy may depend on the Bank staff's research and advice, but the President's thoughts strongly affect

* I wish to thank Mr. Ronald Siani for his editing for the English. Thanks are also due to Ms. Yoko Kamijo and Ms. Masako Ishibashi for their assistance. The articles titled "The World Bank under R. McNamara and A. W. Clausen (1) (2) (3)" were published in *Hitotsubashi Journal of Law and Politics*, vol. 17, 1989, and *Hitotsubashi Journal of Arts and Sciences*, vol. 30, 1989.

the orientation of the staff's research, and the President has the power to choose the policy options presented by the staff. The Board of Executive Directors officially has the responsibility for setting the Bank's lending policy, in response to the President's initiatives. The Executive Directors representing the member countries have the opportunity to discuss the Bank's lending policy at Board meetings, taking into consideration the interests of donor countries and the needs of borrowing countries, and they formally approve Bank lending policy. The Executive Directors from developed countries are also sensitive to the expectations of the privates, because one of the main objectives of Bank lending is to assist in foreign private investment to the developing countries. The Board of Executive Directors, in general, plays a passive role in making Bank lending policy due to the strong leadership of presidents of the Bank, although the Executive Directors sometimes determine the orientation of Bank lending policy.

Within the framework of the Bank lending policy, the Bank staff holds chief sway over the Bank's resource allocation. First, this is because the Bank staff has the power to decide how to interpret the Bank's lending policies approved by the Board of Executive Directors and how to apply these policies in practice. Second, the staff enjoys greater access to information and has more time to prepare and examine the lending plans than the Executive Directors. In fact, the Executive Directors are usually fixed-term appointees, so they do not have enough time to become familiar with complex Bank procedures. Moreover, taking into consideration the long period of time used in preparing project plans, the Executive Directors are reluctant to refuse loan proposals at the stage of Board negotiations. It usually takes two years from the time projects are identified to the presentation of loan proposals to the Board. Thirdly and more basically, the provision prohibiting political activity in the IBRD Articles of Agreement (IV-10) serves to intensify the interest of the Bank staff leadership in lending proposals and to add to the reluctance of the Executive Directors to examine the substance of project proposals thoroughly. The Executive Directors as well as the Bank staff are authorized to examine loan proposals from economic, financial, and technical viewpoints—not political. However, the Executive Directors have less information on these authorized aspects of loan proposals than the Bank staff. As a result, the Board of Executive Directors is reluctant to examine the substance of individual loan proposals.

The composition of the Bank staff, the preferences of Bank staff members as professional experts, and their behavior as general bureaucrats deserve examination because these characteristics affect the Bank staff'a behavior toward resource allocation among sectors.

1. The Composition of the Bank Staff

The Articles of Agreement of the IBRD state that "in appointing the officers and staff, the President shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible" (V-5-d). Efficiency, technical competence, and geographical balance are thus the major criteria in recruiting Bank personnel.

The Bank staff members from the U.S. and the United Kingdom contributed 70 percent of the total number of staff members in 1950, and even in 1965 these two countires provided more than half of the total number of Bank staff members. If we included staff members from other Part I countries, most of which are developed countries, then the staff members from Part I countries constituted more than 80 percent of the Bank staff until 1965.[1] The concentration of Bank staff members from the U.S., the U.K., and former major colonial powers was not accidental. First, the location of the headquarters of the World Bank contributed to the high share of U.S. nationals in the Bank staff. Second, staff recruitment in the 1950s and early 1960s was closely linked to the process of decolonization. The Bank provided an attractive job market for former colonial service officers. Third, the requirement of competence in the personnel recruitment policy excluded nationals from newly independent countries until the early 1960s, because their educational backgrounds and past experience were less attractive to the Bank.

Many of the Bank staff members were generalists rather than professional economists or financiers. These generalists could play a great role in the Bank because the close relationships between the World Bank and the borrowing countries highly influenced the Bank's lending behavior in the initial era of the 1950s and early 1960s.

As the Bank became more involved in assistance to developing countries, the Bank was faced with the need to increase the number of professional experts in development, however. In 1963 the Bank inaugurated a staff recruitment program, called the Young Professionals Program. A master's degree or Ph.D. in economics, finance, or other field relevant to Bank activity is required for application to the Program.[2] The number of Bank staff members recruited through the Young Professionals Program is estimated to have been about 800, 20 percent of the total professional staff in fiscal 1987.

In addition to improving the professional level of the Bank staff, the World Bank has made an effort to increase the proportion of nationals of under-represented member countries in the staff and also to increase the number of women in the Bank since the 1970s. This recruitment policy is aimed at, first, gaining various perspectives on development, and second, utilizing the knowledge of staff members from developing countries in preparing and implementing Bank projects. The Young Professionals Program contributed to increasing the number of staff members from developing countries. For example, 56 percent of the 27 Young Professionals recruited in fiscal year 1986 were from developing countries other than Africa, and 23 percent of them were from Africa. The Bank staff represented nationals of more than 113 nationalities in fiscal year 1986.

Bank staff members from developed countries still occupy the majority, however.[3] Moreover, these countries, particularly the U.S. and the U.K., have succeeded in keeping major management positions. All of the seven Bank Presidents have been American. Furthermore, it seems that many of the applicants for the Young Professionals Program have gotten their degrees from universities in the U.S. or other Western countries. This implies that they have common educational backgrounds in spite of their differences in nationality. Therefore, a background in Western economics, particularly neoclassical economics, seems to be shared widely among Bank staff members. The educational background common to many Young Professionals, in fact, helps maintain a club-like atmosphere

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[1] Aart van de Laar, *The World Bank and the Poor*, p. 94.

[2] The World Bank, *The Young Professionals Program*, (Washington, D.C.: The World Bank, 1977), p. 14.

[3] Recent data on the national composition of the Bank staff are unavailable. According to a Bank document, the U.S. and the United Kingdom still provided 39 percent of the total staff members, and seven major countries—the U.S., the U.K., India, France, West Germany, Canada, and the Netherlands—supplied 62 percent of the total staff members.

within the Bank. Thus, the Bank's perspectives on development are unlikely to be changed just because of the increase in the number of staff members from developing countries.

2. The Bank Staff Member as a Professional Expert

The number of professional experts in the Bank has increased significantly over the past two decades. For further investigation, the Bank staff member as a professional may be assumed to value punctual, technically tight work and to regard the accomplishment of such work as an aid in his/her promotion within the Bank.[4]

An implication is that the Bank staff member as a professional did not suffer from conflicts between his personal preferences and the Bank's lending policy when the World Bank was emphasizing lending to traditional infrastructure projects in the 1960s, as technically efficient projects could easily be found then. However, the Bank staff members' preferences did conflict with the Bank's policy when the Bank, under President Robert McNamara, began to shift its emphasis to lending for poverty-alleviation projects. This is because poverty-alleviation projects usually require modes of analysis less rigorous than those of the traditional economic framework.[5] Also, they consume more time for preparation and appraisal, as poverty-alleviation projects require the staff to consider not only the efficiency of the projects but also the effects on income redistribution and equity, environmental protection, and in some cases human rights. In other words, poverty-alleviation projects require the Bank staff to measure not only economic or financial factors but also social factors in preparing projects plans. However, it is difficult to measure social factors, and worse, social data are less reliable than economic data in developing countries. Therefore, those staff members who are more oriented toward professionalism are more likely to question the technical feasibility of poverty-alleviation projects and are more skeptical of the probability of success in achieving the objectives of such projects.[6]

Owing to the academic backgrounds of the Bank staff members in economics, finance, or technology, the Bank staff member as a professional assumes that economic, financial, or technical matters can be separated from political matters. In addition, the Bank's rule (Articles of the Agreement, IV-10) as interpreted to forbid the staff from engaging in political analysis of the borrowing countries prompts the Bank staff members to behave as technical experts. Therefore, the Bank staff member as a professional may be assumed to define his/her role as that of a technical expert in either economics or finance, thus ensuring that technical matters are separated from political factors.

As a matter of fact, the World Bank has been very sensitive to the politicization of Bank activities. Both the Bank's policy to emphasize project lending rather than program lending and the recuitment policy to increase the number of professional experts were efficacious devices aimed against politicization of the Bank. As a result, even Cheryl Payer, a critic of the Bank's behavior, could not help but state that "the World Bank is admired by some as more productive, less bureaucratic, certainly less corrupt, . . . and more ready

[4] William Ascher, "New Development Approaches and the Adaptability of International Agencies: the Case of the World Bank."

[5] Regarding the difficulties in measuring the rate of return in poverty-oriented projects, see The World Bank, *IDA in Retrospect*, p. 62.

[6] W. Ascher, *op. cit.*, p. 425.

to take a stand on principle, than is the case with most development agencies."[7]

The Bank staff has faced several difficulties in maintaining its emphasis on technical expertise in the lending process, however. As shown in the politicization of economic issues, such as trade or debt problems, it is getting more and more difficult to distinguish economic issues from political ones. The assumption of the Bank's Articles of Agreement separating economic matters from politics is now eroding.

Moreover, the following changes in the Bank's lending policy require the Bank staff to engage in political analysis of borrowing countries.

(1) The World Bank in the 1980s recognizes that both the administrative capacity to undertake a given project efficiently and the willingness to tolerate more poverty-alleviation project designs determine the probability of project success. Thus, the Bank stresses engagement in institutional development and technical assistance.

(2) The engagement in poverty-alleviation projects also demands that the Bank be involved in borrowing countries' domestic distributional issues.

(3) The World Bank started and expanded policy-based program loans, such as SALs and sector adjustment loans, which require governments to carry out a broad range of macro-economic policy reforms.

(4) It became difficult for the Bank to increase its resources rapidly in the 1980s. Therefore, the Bank has expanded the number of projects co-financed with commercial banks in order to supplement its resources. The expansion of such co-financing may lead the Bank staff's lending behavior to be affected by the preferences of commercial banks since commercial banks' political analyses of country risk would be introduced into the World Bank's creditworthiness assessment.

Accordingly, the Bank staff may have resisted McNamara's lending policy which stressed poverty-alleviation projects in the 1970s and Clausen's poicy which emphasized policy-based program lending in the 1980s.

Of course, there were many Bank professional staff members who supported the poverty-alleviation policy or the policy-based program lending policy. The economic situation in the early 1970s, including the proliferation of pollution and the increasing gap between rich and poor in developing countries aroused suspicion concerning the achievements of large-scale commercial agriculture and capital-intensive industrialization policies. Thus, the Bank staff turned its attention to the income-distribution problem, and Bank studies showed that performance and productivity of poverty-alleviation projects would be as high as those of traditional projects. In the 1980s, frustrated with the limited effects of poverty-alleviation projects and traditional projects, the Bank staff has shifted its emphasis from project loans, faced with increasing debt problems, to adjustment lending. There are many professional staff members who support the new lending policy, but even the supporters often notice problems inherent in the new lending policy, which conflict with their preferences as professional economists, financial analysts, or technocrats.

As a result, the Bank's lending pattern among sectors changes only gradually, in practice.

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[7] Cheryl Payer, *The World Bank: A Critical Analysis* (New York: Monthly Review Press, 1982), p. 18. Lyons et al. also concluded that the World Bank was one of the least politicized institutions among UN agencies. See G.M. Lyons, D.A. Baldwin, and D.W. McNemar, "The 'Politicization' Issue of the UN Specialized Agencies," in David A. Kay, *The Changing United Nations: Options for the United States* (New York: Praeger Publishers, 1977), pp. 81–92.

The time gap between the changes in Bank lending policy and the changes in the sectoral lending pattern would indicate the degree of resistance by the staff to the Bank's new lending policy.

3. The Bank Staff as a General Bureaucrat

A lot of developing countries joined the Bank after gaining their independence. The number of IBRD member countries increased from 68 in fiscal 1960 to 113 in fiscal 1970 and to 151 in fiscal 1988. In response to the resulting increase in demands for Bank loans, the Bank expanded its lending amount considerably. The IBRD loan amount was increased from $659 million in 1960 to $4.3 billion in 1975 and to $14.8 billion in 1988. The IDA credit amount was also expanded from $309 million in 1965 to $4.5 billion in 1988. Even if the effects of inflation are taken into account, the substantial expansion of the Bank lending amount can be seen clearly. Accordingly, the number of professional staff members was also increased from 283 in fiscal year 1960 to 1,883 in fiscal 1975 and 3,556 in fiscal year 1988 to deal with the enlargement of Bank resources. Thus, the Bank secretariat became a huge bureaucracy.

The rapid increase in Bank funds in the 1970s also affected the Bank staff's behavior. For example, the lending amount for the IBRD in fiscal year 1980 was five times greater than that in fiscal year 1970. During this decade, the number of professional staff members increased only two-fold. The increasing rate of IBRD loan amounts should be adjusted for inflation. However, this rapid expansion of IBRD borrowing apparently pressured the staff to use the funds. As a matter of fact, it is often said that the rapid increase in resources for loans has led to "pushing money" by rushing through inefficient projects, and by overfunding projects. Of course, it is very difficult to examine whether the quality of Bank projects declines as funds for lending increase. In fact, most Bank projects seem to have been undertaken smoothly, seeing that Bank loans were well disbursed (Table 1).

Even if the quality of Bank projects is not downgraded, the staff's own quality is likely to be judged by the speed with which a loan is prepared and disbursed. Therefore, the staff is strongly pressured to avoid any deviation from traditional ways or to take a more ambitious course of action, which may introduce additional uncertainty and result in de-

TABLE 1. LOAN AMOUNTS, DISBURSEMENTS, AND THE NUMBER OF PROFESSIONAL STAFF MEMBERS
(current US$ million)

	1960	1965	1970	1975	1980	1985	1988
IBRD							
Loan amounts	659	1,023	1,580	4,320	7,644	11,356	14,762
Disbursements	544	606	754	1,995	4,363	8,645	11,636
IDA							
Loan amounts	—	309	606	1,576	3,838	3,028	4,459
Disbursements	—	222	143	1,026	1,411	2,491	3,397
Number of Professional Staff Members	283	532	1,170	1,883	2,474	2,805	3,556
Number of IBRD Member Countries	68	102	113	125	135	148	151

Source: The World Bank, *Annual Reports*.

lays.[8]

In sum, the great increase in Bank lending and the rapid growth of funds during the years of President McNamara could be expected to strengthen the Bank staff's dependence on an incremental method of lending: The Bank staff employs incremental problem solving to simplify the complexities of resource allocation among sectors and to escape from the intervention of member governments in the Bank's lending process, thereby preventing the politicization of the World Bank. The Bank staff, responsible for making budget proposals, takes the existing sectoral lending amount as the base and marginally adds to it to create a new lending amount.[9]

In addition, the Bank staff has to demonstrate the commercial soundness if its management, to maintain the high creditworthiness of the IBRD, because IBRD loans are funded largely by borrowings from international capital markets. Furthermore, IDA funds are highly dependent on contributions from the rich member states (Part 1 countries). Therefore, the Bank staff has to demonstrate the success of IDA projects and the usefulness of the IDA funds in order to get financial support from these countries. These financial needs can be seen to lead the Bank staff to prefer feasible projects over experimental ones, because the former are likely to succeed, thereby favorably contributing to the Bank's reputation.[10]

The Incremental Lending Model

The characteristics of the Bank staff suggest several hypotheses on Bank sectoral lending. First, focusing on the characteristics of the Bank staff member as a general bureaucrat, it is expected that Bank sector lending is determined according to the Bank staff's standard operations procedure (SOPs): the Bank budget staff takes the existing allocation to individual sectors as a base and marginally adds to it to create new allocations of resources among sectors.[11]

Second, the Bank staff member as a professional prefers economically and financially tight projects, and the staff member as a general bureaucrat prefers feasible projects to experimental ones. These preferences would intensify the Bank staff's resistance to rapid increases in Bank lending for poverty-alleviation projects, which seem less feasible, as opposed to traditional projects.[12] It was difficult to decrease the lending amount to traditional sectors without strong opposition from the staff. The Bank President, who was eager to

[9] The Programming and Budgeting Department was responsible for making budget proposals within the Bank during the periods of Robert McNamara and A.W. Clausen. Regarding budget-making theories, see Aaron Wildavsky, *The Politics of the Budgetary Process* (Boston: Little Brown and Company, 1964).

[10] Bruno S. Frey argues that the characteristics of bureaucrats are more pronounced at international levels than at national levels, because "there is neither the opportunity nor the incentive to control" the bureaucrats in international organizations. Therefore, they have greater room for discretionary action. As a matter of fact, the Bank staff is free from serious investigation by the Board of Executive Directors as well as from public scrutiny. However, the bureaucrats in international organizations are financially constrained more than the bureaucrats on the national level. Bruno S. Frey, "The Public Choice View of International Political Economy," *International Oragnization*, vol. 38, no. 1, 1984, pp. 199–223.

[11] The Bank staff is unlikely to apply an incrementalism for the allocation of Bank resources among countries because the number of borrowing countries is too great.

[12] This hypothesized preference would also inevitably lead to an increase in lending to middle-income countries where the Bank staff can prepare many feasible projects with little difficulty.

expand his new lending policy, had to increase the absolute lending amount for both traditional sectors and poverty-alleviation sectors. In other words, the enlargement of poverty-alleviation projects was dependent on the increase in Bank lending resources. Therefore, Bank sector lending is expected to be affected by the Bank's financial situation. The effects of the Bank's financial situation on sectoral lending are likely to differ among sectors. And this variation may indicate the order of priority among sectors in Bank lending. It is measured by the following variables: IBRD reserves, the amount of IBRD borrowing, IBRD capital, and IDA reserves.

Third, the availability of external funds may have an effect on the Bank staff's lending behavior. The availability of external funds is measured by the following variables: the amount of bilateral ODA by DAC countries and the net flows of private capital from DAC countries to developing countries.

Let us assume that private capital from DAC countries tends to be concentrated in profitable sectors because of their commercial character. If the World Bank works as a last resort lender, then easy availability of external private capital to a sector negatively affects Bank lending to that sector. That is, the more external private funds are contributed to a sector, the less the Bank lends for projects in that sector.

On the other hand, the Bank does not provide the whole cost of a project. The borrowing government itself and the bilateral aid agencies of DAC countries also contribute a portion of the whole cost. If the bilateral aid agencies also work as last resort lenders, then the "bandwagon" effect between Bank lending and bilateral ODA by DAC countries is likely to be found.

The incremental lending model is basically presented as the following auto-regressive type equation:

$$\begin{aligned} Y_t = a &+ b_1 (1+\mathrm{DFL})\, Y_{t-1} \\ &+ b_2\, [\text{External Funding}] \\ &+ b_3\, [\text{Bank Finance}] \end{aligned} \tag{1}$$

where: Y=Bank lending amount for a sector
DFL=Deflator
External Funding=External funds provided by DAC countries
Bank Finance=Bank's financial situation

The coefficient (b_1) of the variable representing the previous year's lending amount (Y_{t-1}) is the increasing rate of the Bank's lending amount for a sector. It indicates the priority of a sector in Bank lending.[13]

Of course, Bank sectoral lending is thought to be determined according to the needs

[13] Most previous incremental budget making models assume that the budget staff's standard operations procedures (SOPs), represented by the incremental parameter, are stable and do not change over time, except in the case of a few studies. For example, Francis Hoole examined the change in incremental standards over time using Chow's test. However, in the studies of military expenditures, Lucier criticized the validity of this assumption, and presented incremental models which hypothesized the changes in budgetary SOPs over time. Francis W. Hoole, *Politics and Budgeting in the World Health Organization* (Bloomington: Indiana University Press, 1976), and Lucier, C.E., "Changes in the Values of Arms Race Parameter," *Journal of Conflict Resolution*, vol. 23, no. 1, 1979, pp. 17–39.

of the recipient developing countries. However, the needs of developing countries as a whole for individual sectoral projects is likely to change gradually rather than yearly. Changes in the demands for sectoral projects are assumed to be reflected in the changes in the Bank's development strategy. It is one purpose of this analysis to measure the amount of influence exerted by the Bank staff's incrementalism, the Bank's financial situation, and the availability of external funds over the Bank's sectoral lending.

This study will apply the incremental lending model described above in an analysis of Bank sectoral lending since the 1960s. The influences of the Bank staff's incrementalism the Bank's financial situation, and the availability of external funds may differ among sectors. The historical length of the Bank's commitment to a sector, the absolute lending amount for a sector, the characteristics of a sector such as whether it is a traditional or a poverty-alleviation sector, and the commercial profitability of a sector are expected to have affected the Bank staff's lending behavior toward a given sector.

First, the Bank staff is likely to develop its lending SOPs over long periods of time. Therefore, the incremental lending model is expected to explain Bank lending to traditional sectors well. The Bank's lending to education and water supply and sewerage sectors may also be expected to be explained well by this model because of their long histories. On the other hand, the Bank staff is unlikely to have developed SOPs for lending in the case of new sectors. The Bank's lending to poverty-alleviation sectors is unlikely to be determined by incrementalism.

Second, the incremental model is expected to explain the Bank's lending to large sectors such as electric power, transportation, and agriculture. This is because drastic changes in lending amounts in the case of these large sectors would cause a big change in the pattern of allocation among regional departments and countries and would introduce a conflict over the allocation of Bank resources among the Executive Directors. Incrementalism aids in avoiding this problem.

Third, the existence of independent sector departments intensifies incremental sector lending. However, there is no independent department to deal specially with telecommunications lending. Therefore, it is expected that the Bank's telecommunications lending will not be explained well by the incremental model.

Fourth, the Bank does not lend the entire amount of a project's cost. The recipient governments often cover part of the total project cost, and co-financers, either official or private lenders, also sometimes provide sources for project costs. Therefore, if a sector is attractive to external private lenders and if external private sources are easily accessible, then the flow of external funds from DAC countries to developing countries is expected to affect the Bank's lending to the sector. On the other hand, the Bank's financial situation is expected to influence strongly the Bank's lending to sectors where the Bank's contribution to the total project cost is high.

In sum, Bank lending to traditional infrastructure and production sectors except telecommunications is expected to be explained well by the incremental model. In addition, Bank lending to education and water supply and sewerage sectors is likely to be determined by incrementalism. However, Bank lending to the poverty-alleviation sectors except education and water supply and sewerage sectors, will not be explained well by the incremental model. Instead, the Bank's financial situation seems to have a strong effect on Bank lending to poverty-alleviation sectors because of their unattractiveness to sources of external funds.

Finally, this incremental model will not be applied to the analysis of the Bank's energy lending or to its lending for structural and sector adjustment because of the short history. The Bank staff is, in practice, expected to be establishing their lending SOPs for these new types of lending under pressure from many actors.

II. *Sectoral Lending Patterns and Deternmiants*

The objectives of this section are first to investigate the patterns of Bank sectoral lending individually, and their changes over time, focusing on the infrastructure and production sectors and poverty-alleviation sectors (Table 2) and second to find the determinants of Bank sectoral lending by applying the incremental lending model. The substance of sectoral projects, the degree of financial dependence on the Bank, and the co-financing pattern showing the availability of external funds will be examined to interpret the sectoral lending patterns and determinants (Table 3). Third, the general patterns and the determinants of Bank sectoral lending will be examined comparatively.

Infrastructure and Production Sectors

The infrastructure and production sectors are classified into the three groups shown in Table 2 according to their purposes. First are traditional infrastructure sectors such as power, transportation, and telecommunications; second are production sectors like industry, development finance corporations (DFCs) and agriculture; and third is the new infrastructure sector, energy.

The World Bank until the 1970s stressed lending for infrastructure and production sectors. However, this approach resulted in widening the gap between rich and poor in developing countries. There was considerable need for revision of the development theory emphasizing infrastructure investments and large-scale industrialization. Thus, the Bank under Robert McNamara began to emphasize lending for poverty-alleviation over infrastructure.

As expected from the changes in the Bank's lending policy, the portion of the lending amount provided for traditional infrastructure sectors was steadily decreased, from 55 percent in 1966–70 to 30 percent in 1981–85 (Table 2). However, as the Bank began lending for oil and gas projects in 1977, committing 6.7 percent of its resources to the energy sector in 1981–85, the lending amount to the traditional infrastructure sectors and the energy sector together became 36 percent in 1981–85.

The percentage of the total Bank lending amount allocated for the industry sector and the DFCs sector was 18 percent in 1966–70, and that decreased to 13 percent in 1981–85. This decrease was apparently a result of changes in the Bank's lending policy.

On the other hand, the amount of Bank lending to the agriculture and rural development sector tended to increase on the whole. The share of the total lending amount allocated for this sector was 16 percent in 1966–70, and this was increased to 24 percent in 1971–75 and 30 percent in 1976–80. However, it was decreased to 26 percent in 1981–85 and 23

TABLE 2. BANK LENDING BY SECTORS
(US$ million at current prices)

	1966–70	1971–75	1976–80	1981–85	1986–88
A. Project Loans					
1. Infrastructure and Production Sectors					
a. Traditional	4,044	7,650	14,614	20,530	14,466
Infrastructure	(54.8%)	(40.1%)	(33.5%)	(29.5%)	(27.2%)
b. Industrial	1,333	3,344	6,771	8,708	8,924
Production	(18.1%)	(17.5%)	(15.5%)	(12.5%)	(16.8%)
c. Agriculture and Rural	1,192	4,607	13,185	17,753	12,202
Development	(16.2%)	(24.2%)	(30.2%)	(25.5%)	(22.9%)
Agriculture*	(12.6%)	(14.3%)	(14.8%)	(13.1%)	—
Rural Development*	(3.8%)	(10.0%)	(15.5%)	(12.4%)	—
d. New Infrastructure	—	—	719	4,672	1,307
(energy)			(1.6%)	(6.7%)	(2.5%)
2. Poverty-alleviation	387	2,155	6,470	11,834	10,533
(excluding rural development)	(5.2%)	(11.3%)	(14.8%)	(17.0%)	(19.8%)
B. Program Loans					
3. Non-project	125	1,165	1,530	5,695	5,445
(excluding sector adjustment)	(1.7%)	(6.1%)	(3.5%)	(8.2%)	(10.2%)
Others	296	142	313	503	338
	(4.0%)	(0.7%)	(0.7%)	(0.7%)	(0.6%)
TOTAL	7,377	19,063	43,602	69,695	53,213
	(100%)	(100%)	(100%)	(100%)	(100%)

* Data from The World Bank Operations Evaluation Department, *Rural Development: World Bank Experience, 1965–86.*
Source: The World Bank, *Annual Reports.*

percent in 1986–88. This trend is basically caused by a change in Bank lending for rural development projects. Because of McNamara's policy of emphasizing Bank lending for poverty-alleviation projects, the Bank lending for rural development was rapidly increased from four percent in 1966–70 to 16 percent in 1976–80. However, the Bank has increased the absolute amount of its lending for traditional agricultural projects as well. Therefore, the percentage of Bank lending for traditional agricultural projects has always been between 12 and 15 percent during all periods since 1966–70.

In sum, the Bank actually did change its lending pattern by shifting its former emphasis on the infrastructure and production sectors to poverty-alleviation projects, in response to changes in its lending policy since the 1970s. However, the Bank's commitment to the infrastructure and production sectors remained strong even in the 1980s. The Bank still committed more than half (55 percent) of its total lending to the traditional infrastructure and production sectors, including traditional agriculture, in 1981–85. If lending to the energy sector is included, then the total amount allocated to the infrastructure and production sectors made up 62 percent of the total Bank lending amount in 1981–85.[14]

[14] Bank lending for energy projects dropped to 2.5 percent in 1986–88, but lending for industrial production increased to 16.8 percent because of the Bank's policy of stressing industry sector adjustment lending. Thus, infrastructure and production sectors continued to be major fields for Bank lending.

TABLE 3. WORLD BANK CO-FINANCING, 1974–83

	No. of Projects Co-financed and Amounts from All Sources	Ratio of No. of Projects Co-financed to Total No. of Bank Projects	Sources of Co-financing (% of total amount)			World Bank Contributions to Total Costs of Co-financed Projects
	No.	%	Official	Export	Private	%
Power	113	62.8	41.4	39.0	19.6	20.8
Tourism	5	15.2	46.3	11.6	42.2	13.4
Transportation	139	43.8	49.9	32.6	17.5	19.8
Telecommnnications	26	59.0	39.2	49.3	11.5	28.1
Industry	73	59.3	36.2	43.4	20.4	15.6
Development Financial Corporations	30	14.9	15.4	13.7	70.9	30.7
Agriculture and Rural Development	262	35.7	72.4	2.2	25.4	33.2
Energy	30	44.8	13.6	49.3	37.1	28.9
Education	47	27.0	99.9	0.1	0	48.9
Population, Health and Nutrition	12	41.4	100	0	0	40.2
Urban Development	10	12.0	36.0	2.1	61.8	40.8
Water Supply	39	28.7	97.8	1.9	0.2	30.0
Program Lending	10	14.9	100	0	0	75.0
Technical Assistance	10	17.2	100	0	0	57.6
Total	806	35.4	44.9	32.6	22.5	23.2

Source: The World Bank, *Co-financing (1983)*, Table 4, pp. 24–25 and *Annual Reports*.

In addition, the incremental amount of traditional infrasturcture lending in absolute terms was almost the same as that for poverty-alleviation projects. The World Bank increased its lending amount to the traditional infrastructure sectors from $14.6 billion in 1976–80 to $20.5 billion in 1981–1985, while increasing its commitments to the poverty-alleviation sectors, including rural development lending, from $13.2 billion in 1976–80 to $20.5 billion in 1981–85.

The reasons for the increases in the absolute amounts of infrastructure and production lending and what made those increases possible will be examined after investigating the patterns and determinants of individual sectoral lending in more detail.

1. Electric Power

Power has traditionally been one of the largest lending sectors for the Bank. The IBRD provided 30 percent of its total lending amount for electric power projects in 1966–70, the largest figure among all sectors for that period (Table 4). Although the IBRD tended to decrease lending to power thereafter, it still allocated 17 percent of its total lending amount in 1986–88. This figure was the second largest among all sectors at that time. Power projects should be regarded as the largest single-purposed set of projects financed by the IBRD, differing from other large lending sectors like the transportation sector and the agriculture and rural development sector, which include many different kinds of projects.

The IDA did not begin to contribute a large share of its resources to this sector until 1971–75. It committed five or six percent of its resources for power projects in the 1965–70 and 1971–75 periods. However, the IDA rapidly increased this commitment to 16 percent

TABLE 4. IBRD/IDA LENDING BY TRADITIONAL SECTORS
(percent of the total)

		1966–70	1971–75	1976–80	1981–85	1986–88
1. Traditional Infrastructure						
Power	IBRD	29.9	16.8	15.4	16.2	17.1
	IDA	4.6	6.4	16.2	9.0	5.6
Transportation	IBRD	28.7	23.0	17.6	14.3	10.7
	IDA	22.3	17.2	10.8	10.4	12.4
Telecommunications	IBRD	3.8	3.8	1.7	1.1	1.7
	IDA	3.5	5.9	1.1	3.1	0.5
Tourism	IBRD	0.0	0.8	0.8	0.0	0.0
	IDA	0.0	0.5	0.5	0.0	0.0
2. Production						
Industry	IBRD	15.9	10.0	8.1	5.9	7.7
	IDA	25.3	5.9	2.5	3.6	2.1
Development Finance	IBRD	0	11.3	11.5	8.3	11.9
Corporation	IDA	0.0	2.6	2.4	3.3	4.0
Agriculture and Rural	IBRD	14.0	20.0	25.6	21.3	20.5
Development	IDA	23.0	34.3	42.4	39.3	32.1
Traditional Agriculture* (IBRD+IDA)		12.6	14.3	14.8	13.1	—
3. New Infrastructure						
Energy	IBRD	—	—	1.9	7.9	6.5
	IDA	—	—	1.3	2.9	1.5

* Data from The World Bank Operations Evaluation Department, *Rural Development: World Bank Experience, 1965–86.*
Source: The World Bank, *Annual Reports.*

in 1976–80, declining to 9 percent in 1981–85. IDA credits are much more concessional than IBRD loans. Therefore, this change implies that the Bank began to stress power lending to low-income countries in the latter half of the 1970s.

The reason for the large lending amounts for electric power basically lies in the increasing demand. Electricity is an indispensable part of virtually all economic activities as well as personal life. Even if it is difficult to predict the demand for electric power projects being influenced by oil prices and consequent economic depression, this demand is increasing as developing countries industrialize.

Because electric power projects serve the public good, the governments of developing countries often establish state-controlled power companies or they nationalize existing private ones.[15] Therefore, private investors are less interested in investing in power projects in developing countries. As a result, only 20 percent of the total co-financed amount was provided by the privates (see Table 3). However, electric power is the most attractive major sector to cofinancers, particularly official agencies. 63 percent of the number of Bank power projects were co-financed during 1974–83. The Bank can easily get external funds for electric power projects.

[15] The Bank insisted on the autonomy of a power agency to prevent political intervention in the activities of the power agency. Hugh Collier, *Developing Electric Power: Thirty Years of World Bank Experience* (Baltimore: The Johns Hopkins University Press, 1984), pp. 70–73.

The Bank's (IBRD's and IDA's) total lending to the power sector shows a general incremental trend, with the exception of the amounts for 1974 and 1980, which increased 2.4 and 1.8-fold respectively over the preceding years. The high increases in Bank power lending in those two years, both in absolute terms as well as in percentage, were probably caused by the rapid increases in oil prices in the world market. In fact, the price of Saudi Arabian crude oil increased 3.5-fold between 1973 and 1974 and 1.9-fold between 1979 and 1980.

On the other hand, the percentage of power lending to the total Bank lending amount tended to decrease in general with the exceptions of the 1974 and 1980 amounts because of the change in Bank lending policy in the 1970s.

The time series data on Bank power lending amounts can be explained well with the incremental model. Equation (2) indicates that the Bank's power lending amount in a given year is basically set to the amount from two years previous plus approximately one-third of the amount from the immediately preceding year (Table 5). Bank power lending is basically determined by this incremental rule.

The rapid increases in oil prices in 1974 and 1980 caused greater demand in developing countries for Bank electric power loans. For example, the increases in price resulted in higher costs for both initiating electric power projects and for maintaining existing electric power facilities. In addition, most of the cost for electric power projects has been provided by governmental budgets or bilateral aid agencies in DAC countries. However, funds from both were severely limited because of economic depression caused by the oil shocks in those two years. Thus, the demand for Bank loans increased, and the Bank expanded its electric power lending in response to those demands in 1974 and 1980.

U.S. consumer price index, as a deflator, was used to measure the inflation rate of U.S. dollars in the multiple-regression analyses. However, it did not produce a statistically significant result. This is partly because the Bank staff has had to take into consideration changes in foreign exchange rates when making loans since 1973 when developed countries adopted the floating system. They have also been forced to take the inflation rates in areas other than the U.S. into consideration when disbursing loans because of the increase in local procurement.

2. Transportation

The transportation sector is composed of a variety of sub-sectors, such as railways, roads, seaports, and air transport. Adequate transport is indispensable for economic growth and social development. The Bank has emphasized transportation lending, and transportation has been one of the largest lending sectors for both the IBRD and the IDA. The IBRD allocated 29 percent of its total lending amount to the transportation sector in 1966–70, and it still provided 11 percent of its total lending to this sector in 1986–88, although the share of transportation lending generally declined. The IDA also allocated 22 percent of its total lending amount to this sector in 1966–70 and still committed 12 percent of its total lending amount even in 1986–88.

The changes in the amounts of Bank transportation lending have showed an incremental trend as a whole. The steady expansion of transportation lending in absolute terms has basically been caused by growth in the demand for transport services. Baum and Tolbert, Bank management members, argue that demand for transport tends to grow faster

TABLE 5. RESULTS OF TIME-SERIES ANALYSIS

Equation No.	Sector	Independent variables	Dependent variables			Adjusted R^2	SER	Period
2	Power	$Y_t=$	$0.335\ Y_{t-1}$	$+\ 0.821\ Y_{t-2}$	$+\ 615.5$ Oil Dummy			
			(0.123)*	(0.141)	(187.4)	0.899	256.6	66–85
3	Transportation	$Y_t=$	$0.352\ Y_{t-1}$	$+\ 27.115\ \text{PRIVATE}_{t-1}$				
			(0.101)	(4.018)		0.890	214.3	66–86
4	Production Sectors (Industry, DFCs, and Small-industry)	$Y_t=$	$0.701\ Y_{t-1}$	$+\ 14.042\ \text{PRIVATE}_t$				
			(0.107)	(4.367)		0.914	230.9	66–85
5	DFCs	$Y_t=$	0.0257 IDA Reserves_{t-2}		$+\ 11.762\ \text{PRIVATE}_t$			
			(0.000412)		(1.604)	0.934	86.473	71–84
6	Agriculture and Rural Development	$Y_t=$	$0.442\ Y_{t-1}$	$+\ 0.508\ Y_{t-2}$	$+\ 0.195$ DIDA Reserves_t			
			(0.174)	(0.180)	(0.051)	0.942	369.2	66–86
7	Traditional Agriculture	$Y_t=$	$0.521\ Y_{t-1}$	$+\ 0.416\ Y_{t-2}$	$+\ 0.101$ DIDA Reserves_t			
			(0.192)	(0.229)	(0.052)	0.793	362.7	67–86
8	Rural Development	$Y_t=$	$0.605\ Y_{t-1}$	$+\ 0.036$IDA Reserves_{t-3}				
			(0.178)	(0.014)		0.835	324.5	67–86
9	Education	$Y_t=$	$0.581\ Y_{t-1}$	$+\ 5.041\ \text{PRIVATE}_{t-1}$	$-\ 150.014$ DUMMY73			
			(0.170)	(1.472)	(48.963)	0.905	46.399	66–80
10	Education	$Y_t=$	0.0265 IDA Reserves_{t-1}					
			(0.0001023)			0.922	77.216	66–86
11	Urban Development	$Y_t=$	-157.8	$+\ 0.641\ Y_{t-1}$	$+\ 7.599\text{PRIVATE}_t$			
			(70.030)	(0.109)	(2.063)	0.859	70.367	72–85
12	Water Supply and Sewerage	$Y_t=$	0.0835 IBRD Borrowings_{t-1}		$+\ 715.3$ Dummy79			
			(0.000464)		(96.34)	0.904	94.848	66–85

* Standard error of coefficient.
SER = standard error of the regression.
Y = Bank's (IBRD's and IDA's) lending amount for a sector.
OIL DUMMY = 1 for 1974 and 1980 and 0 for other years.
PRIVATE = The flow of private investment from DAC countries to developing countries.
IDA Reserves = The amount of IDA reserves.
DIDA Reserves = The change in the amount of IDA reserves measured by the proportion of the amount of IDA reserves at t-year against that amount at t-1 year.
DUMMY73 = 1 for 1973 and 0 for other years.
IBRD Borrowings = The amount of IBRD borrowings.
DUMMY79 = 1 for 1979 and 0 for other years.

than a country's GNP. They compared the rate of increase in the number of passengers per year to the growth rate of a country's GNP in the mid-1970s, particularly in middle-income countries.[16] They argued that the demand for transport services in developing countries is increasing in the 1980s. Although the Bank shifted its major concern to poverty-alleviation in the 1970s, this does not imply that the Bank ignores the increasing demand for transport projects. In fact, developing countries provided a large share, 15 to 25 percent, of total annual investment for transportation projects.

There are several deviations from the general incremental trend of transportation lending. Bank transportation lending increased drastically to $1,904 million in 1979, from $1,093 million in 1978. On the other hand, it decreased from $1,445 million in 1980 to $1,063 million in 1981 and from $2,139 million in 1985 to $1,498 million in 1986. These fluctuations are thought to have been a result of the process of preparation of project plans. Therefore, these fluctuations can be seen as a disturbance rather than a change in the general trend.

The change in Bank lending policy did strongly affect Bank .transportation lending, however. First, the proportion of transportation lending to the Bank's total lending amount generally shows a declining trend. It was close to 40 percent in 1964 but has rapidly declined since then, fluctuating between 25 and 30 percent in 1968–1972 and further decreasing to less than ten percent in 1986 and 1987.

Transportation lending is summarized as follows: First, the percentage of transportation lending is decreasing in fact because of the change in Bank lending policy in the 1970s and 1980s which gives greater emphasis to poverty-alleviation or adjustment than infrastructure projects. However, transportation lending in absolute terms is still steadily increasing, although it was seen to fluctuate during several years. As a result, transportation is still one of the largest lending sectors in the 1970s and 1980s.

Second, the changes in Bank lending policy caused a shift in the nature of transportation projects as well. The Bank's strategy has moved from large but necessary capital-intensive programs, such as airports or highways, to smaller programs whose benefits can be directed more easily to target groups like the rural poor in the 1970s.[17] For example, the Bank stressed road maintenance and used more labour-intensive construction methods. Transportation projects are coming to resemble poverty-alleviation projects. Moreover, as the Bank has come to stress the institutional aspects of projects in the 1980s, it has insisted on the competitive management of transport activities.

Bank transportation lending is one the most attractive sectors for co-financers. 44 percent of the number of transportation loans issued by the Bank in 1974–83 were co-financed, and 50 percent of them were provided by official agencies. Developing countries have easy access to external funding sources for transportation projects, and accordingly the dependence upon Bank funds is low. The percentage of the Bank's contribution to the total cost of co-financing in 1974–83 was 20 percent.

Bank transportation lending is well explained by the incremental model (Equation (3)). Lending in a given year is strongly influenced by the previous year's lending amount and by the flow of private investment from DAC countries to developing countries. The

[16] Baum and Tolbert, *Investing in Development*, p. 243.
[17] The World Bank, *IDA in Retrospect*, pp. 46–47.

greater the flow of private investment, the more the Bank lends to transportation projects.

Most of the transportation sectors are usually managed by state or state-controlled agencies. Therefore, private lenders do not take very strong interest in transportation projects. As a result, only 18 percent of the total co-financed amount for transportation sectors was provided by private lenders. Even so, the cost of transportation projects is quite high, and the procurement for transportation projects is very attractive to the private investor. The Bank can also further promote foreign investment through Bank-financed projects when the investment conditions for the privates are better, if the increase in the amount of foreign private investment can be taken to mean that the investment environment is good. Therefore, the Bank takes into consideration the situation involving the flow of foreign private investment in determining transportation lending.

3. Telecommunications

Telecommunications projects are projects of public concern, as is the case with other infrastructure sectors like power and transportation. Telecommunications agencies in many developing countries are managed by state or state-controlled agencies. Therefore, private lenders are not very interested in co-financing telecommunications projects, and so the percentage of co-financing by the privates has been small (12 percent of the total co-financed amount).

However, telecommunications projects can recover their costs to build equipment and maintain telephone service more easily than power or transportation projects, because it is easier to find people receiving benefits from the projects and charge them. Many telecommunications projects are commercially profitable so that the governments of developing countries can use their resources efficiently with respect to telecommunications projects, which decreasing the dependence of developing countries on Bank funds. In fact, the number of Bank loans provided for that sector has been quite low. The Bank issued only 44 loans to the telecommunications sector during 1974–83, which contrasts considerably with the large number of power loans (180) and transportation loans (317). The Bank's role in telecommunications lending has generally been to provide borrowers with technical advice and financial planning.

The amount of Bank telecommunications lending has not changed dramatically since fiscal year 1970, generally fluctuating around a fixed amount, except for the drastic increases in fiscal years 1981, 1982, and 1987. The increase in the number of Bank telecommunications loans directly explains the expansion of the amount of lending to that sector in fiscal year 1981. The Bank issued nine loans for telecommunications projects in fiscal year 1981, while between 1974 and 1983 the average number of Bank telecommunications loans was 4.4. In fiscal years 1982 and 1987, the Bank issued two large-scale telecommunications loans to India, amounting to more than $300 million. The result was a high increase in the amount of Bank lending to the telecommunications sector in those years. These fluctuations in the lending amount are basically the result of the small amounts and numbers in absolute terms.

Although the amounts of Bank telecommunications loans did not change dramatically with a few exceptions, the proportion of telecommunication lending to the Bank's total lending amount shows a general declining trend. However, the Bank provided 7.9 and 7.3 percent of its total lending amounts for telecommunications projects in fiscal years 1971 and 1973 respectively. These figures are double the figures for their respective previous years.

In sum, high commercial profitability of telecommunications lending decreases the role of Bank in this sector, which has resulted in the small lending amount for telecommunications projects. The shift in lending policy from infrastructure to poverty-alleviation has caused the decline of the percentage of telecommunications projects to the total number of Bank projects. As a result, the absolute lending amount has not increased so much in spite of the rapid growth of Bank resources.

As these characteristics of the telecommunications lending pattern suggest, the incremental model could not adequately explain the time-series changes in the Bank's telecommunications lending. Furthermore, the non-existence of an independent department to deal specifically with telecommunications lending worked to prevent the development of lending SOPs for telecommunications.

4. Industry

In the past, the industry sector was looked upon as a source of employment and income and consequently had become one of the largest lending sectors for the Bank by the 1970s. The IBRD allocated 16 percent of its total lending amount to the industry sector in 1966–70, and the IDA provided 25 percent of its total lending amount for this sector in the same period. However, industrial-led growth strategies have only been successful in a few countries—those which possessed either a large resource base or a highly skilled work force. Also, large scale industrial lending was risky, as the success of projects depended on domestic efficiency and international competitiveness. In addition, even successful ventures did not usually generate sufficient employment opportunities. Therefore, the Bank shifted its stress from assisting large-scale industrial projects to helping the growth of development finance corporations (DFCs). It also began to separate programs supporting small- and medium-scale industries. As a result, the Bank established three industrial production sectors: industry, DFCs, and small enterprises.

Time-series data for industry lending shows an increasing trend in absolute terms, while the percentage of industry lending to total Bank lending has steadily declined in response to the change in Bank lending policy. The great decreases in fiscal years 1971 and 1973 clearly stand out. In fiscal year 1971, the Bank approved only one IBRD loans for an industry project, which resulted in the sharp decrease in the total amount lending to the industry sector to $32 million from $293 million in fiscal year 1970. The Bank issued only four small IDA credits and no IBRD loans in fiscal year 1973, thereby decreasing the lending amount for industry projects to $67 million from $372 million in fiscal year 1972.

The large decrease in Bank industry lending in fiscal year 1971 can be accounted for by the fact that that was the year the Bank began lending for DFCs. The IBRD provided $253 million to the DFCs sector in fiscal year 1971. If the amounts of Bank lending for the industry sector for the DFCs sector in fiscal year 1971 are calculated together, then the total is only a little bit less than the figure for the previous year for the industrial production sectors. This suggests that the amount of Bank industry lending may be determined within the framework of all of the industrial production sectors. The Bank's lending to industry has shown large and seemingly random changes in almost every year since 1974. However, if the lending amounts to the industry sector, the DFCs sector, and the small enterprises sector are combined together, then the figures show an incremental trend as a whole.

On the other hand, the Bank approved nine industry sector loans, which made up 60 percent of total industry lending in fiscal year 1988. As a result, the share of industry lending increased to 12 percent in fiscal year 1988 while the average figure was four percent between 1983–1987.

As expected from the time-series trend for Bank industry lending, the incremental model cannot present a statistically significant result. However, when the combined total lending amount for the three industry-related sectors—industry, DFCs, small-industry—is used as a dependent variable, then the incremental model can explain the time-series change very well (Equation (4)). This implies, first, that the Bank determines its industry lending by making reference to DFCs lending and lending for the small-industry sector. In fact, the Bank shifted its emphasis from lending for large-scale industry projects to assistance to DFCs and small scale enterprises. As shown in the time-series data, the great changes in industry lending are closely related to the changes in DFCs lending. In addition the fact that the Industry Department dealt with all of these three sectors intensified this lending behavior.

Second, the amount of private investment from DAC countries to developing countries also affects Bank lending for industry-related sectors. The co-financing pattern shows that DFCs projects are very attractive to the privates and that their procurements are also beneficial. Therefore, the Bank takes the flow of foreign private investments into consideration when determining lending for industry-related sectors. If the flow of foreign private investment is an indicator of investment conditions, then the positive coefficient of this variable can be used to show that the better the investment conditions for private investors, the more the Bank allocates for industry-related projects. This is because under good investment conditions, borrowing countries can find external private sources easily and the Bank can stimulate further private investment through Bank-financed projects.

5. Development Finance Corporations (DFCs)

The World Bank began regular financing of development finance corporations for assisting medium-scale productive enterprises in developing countries in fiscal year 1969. The DFCs, for example development banks, relend money lent by the Bank to domestic business entities at market-related interest rates.

The Bank had financed DFCs even before fiscal year 1969, but only privately-controlled DFCs were eligible for Bank loans at that time. However, most of these institutions were cooperative ventures between private shareholders and governments. Therefore, the Bank widened its options by agreeing to finance government-controlled DFCs in fiscal year 1969. Since then, about half of all Bank financing to DFCs has gone to government-controlled ones. The Bank began to account lending to DFCs as an independent sector rather than as part of the industry sector in fiscal year 1971.

Bank lending to the DFCs sector has shown an incremental trend since fiscal year 1971, which has resulted in the DFCs sector being one of the largest sectors in the Bank. IBRD loans are the main source for DFCs lending; the Bank allocated 11 or 12 percent of its total IBRD loan amount to the DFCs sector since fiscal years 1971–75, except for 8 percent in fiscal years 1981–85. In contrast to the IBRD's active commitment to the DFCs sector, the IDA has been reluctant to provide resources for assistance to DFCs. The Bank has allocated less than four percent of its total IDA credit amount to the DFCs sector in all periods since 1971–75. This suggests that the growth of Bank lending to DFCs mainly benefited middle-income countries which were eligible for IBRD loans.

DFCs lending was decreased greatly in 1979 and in 1985, and the proportions of the DFCs lending amount to the Bank's total lending amount were also decreased dramatically those two years. The sharp decrease in Bank lending to the DFCs sector in fiscal year 1979 can be explained by the great increase in lending to the industry sector that year. That is, the Bank provided $843 million for industry projects in fiscal year 1979, which was more than twice the lending amount for industry in the previous year. To repeat, the Bank determines its lending amount to the DFCs sector within the framework of all of the industrial production sectors.

Equation (5) indicates that the Bank's DFCs lending is first determined by the financial situation of the Bank, measured by the reserves of the IDA. The reserves of the IDA have increased very steadily as a whole. The steady expansion of Bank financing represented by the increase in IDA reserves since the 1970s has made possible the incremental enlargement of DFCs lending.

The amount of private investment from DAC countries to developing countries has also influenced Bank lending to the DFCs sector because of the high attractiveness of DFCs projects to the privates. Although many DFCs are government-controlled entities in developing countries, DFCs can recover cost easily. DFCs are a kind of wholesale and therefore involve less risk for lenders than industrial projects. As a result, 71 percent of the total co-financed amount was provided by private lenders. The positive coefficient of the variable representing the flow of foreign private investment to developing countries implies that the more favorable the investment conditions for private investors, the more the Bank allocates to DFCs projects. Under favorable investment conditions, borrowing governments have easy access to external private sources, and Bank projects can also promote further private investment which is one of the main objectives of Bank lending.

6. Agriculture and Rural Development

Agriculture and rural development has been one of the Bank's largest sectors even before the years of President McNamara. However, at that time, it did not receive so much emphasis as the industry sector. The Bank took the traditional approach of lending for modernization in agriculture. Therefore, Bank loans were provided mainly for assistance in such projects as irrigation and flood control, farm mechanization, and livestock improvement.

The agriculture sector came to receive more stress after Robert McNamara became the President of the Bank in 1968. The main objectives of agriculture lending were changed to raising the productivity and income of small farmers. This has involved more work on water control, training, and extension services. The focus of irrigation projects was also changed from constructing dams and major canals to establishing more complete systems, where the Bank aimed not only at acquiring water sources, but at establishing distribution networks and on-farm facilities. In addition, the Bank has continued to promote agriculture credit as a way of helping small farmers.

Two other areas have received attention. The first is rural development, gaining prominence in the latter half of the 1970s and including various programs such as new farming methods, extension services, and rural road building and marketing. The other is agricultural research and extension. Thus, not only rural development projects but many agriculture projects ard now being designed to benfit the poor directly.

In fiscal year 1988, the Operations Evaluation Department (OED) of the World Bank reviwed the Bank's experiences with agriculture and rural development projects since 1965.[18] The OED report argued that rural development projects were more successfully implemented when governments were strongly committed to the projects and appropriate policies on the part of these governments were indispensable for sustaining the achievements of successful projects.[19] It emphasized the long-range examination of the institutional aspects of projects such as in sector adjustment lending rather than in traditional project lending.

The amounts of Bank loans for agriculture and rural development projects have shown a highly incremental trend as a whole. Lending was increased two-fold in both 1973 and 1975. The proportion of the lending amount provided for the agriculture and rural development sector to the Bank's total lending amount was also increased rapidly until fiscal year 1978, at which time it reached 39 percent.

The great expansion of Bank lending for this sector was caused by a rapid increase in rural development lending. Since the Bank increased its lending for rural development from five percent in fiscal year 1973 to 11 percent in fiscal year 1974, it continued to expand rural development lending.[20] The share of rural development lending to total lending finally reached to 21 percent in fiscal year 1978, and it fluctuated between 13 and 18 percent in fiscal years 1979–82. Bank President McNamara made a speech to emphasize the expansion of lending for poverty-alleviation projects in Nairobi of September 1973, and his lending policy apparently caused a great increase in rural development lending.[21]

The percentages of Bank lending for the agriculture and rural development sector appeared to be declining slightly in the 1980s, however. The share of IBRD loans for this sector declined from 26 percent in 1976–80 to 21 percent both in 1981–85 and 1986–88. The figures for IDA credits also decreased from 42 percent in 1976–80 to 32 percent in 1986–88. This trend is more evident in Bank lending for rural development than in traditional agriculture lending. Bank lending for rural development declined to 10 percent in fiscal year 1983 from 17 percent in 1982 and 8 percent in 1984, while the Bank continued to provide about 15 percent of its total loans for traditional agriculture projects after fiscal year 1983. In the 1980s, the Bank continued to stress the need for poverty-alleviation projects.[22] However, when Clausen assumed the presidency of the Bank, the emphasis shifted from a stress

[18] The World Bank Operations Evaluation Department, *Rural Development: World Bank Experience, 1965–86* (Washington, D.C.: The World Bank, 1988).

[19] *Ibid.*, pp. 42–45.

[20] Data source is the World Bank Operations Evaluation Department, *Rural Development*, Annex 3, Table 1 and Annex 4, Table 1.

[21] Robert McNamara states that "we expect to lend $4.4 billion in agriculture during our next five-year program (1974–78), as compared to $3.1 billion in the first five-year program (1969–73), and $872 million in the 1964–68 period. . . . . In the next five years we expect that about 70% of our agricultural loans will contain a component for the smallholder." Robert McNamara, *Address to the Board of Governors (Nairobi, Kenya)* (Washington, D.C.: The World Bank, 1973), p. 25.

[22] The Annual Report (1987) argued the importance of Bank initiatives to strengthen "the use of the entire Bank country-assistance program to address problems of poverty, particularly through operations in agriculture, education, health, population, and urban development." The World Bank, *Annual Report* (1987), p. 15.

on Bank lending policy for poverty-alleviation lending to adjustment lending, which resulted in a decrease in rural development lending.

As expected from the highly incremental trend of the time-series data, the incremental model presents an accurate result (Equation (6)). This equation indicates that the amount of Bank lending for the agriculture and rural development sector is basically determined by the amount of the preceding year, the amount of two years before, and the financial situation of the Bank, measured by the change in the amount of IDA reserves. The positive coefficient of the change in IDA reserves indicates that the Bank increases its agriculture lending amount according to the improvement of the IDA's financial condition. In fact, this factor can well explain the rapid increases in Bank lending for the agriculture and rural development sector in fiscal years 1975 and 1978. That is, IDA reserves were increased 56 percent in fiscal year 1975 and 53 percent in fiscal year 1978, and such large increases led to the expansion of Bank lending to the agriculture and rural development sector in both of those years.

The strong relationship between the Bank's financial situation and lending for agriculture and rural development is basically explained by the low availability of external funds. 36 percent of the total number of Bank loans provided for agriculture and rural development projects during 1974–83 were co-financed. This figure was less than those for the infrastructure sectors like power, transportation, and telecommunications and for the industry sector. Therefore, agriculture and rural development projects are more dependent on Bank funds, which explains the strong influnece of IDA reserves in determining Bank lending to this sector.

There are several reasons for the importance of incrementalism as a determinant of Bank lending for agriculture and rural development. First, Bank lending policy emphasizing the importance of agriculture and rural development in the 1970s basically supported the steady expansion of this sector. Second, as shown by the strong relationship between the Bank's financial situation and lending to this sector, the incremental expansion of this sector was made possible by the growth in Bank lending resources. Third, agriculture and rural development has all of the characteristics which are thought to lead to the development of lending SOPs: A long history of Bank commitment, large lending amount, and the independent department to deal with the sector.

The following equations were presented when the amount of Bank lending for traditional agriculture and projects those for rural development projects were used as dependent variables respectively. Equation (7) and Equation (8) indicate that both traditional agriculture lending and rural development lending are strongly influenced by the Bank staff's incrementalism and the financial situation of the IDA. It suggests that abundant financial resources allow the Bank's staff to determine lending amounts by employing incrementalism. The expansion of financial resources for lending allowed increases in lending for both traditional projects and new-style projects for rural development without causing competition for available funds within the agriculture and rural development projects sector.

7. Energy

In 1977, the Bank initiated a new form of infrastructure lending, that is, lending for oil and gas projects. This was done in response to the rapid increases in oil prices since 1973. Rising oil prices had two effects on the economic growth of developing countries.

First, the drastic increases in oil prices seriously damaged the economies of non-oil producing countries. These countries urgently had to develop energy supplies for their national economic developments. Second, the high increases in oil prices made energy projects commercially profitable, so that not only private investors but also the World Bank could easily find energy projects worthy of finance.

Bank energy lending is divided into oil and gas projects on the one hand and coal projects on the other. The former are further classified into predevelopment and development of oil and gas projects. The development subsector is the larger of the two. The lending amount for this subsector shared 70 percent of the Bank total energy lending amount in the period of 1979–82.[23] The Bank provided various kinds of technical assistance with its energy lending, which means that predevelopment also received considerable emphasis.[24] This technical assistance is usually provided at the stage of project preparation to avoid costly delays at the implementation stage caused by poor choice at the preparation stage. The Bank often provides technical assistance for management of energy supply enterprises, particularly regarding the issue of energy prices. The Bank argues that efficiency-oriented pricing is indispensable for the financial viability of energy investments and energy producers. However, on the other hand, energy pricing must be determined keeping in mind its impact on the household expenditures of the poor. The Bank and the recipient governments face the problem of balancing the incompatible requests. The Bank further advises energy supply enterprises on their financial performance and managerial structure and practices.[25] Such activities are reflections of the Bank's lending policy in the 1980s, which stresses strengthening the institutional aspects of projects. As a matter of fact, the quality of management is the key factor in the successful implementation of energy projects as is also true of other sectoral projects.

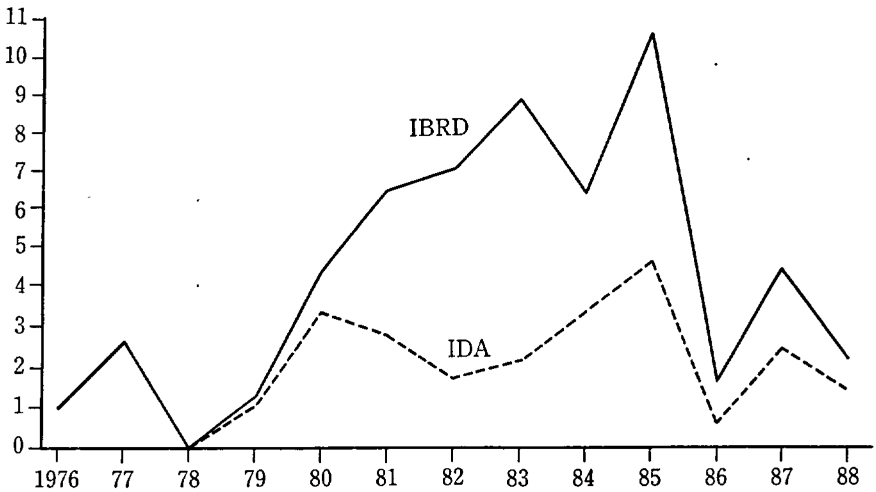
Energy lending generally showed an incremental trend since fiscal year 1979. The combined amount of IBRD loans and IDA credits for energy projects reached $1,331 million, sharing 9 percent of total Bank lending in fiscal year 1985. However, it rapidly decreased to $231 million and only 1.4 percent of total lending in 1986. There was some recovery in fiscal year 1987 to $687 million, 3.9 percent of total lending, but this figure was still lower than that between fiscal years 1980 and 1985. The IBRD provided most of the

[23] The World Bank, *The Energy Transition in Developing Countries* (Washington, D.C.: The World Bank, 1983), Table 6.1, pp. 82–83. More recent data are unavailable.

[24] The Bank's experience in Thailand shows the range of the types of technical assistance provided by the Bank. Natural gas was discovered by Union Oil, a private company, in the Gulf of Thailand in 1974, offering Thailand the chance to reduce considerably its dependence on imported energy. However, Thailand had no previous experience in this field. The Bank helped the government to formulate a comprehensive plan for the utilization of natural gas resources. The Bank's assistance ranged from preliminary engineering and market evaluation to advice on domestic pricing. Moreover, the Bank advised the government to create the Natural Gas Organization of Thailand, and it offered advice concerning negotiations with Union Oil and also domestic gas pricing. *Ibid.*, p. 41.

[25] Among these management problems, controversy often arises between the Bank staff and developed countries over the public or private energy agency. Energy supply activities are often managed by government or public agencies in many developing countries because of their large cost and of their importance to the national economy and national security. The Bank staff realizes that important decisions on energy operations and management are often made under political pressure, and as a result, unrealistic objectives may be imposed, or private enterprises' needs may be neglected. Therefore, the Bank staff, which generally prefers private enterprises to state owned enterprises, strongly insists that the operating authorities, whether public or private, be free to make final decision on operations within clear national guidelines.

FIGURE 1. IBRD AND IDA ENERGY LENDING, 1976–88
(percentages)



Source: The World Bank, *Annual Reports* (various years).

loans for the energy sector (Figure 1). This suggests that Bank energy loans were mainly provided to midlde-income countries rather than to the IDA-eligible least developed countries.

The short history of Bank energy lending prevents adequate analysis by the incremental lending model. Rather, the sudden decrease in the amount of Bank energy lending in fiscal year 1986 suggests a strong relationship with the changes in oil prices. The Bank originally began energy lending in response to the sharp increases in oil prices.

Of course, the relationship between Bank energy lending and the changes in oil prices is more complicated because of the pressures from private oil companies. Private oil companies became commercially interested in energy projects in many developing countries after the rapid increases in oil prices of 1973. In fact, they very actively co-financed Bank energy projects, 45 percent of the total number fo Bank energy projects being co-financed and 37 percent of the total amount of funding for co-financed projects being provided by private lenders. This figure was the fourth largest, coming next to those for DFCs (70.9 %), urban development (61.8%), and tourism (42.2%). This suggests that the easy availability of external sources for the Bank through co-financing stimulated the rapid expansion of Bank energy lending.

Private companies did not always welcome the enlargement of Bank energy lending, however. Rather, private investors were very critical of Bank energy lending which competed with their own energy projects. They basically expected the Bank to provide loans for projects that they were not commercially interested in. The purpose of Bank energy lending was thought to be the improvement of the investment environment for private companies.[26]

Concretely, private companies first expected the Bank to provide only technical assistance in energy lending rather than the profitable direct financing for oil and gas development. For example, the privates insisted the Bank provide loans for gas pipeline projects and the Bank's exploration promotion projects, which contributed to overcoming commercial obstacles to private investment. Second, private companies expected the Bank to provide policy advice on energy policy as a condition for lending. For example, the privates wanted the energy pricing policy to stimulate private investment and reduce government tax rates.[27] Third, they hoped the Bank's presence in a project would guarantee their own interests from various political risks. They were still undertaking sizable projects in politically unstable areas, such as Chad, the Philippines, Angola, and Bolivia. Thus, private companies wanted the Bank to make some arrangements which would ensure the Bank's presence during the exploration and development phase of foreign contractors' activities.

In sum, the privates basically expected the Bank to concentrate on lending for predevelopment of oil and gas projects, in which privates had no interest. The privates did not welcome the Bank's active commitment to the development of oil and gas projects because they were often commercially profitable. However, when the Bank decided to finance development of oil and gas projects, the privates were willing to co-finance them. In fact, in fiscal years 1979–82, almost half of the total cost of development projects was provided by external sources, most of them private sources. On the other hand, only 8 percent of the total cost was provided by external sources in the case of predevelopment projects.[28]

Developing countries generally prefer theiw own state oil companies to foreign oil compnaies for the purpose of national economic security.[29] Developing countries would like to see the Bank expand its direct financing for oil and gas development projects. Thus, Bank energy lending is likely to be determined at the point of equilibrium between the pressures of developing countries and the expectations of the privates.

The balance of power between developing countries and private investors is influenced

[26] The U.S. Treasury Department summarized its criticism of Bank energy lending as follows: (a) Increased Bank lending offers developing countries much cheaper funds, thereby worsening the conditions for private companies in making contracts. (b) Owing to the expanded Bank lending for oil and gas projects, developing countries can gain access to Bank funding, access which they often take advantage of, even though private sector financing might also be available. (c) The U.S. Treasury Department is sometimes critical even of Bank technical assistance and policy dialogue with governments. Because the governments of developing countries are receiving advice from the Bank, private companies are compelled to engage in more complicated and time-consuming negotiations. Moreover, the U.S. Treasury Department as well as the U.S. Congress criticize the fact that most of the borrowing agencies are governments or state oil and gas companies, and few private companies participate directly in these projects. The Bank staff also recognizes this as a problem. See the U.S. Department of the Treasury, *An Examination of the World Bank Energy Lending Program* (1981).

[27] Theodore Moran describes the Bank's conditionality as follows: When the Bank issues a loan, "the Bank obtains a commitment from the host government that it will not physically obstruct the project's operations or compulsorily acquire ownership of the project. Should the host authorities violate this commitment, the international investor has the right to declare political *force majeure*, and suspend repayment of its debt to the Bank. This allows the World Bank to halt disbursements of the loan in question (if any remain), stop new loans to the host government, and in the extreme case recall outstanding loans." Theodore Moran, "Does the World Bank Have a Role in the Oil and Gas Business?" *The Columbia Journal of World Business*, vol. 17, no. 1, Spring 1982, p. 51.

[28] The World Bank, *The Energy Transition in Developing Countries*, p. 83.

[29] Developing countries often apply political pressure to maximize a host country's share even at the expense of economic efficiency. For example, Brazil and India have an explicit tendency to retain the best proejcts for state-owned oil companies and to limit foreign investors to less promising areas. See the U.S. Department of Treasury, *The World Bank Energy Lending Program*, p. 27.

by changes in oil prices. That is, a change in oil prices will cause a change in the need for oil and gas projects in developing countries as well as increase the commercial profitability of energy projects for the privates. The sharp increases in oil prices after 1973 stimulated the need for energy projects for many developing countries, and so the Bank did in fact expand its energy lending. However, the increases in oil prices also made energy projects in developing countries more commercially profitable. Therefore, private oil companies bitterly criticized the Bank's commitment to energy projects through the 1970s. However, when oil prices started to decline in the 1980s, critics in the private sector began to calm down as the Bank deemphasized lending for energy projects.

Poverty-Alleviation Sectors

The poverty-alleviation sectors include the education sector, the population, nutrition, and health sector, the small industry sector, the urban development sector, the water supply and sewerage sector, and the rural development which is a part of the agriculture and rural development sector. The Bank under Robert McNamara began to emphasize projects that directly benefit the poor, criticizing the Bank's past lending policy of allocating most of its loans for infrastructure and large-scale industry projects. However, the new lending policy was not welcomed by all of the Bank staff or governments of developing countries at the beginning of the 1970s. First, the objectives and designs of poverty-alleviation projects are more ambiguous than those of traditional infrastructure and production projects. Therefore, the Bank's economist staff was reluctant to make a significant commitment to poverty-alleviation projects. Second, it was also dubious whether authoritarian regimes or political elites in developing countries would be willing to undertake poverty-alleviation projects and develop appropriate policies to support them, since such projects often deal directly with the problem of domestic income redistribution.

In spite of these internal and external obstacles, data on Bank lending shows that the Bank under President McNamara was successful in increasing its lending amount to the poverty-alleviation sectors in the 1970s. Bank lending provided for these poverty-alleviation projects, excluding the lending amount for rural development projects, rapidly increased from $387 million in 1966–70 to $2,155 million in 1971–75. This amount further rose to $6,470 million in 1976–80. The share of total Bank lending allocated to poverty-alleviation sectors also greatly increased from 5 percent in 1966–70 to 11 percent in 1971–75 and to 15 percent in 1976–80. If the amount lent for rural development projects is added to these figures, then both the amount and the percentage of the Bank's total lending allocated to the poverty-alleviation sectors were greatly expanded, to $13.2 billion and 30 percent of total lending in 1976–80.

The expansion of the poverty-alleviation sectors was basically due to the strong leadership of President McNamara. He introduced the Country Programming System, in 1972, which emphasized countries rather than an individual sectors as lending units. As a result, the influence of the departments of traditional sectors, such as the Agriculture Projects Department or the Industrial Projects Department, was weakened. In addition, McNamara reorganized the Agriculture Projects Department into the Agriculture and Rural Development Department in fiscal year 1973, and created the Urban Projects Department in fiscal year 1975 and the Population, Health, and Nutrition Department in fiscal year 1979. These organizational reforms enabled McNamara to exercise strong leadership in Bank lending.

The Bank under McNamara expanded lending not only for poverty-alleviation projects but for infrastructure and production projects in absolute terms. This fact helped weaken the resistance of the Bank staff members who preferred traditional lending to poverty-alleviation projects.

In the 1980s, the Bank has faced new difficulties concerning the enlargement of poverty-alleviation projects. First, the increasing importance of external debt problems and budgetary crises in developing countries has shifted concern to intensifying export sectors and decreasing social programs.

Second, the change in Bank Presidents from McNamara to Clausen resulted directly in a shift in emphasis from poverty-alleviation project lending to structural adjustment lending. Clausen, as former President of the Bank of America, was sensitive to the interests of U.S. commercial banks, many of which suffered from problems relating to debt-issues in developing countries. The U.S. government also placed greater pressure on the Bank to play a leading role in the resolution of debt-issues and expand adjustment lending for that purpose.

Third, Bank staff members themselves became more suspicious of the macro-economic approach of redistribution with growth. The Bank officially claimed success in creating new productive assets for the poor through poverty-alleviation projects. However, a few Bank staff members voiced criticism that this approach did not in fact lead to fundamental and thoroughgoing redistribution of productive assets. The number of such staff members increased by the beginning of the 1980s. In fact, Bank experiences in the 1970s made it clear that the Bank had overestimated the productivity of poverty-alleviation projects. For example, the rates of economic return for poverty-alleviation projects are generally lower than those for traditional projects. Bank projects for making loans to small-farmers and micro-entrepreneurs showed that repayment rates were worse than those for loans to large farmers and wealthier entrepreneurs. Opposition from political classes that benefited directly from existing land systems and subsidy structure also prevented the implementation of poverty-alleviation projects. Problems were also induced by conflicts of interest with foreign private enterprises. For example, the World Bank doubled its lending program to support the land reform introduced by the Ethiopian Revolution in 1974. However, the Labor government of the United Kingdom pressured the Bank to stop lending for this program for the reason that the promotion of land reform led to a serious compensation problem in Ethiopia. Thus, Bank lending for this progarm was ultimately stopped entirely.[30] As a result, the senior staff members in the Research Department of the World Bank and the new members of the Board of Executive Directors have developed unsympathetic attitudes toward the redistribution with growth approach.[31]

In spite of these difficulties, the Bank still expanded lending for poverty-alleviation projects, including rural development, to $20.5 billion in 1981–85, which was more than a 50 percent increase over the amount provided in 1976–80. The percentage of the Bank's

[30] E. A. Brett, "Reaching the Poorest: Does the World Bank Still Believe in 'Redistribution with Growth'?" in The World Bank, *Recovery in the Developing World: The London Symposium on the World Bank's Role* (Washington, D.C.: The World Bank, 1986), pp. 84–85.
[31] *Ibid.*, p. 75.

total lending allocated to the poverty-alleviation sectors continued to increase, reaching 29 percent in 1981–85.

One of the reasons why the Bank continued to increase lending for poverty-alleviation sectors as a whole lies in the economic crises in sub-Saharan Africa in the early 1980s. In fact, Bank lending to sub-Saharan African countries, where the need for poverty-alleviation projects is much higher, has received emphasis even in the 1980s. In addition, a few staff members have warned that an expansion of adjustment lending would increase the difficulties, particularly for the poor, because adjustment policies often include a reduction of social expenditures and an increase in unemployment in public sectors. Therefore, the Bank under Clausen had to avoid a drastic decline in poverty-alleviation lending. Barber Conable proposed an approach which integrated McNamara's poverty-alleviation lending policy with Clausen's approach to expand adjustment lending.[32] He mentioned the Bank's struggle against poverty as one of the five priorities of the Bank.

Even if Conable, and Clausen before him, have stressed poverty-alleviation projects, their approach is more growth- and market-oriented. They placed added weight on the cost-recovery problem and the efficient use of the private sector even when undertaking poverty-alleviation projects.[33] Therefore, there may be variations among the poverty-alleviation sectors themselves rather than the fact that the Bank increased its commitment to all of these sectors as was the case during the presidency of McNamara. The lending patterns and determinants should therefore be examined individually.

1. Education

The Bank has had a long history of education lending since it issued the first loan for education projects in fiscal year 1961. Until the 1970s the World Bank was mainly involved in the construction or improvement of education facilities in developing countries. At that time, the Bank emphasized support for higher education. The Bank steadily increased its education lending amount until fiscal year 1973. In fact, the share of total Bank lending allocated to education was also increased from 2.2 percent in fiscal year 1965 to 4.4 percent in fiscaly ear 1971 and to 8.1 percent in fiscal year 1973.

The Bank drastically decreased education lending from $276 million in fiscal year 1973 to $153 million in fiscal year 1974, however. The percentage of the total Bank budget allocated to education also dropped from 8.1 percent in fiscal year 1973 to 3.5 percent in fiscal year 1974. The sudden decrease in fiscal year 1974 was caused by the oil shock of 1973. The oil shock led to financial crises and economic depression in non-oil-producing developing countries and resulted in decreases in public expenditures, the main source of finance for education projects. Consequently, many education project plans had to be suspended.

The Bank has been able to increase its education lending in absolute terms because of the steady expansion of Bank resources since then. The equalization of educational opportunity was also given priority, and the achievement of a minimum basic education for all was sought as one of the main objectives of Bank education lending. Accordingly,

[32] The World Bank, *Annual Report* (1987), p. 15.

[33] *World Bank News*, "Shinten-suru IDA-no Yakuwari (The Evolving Role of IDA)," Special Report, May 1989, p. 4.

the Bank also shifted its concern from higher education to primary education, especially in rural areas.

Developing countries devoted the largest share of their national budgets to education. For example, public education expenditure took up 16 percent of the national budget in developing countries in 1977.[34] However, the growth in education expenditures in developing countries has tended to decrease therefater, partly because of financial crises and partly because of increasing competition among social sectors such as social welfare, health and nutrition, and urban development.

The Bank under Clausen began to emphasize adjustment lending to deal with these financial crises in developing countries. Clausen was much interested in reviewing the impact of education projects over economic growth and the degree to which education investments were effectively implemented. The Bank held a seminar on "The Quality of Education in Developing Countries" in May 1983, and examined the ways of recovering costs such as charging for textbooks and the effective use of private schools to reduce the borrowing governments' education expenditures.[35]

The Bank's policy assisted many developing countries in shifting their priorities from social projects to adjustment programs. It was assumed that economic growth is indispensable even for promoting poverty-alleviation programs, and that growth-oriented adjustment programs could be completed in a few years. However, developing countries, particularly sub-Saharan countries and debt-countries, required many more years for undertaking adjustment programs, than was originally expected. It became difficult for these governments to maintain even the existing education programs targeted for the poor.

It is difficult to find external sources of financing for education projects, however. In fact, only 27 percent of the Bank's education projects in 1974–83 were co-financed. None were co-financed by private investors, since education projects are not commercially profitable. Thus, developing countries have no alternative but to use Bank funds. In fact, the percentage of the Bank's contribution to the total cost of co-financed projects was 49, the highest figure among major Bank sectors in 1974–83.

Thus, because of the unavailability of external funds for education projects and because of the leveling off of education expenditures in developing countries, the Bank, as a last resort lender, was forced to maintain the percentage of its education lending fairly close to the level in the latter half of the 1970s. Although the Bank greatly decreased the percentage of education lending in fiscal year 1982, the Bank increased the percentage for education lending since fiscal year 1983. In fiscal year 1985, lending for education was increased 34 percent over the previous year, mainly by using IDA sources.

The Bank under Barber Conable greatly decreased lending for the education sector to about half of the amount in the previous year, 2.5 percent of the total lending amount, in fiscal year 1987. This was in response to the great decrease in IBRD loans for education. Barber Conable may place less emphasis on lending for education projects, particularly for middle-income countries eligible for IBRD loans, than his predecessors. However, the Bank increased the share of education lending to 4.5 percent, close to the percentage

[34] Warren C. Baum and Stokes M. Tolbert, *op. cit.*, p. 122.
[35] A report on this seminar is published as: Stephen P. Heyneman and Daphne Siev White eds., *The Quality of Education and Economic Development* (Washington, D.C.: The World Bank, 1986).

in the former half of the 1980s, in fiscal year 1988. Theerfore, it is too early to judge Conable's attitude in regard to lending for education projects.

An auto-regressive type equation, for example Equation (9), explains Bank education lending during 1966–80 well. Therefore, the Bank seems to determine its education lending on the basis of the staff's incrementalism in this period. However, a better explanation can be obtained by using Equation (10) with one variable indicating the Bank's financial situation. Equation (10) indicates that the lending amount allocated to education is strongly determined by the financial situation of the Bank, measured by the reserves of the IDA. It shows that the general trend of increasing Bank education lending was highly dependent on steady increases in the Bank's lending resources. It also suggests that the Bank staff's incrementalism could work because of the great expansion of Bank resources during McNamara's years as President.

2. Population, Nutrition, and Health

Population, nutrition, and health projects were newly undertaken in fiscal year 1970. When President McNamara insisted on initiating these projects, the issue that came under dispute by the Bank staff was whether such concerns were related to development and therefore concerns that should be addressed by the Bank. At that time, many Bank staff members were of the idea that economic development basically contributed to poverty-alleviation, and so the objectives of Bank lending should be direct assistance for economic development. In addition, the Bank was faced with the fundamental problem of insufficient data necessary for undertaking population, nutrition, and health projects. Most developing countries in the mid-70s lacked reliable data on food consumption and spending patterns, on households with malnourished mothers, or even on nutrition. Per capita calorie consumption was often used as an index of malnutrition, but that number was calculated as a national average, and so the figures understated the seriousness of the situation of the poor.

The Bank issued its first IBRD loan to the population, nutrition, and health sector in fiscal year 1970, based on the idea that economic development was not a sufficient response for alleviating such problems. Bank lending to this sector tended to increase gradually until fiscal year 1978. Then it was rapidly increased from $58 million in fiscal year 1978 to $114 million in 1979 and further to $143 million in fiscal year 1980. However, despite this, the Bank's total lending amount to this sector is one of the smallest among all sectors financed by the Bank. The percentage of IBRD loans for this sector were 0.4 percent in 1971–75 and 0.6 percent in 1976–80, and those of IDA credits were 1.3 percent in 1971–75 and 1.8 percent in 1976–80 (Table 6).

Family planning services were the main activity of Bank population projects, and Bank-assisted nutrition projects included nutrition education, supplementary feeding, health services with nutrition, and food subsidies. Population, nutrition, and health projects are closely related to one another and also have a close relationship with other sectors like agriculture. For example, a Bank report argued that population growth rates above 2.5 percent a year were offsetting GNP growth and creating food and nutrition problems.[36] Therefore, the Bank undertook population, nutrition, and health projects not only as independent projects but as components of other sectoral projects, e.g. within agriculture

[36] The World Bank, *IDA in Retrospect*, p. 54.

TABLE 6. IBRD/IDA LENDING FOR POVERTY-ALLEVIATION PROJECTS
(percent of total)

		1966–70	1971–75	1976–80	1981–85	1986–88
Education	IBRD	2.5	4.6	4.2	3.9	3.3
	IDA	7.7	5.7	4.7	8.2	6.6
Population, nutrition,	IBRD	0.04	0.4	0.6	0.6	0.7
and health	IDA	0.0	1.3	1.8	1.8	4.2
Small industry	IBRD	0.0	0.0	0.7	3.8	2.8
	IDA	0.0	0.0	0.3	1.4	0.4
Urban development	IBRD	0.0	1.2	3.1	3.3	7.8
	IDA	0.0	1.7	2.4	3.4	9.2
Water supply	IBRD	1.7	5.3	6.2	4.9	4.1
	IDA	1.0	2.2	5.9	3.5	3.6
Sub-total	IBRD	4.3	11.5	14.8	16.5	18.7
	IDA	8.7	10.9	15.1	18.3	24.0
(Rural development*	IBRD+IDA	3.8	10.0	15.4	12.4	—)

Source: The World Bank, *Annual Reports.*
* Data from The World Bank Operations Evaluation Department, *Rural Development: World Bank Experience, 1965–86.*

projects.

Bank lending for the population, nutrition, and health sector decreased drastically from \$143 million to \$12.5 million in fiscal year 1981. The Bank issued only two loans, totaling \$36 million for this sector in the following year. Fiscal year 1981 was the last year of McNamara's presidency; A. W. Clausen was elected President of the Bank in December 1980. The coming change in Bank Presidents suggested the future decline in priority of poverty-alleviation projects. The Bank staff also shifted its concern from poverty-alleviation projects to adjustment lending after the late 1970s, as the problems of external and financial crises became serious in developing countries.[37] In fact, the Bank issued its first SAL in fiscal year 1980.

Since fiscal year 1983, Bank lending to this sector has risen above the percentages of the 1970s, as in the case of education lending, however. The share of Bank lending for this sector increased to 2.5 percent in fiscal year 1986. The reason for this increase is found directly in emergent economic crises in sub-Saharan countries occurring during the first half of the 1980s. The Bank found that all but three out of thirty countries experienced declines in per capita calorie consumption during the first half of the 1980s, and the incidence of malnutrition and deaths caused by this grew in several sub-Saharan African countries.[38] In addition, owing to external debts, balance of payments problems, and budgetary crises, developing countries tended to expand production of export crops, sacrificing social programs which might have helped alleviate the malnutrition problem.

Another reason lies in the need to compensate the negative effects of adjustment policy on the social sector. That is, the Bank in the 1980s stressed policy-based adjustment lending and advised policy reforms, which often involve the reduction of public spending. The reforms were expected to contribute to increasing economic growth, thereby benefiting an

[37] Alan Berg, *Malnutrition: What Can Be Done?* (Baltimore: The Johns Hopkins University Press, 1987), pp. 103–104.
[38] *Ibid.*, pp. 103–104.

entire population in the long run. However, reducing public expenditures is likely to worsen the nutrition condition of the poor in the short and medium terms.

As shown by the fact that no projects were co-financed by private lenders during 1974–83, it is clear that the population, nutrition, and health sector is basicallly unattractive to private lenders. Therefore, the Bank increased lending for population, nutrition, and health projects to respond to the increasing demand for such projects.[39]

The substance of projects related to population, nutrition, and health changed in the 1980s, however. First, the institutional aspects of projects, such as strengthening management ability and organizational reform, began to receive more attention. Second, the Bank emphasized the efficient use of resources. For example, it insisted on the necessity of a user charges system although it recognized that user charges were not appropriate for all types of public services.

The Bank decreased its lending for population, nutrition, and health projects to only $54 million, 0.3 percent, in fiscal year 1987. However, the Bank increased the share of lending for population, nutrition, and health projects to 1.6 percent the following year. It is not certain whether this drastic decrease in Bank lending to this sector was caused by Conable's policy of reducing the emphasis of Bank lending on this sector or if it was only a reaction to the great expansion in the Bank's commitment in the previous year.

The incremental model could not produce statistically significant results because of the sharp declines in lending amounts in fiscal years 1981 and 1982. That suggests that the Bank staff has not developed a lending SOP for the population, nutrition, and health sector. Bank lending for this sector is still strongly influenced by the change in lending policy and by external factors such as the economic crises in sub-Saharan countries.

3. Urban development

Urban populations are increasing in low-income countries as well as in developed countries. Rapid urbanization gives rise to problems such as housing, transportation, water, and sanitation, and it is likely to widen income disparities. The Bank's traditional approach to urban slum and housing problems was to clear the slums and resettle the inhabitants in public housing. However, public housing tended to be expensive, so the poor could rarely enjoy its benefits. Therefore, in the early 1970s, the Bank changed its approach to concentrating on slum upgrading rather than slum clearance. The Bank stressed providing security of tenure to slum dwellers. Because of McNamara's policy of expending lending for this sector, the Bank's lending for the urban development sector has steadily increased as a whole since fiscal year 1972, when lending for urban development was begun.

The Bank designed to enlarge its lending for urban development in the 1980s in response to the large urban population increase.[40] In addition, Bank policy stressing adjustment lending seems to be consistent with urban development projects which require an integrated approach rather than a sectoral approach. Therefore, the Bank insisted that urban development projects be carried out in relation to the Bank's adjustment lending.

Moreover, urban development projects are generally attractive to private investors,

[39] *Ibid.*, p. 106.

[40] The World Bank, *World Bank Lending for Urban Development, 1972–1982* (Washington, D.C.: The World Bank, 1983), pp. 49–50.

as shown in the fact that private investors co-financed 62 percent of the total co-financing amount, the second highest among the Bank's lending sectors. The expansion of lending for the urban development sector contributes to the growth of private enterprises. Thus, the Bank under Clausen continued to provide almost the same share of Bank loans for this sector as the Bank did under McNamara, and it increased its lending for urban development from 2.7 pecent in fiscal year 1985 to 6.8 percent inthe following year.

Conable also increased the share of Bank lending for this sector to more than eight percent in both fiscal years 1987 and 1988. The Bank under Conable placed priority upon the urban development sector among the poverty-alleviation sectors for the same reasons which applied when Clausen was President, and more explicitly.

Bank lending for the urban development sector was explained well by the incremental model (Equation (11)). This equation indicates that Bank lending for urban development projects is basically determined by the previous year's lending amount and by the flow of private investment from DAC countries. However, the corfficient of $[Y_{t-1}]$ is far below 1.00. That is, counter to the incremental budgetmaking theory, the previous year's amount is not automatically approved as the "base" in the case of Bank lending to the urban development sector as in the case of transportation lending. This is because Bank urban development lending, unlike administrative budgets, is strongly influenced by the progress of project preparations.

The attractiveness of urban development projects for private investors explains why the flow of private investment from DAC countries to developing countries affects Bank urban development lending. A positive coefficient of this variable implies that the Bank tended to increase its lending amount for urban development projects when private sources were easily available.

4. Water supply and sewerage

The Bank has a long history of commitment to water supply and sewerage projects, but the objectives of the projects have changed over time. The Bank provided loans for large water supply and sewerage projects in the 1960s, but the effect of those projects on health conditions in developing countries was only indirect. Water and sewerage projects were regarded as infrastructure projects at that time. The average percentage of total Bank lending allocated to this sector in 1964–70 was 1.4 percent. Water supply and sewerage was not an important lending sector at that time.

It was in the 1970s that the Bank undertook water supply and sewerage projects as a way of improving the health situation more directly. Water-borne diseases were the main causes of infant mortality in developing countries. The Bank aimed at providing clean and sufficient water for the poor in rural areas and ensuring that the poor in urban slums also received the services provided by the projects. For example, the Bank invested in sewerage systems different from the standard systems used in industrial countries, as they were too expensive for the poor and also generally unsuitable in low-income countries.

The Bank has begun placing more emphasis on lending to water supply and sewerage projects since fiscal year 1971. The percentage of total Bank lending was increased to 7.6 percent in fiscal year 1971 and 8.2 percent in fiscal year 1973. Since then, the Bank continued to provide about three to five percent of its total lending for this sector until fiscal year 1987.

The Bank staff's evaluation of the progress in extending services during the 1970s was high, but they realize that most of the achievements were absorbed by population growth.[41] This perception of the Bank staff members was shared by many other agencies. For example, the United Nations held a conference which was called the U.N. Water Conference in 1977. In 1981, the UN General Assembly designated the 1980s as the "International Drinking Water Supply and Sanitation Decade" to implement the decisions adopted during the U.N. Water Conference.[42] The World Bank and other aid agencies like the UNDP estimated the funds required for meeting the objectives set for the Internatonal Drinking Water Supply and Sanitation Decade.

Budgets given to water supply and sanitation are not likely to increase much in real terms in the foreseeable future, however.[43] External funds for this sector are not easily available. Only less than 30 percent of the Bank's water supply and sewerage projects were co-financed during 1974–83. Almost all (98 percent) of the co-financing was provided by official agencies. Water and sewerage projects were very unattractive to co-financers, particularly the privates. Responding to the U.N. agencies' activity and considering the low availability of private sources, the Bank, as a last resort lender, increased the lending amount to this sector from $375 million in fiscal year 1978 to $1,019 million in fiscal yaer 1979. The Bank issued twenty-two loans for water supply projects in fiscal year 1979, although the average number of Bank water supply and sewerage loans during 1974–83 was fourteen. The Bank continued to increase the lending amount in the 1980s, keeping the percentage of total Bank lending allocated to this sector almost the same as in the 1970s.

Equation (12) indicates that the Bank's lending amount for water supply and sewerage projects was clearly determined by the financial situation of the IBRD, measured by its borrowing amount. That is, the more the Bank borrowed resources for lending from capital markets, the more it allocated to water supply and sewerage proejcts. In other words, the incremental expansion of the lending amount to this sector was possible owing to the steady enlargement of the IBRD borrowing amount. The drastic expansion of Bank lending for water supply and sewerage projects in fiscal year 1979 was treated as a dummy variable in the analysis.

Discussion of the Results of the Time-Series Analysis

The change in Bank lending policy during the period of President McNamara effectively changed the pattern of sectoral lending; the Bank allocated high percentages of its resources for infrastructure and industrial production sectors until the 1970s, but decreased them thereafter. On the other hand, the Bank rapidly increased the share of lending to poverty-alleviation sectors in the 1970s. Even so, the Bank still committed about half of its total lending amount to the traditional infrastructure and industrial production sectors in 1976–80. In addition, the incremental amount for traditional infrastructure lending in absolute terms was almost the same as that for the poverty-alleviation projects.

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[41] Baum and Tolbert, *op. cit.*, p. 309.

[42] The United Nations, *Yearbook of the United Nations* (1979) (New York: United Nations Publication, 1982), pp. 671–674.

[43] Baum and Tolbert, *op. cit.*, p. 310.

Bank lending policy in the period of President A. W. Clausen is characterized by emphasis on structural adjustment lending and sector adjustment lending. Poverty-alleviation lending received less attention. However, the Bank, in practice, did not decrease the share of lending for poverty-alleviation sectors. However, this does not imply that the Bank under Clausen merely continued McNamara's lending policy. First, Clausen's lending policy assumed that the economic growth through adjustment programs could contribute to the expansion of social projects. However, the adjustment process in sub-Saharan countries and indebted countries was more difficult than originally envisaged, therefore, it became difficult not only to increase services provided by social projects but to maintain those services in many developing countries. Few external funds were available for social projects, therefore, the Bank could not help but increase its lending for poverty-alleviation sectors. Second, Clausen expanded lending for small industry projects, which is more consistent with his growth-oriented approach. Third, the amount of sector adjustment loans and calculated as if they are sectoral project loans, although those loans should be substantially calculated as non-project loans. Therefore, the change in Bank lending policy under Clausen was not directly reflected in changes in the sectoral lending amount.

The Bank under Conable proposed a policy to integrate McNamara's approach to expand social projects and Clausen's growth-oriented adjustment lending policy. Conable emphasized cost-recovery of social projects and market mechanisms in implementing social projects. The Bank placed priority on sectors within the poverty-alleviation sectors which were attractive to private investors as well as the sectors which required a sectoral approach rather than an individual project approach. Thus, the Bank greatly increased its lending for the urban development sector.

The results of the time-series analysis of sectoral lending are divided into the following three types: (1) sectors explained by the incremental model, (2) sectors explained mainly by the Bank's financial situation and (3) sectors explained by none of the above factors (Table 7).

The lending sectors which were explained well by the incremental model were power, transportation, agriculture and rural development, and urban development. This clarified the inapplicability of the hypothesis that the Bank staff relies more on incrementalism in determining traditional sectoral lending than in allocating funds to poverty-alleviation sectors.

A long history of Bank commitment and a large lending amount are common to all of the above sectors, with the exception of the urban development sector. Power and transportation are the representative traditional infrastructure sectors to which the Bank has continuously allocated a large amount of resources. Agriculture and rural development

TABLE 7. SUMMARIZED RESULTS OF TIME-SERIES ANALYSIS

1. Sectors explained by the incremental model
   Power, Transportation, Agriculture and Rural Development, Urban Development, and Production sectors (Industry, DFCs, and Small-industry)
2. Sectors explained by the Bank's financial situation
   DFCs, Education, and Water Supply and Sewerage
3. Sectors not explained well in the analysis
   Telecommunications, Industry, and Population, Nutritilon, and Health

is another large sector for the Bank, receiving the largest share of Bank lending in 1981–85.

The amounts lent to these sectors are so large that a drastic change is likely to cause a great change in the pattern of recource allocation among regions and countries. Such a change may cause conflicts between regional departments within the Bank and disputes between the Bank and recipient countries. In order to avoid such problems, the Bank staff determines lending for these large sectors incrementally. This practice has gradually over the many years of Bank commitment developed into the SOPs for these sectors.

The change in Bank lending policy under President McNamara led to decrease in the percentages of power and transportation lending. However, the Bank staff continued to employ the incrementalism in determining the lending amounts for these two sectors, which resulted in the continuous growth of power and transportation lending in absolute terms. This kind of lending behavior was possible because of the great increase in resources available for lending.

McNamara's lending policy stressing poverty-alleviatilon strongly supported the incremental expansion of Bank urban development lending and lending for rural development projects in the agriculture and rural development sector. McNamara established the Department for Urban Development and reorganized the Agriculture Department into the Agriculture and Rural Development Department. The Bank under McNamara gave high priority to lending for urban and rural development.

Although it can be said that lending to the above sectors was explained well by the incremental model, this does not necessarily imply that the Bank staff's incrementalism was as rigorous as is stated in budget-making theories.[44] That is, the lending amount from the previous year was not always approved as a "base." One of the reasons for this can be found in the time schedule of the project cycle. It usually takes two or three years from the time a project is identified to the time it is presented as a project plan to the Board of Executive Directors. Therefore, although the lending amount shows a general incremental trend, that amount is likely to fluctuate every year, depending upon the extent of progress in project preparation.

Lending to the education, water supply and sewerage, and DFCs sectors is strongly influenced by the Bank's financial situation. The Bank allocated set percentages of its financial resources, that is, IDA reserves or IBRD borrowings, to these sectors. In addition to these sectors, lending to agriculture and rural development was also affected by the Bank's financial situation. Education, water supply and sewerage, and rural development in the agriculture and rural development sector are essentially poverty-alleviation projects. This implies that the expansion of lending for poverty-alleviation projects in the 1970s was basically made possible by the rapid and steady increase in the Bank's financial resources available for lending. Increases in lending to traditional sectors in absolute terms suggests that McNamara had to expand IBRD borrowings and IDA resources in order to undertake his new lending policy smoothly. By doing so, McNamara could weaken the opposition of staff members who were critical of poverty-alleviation policy from their viewpoints as professionals and because, as general bureaucrats, they wanted to avoid experimental projects with high risk. Another feature of education, water supply and sewerage, and agriculture and rural development is the high dependence on Bank funds. This also ex-

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[44] For example, O. A. Davis, M. A. H. Dempster, and A. Wildavsky, *op. cit.*

plains the strong effect of the Bank's financial situation on lending for these sectors.

The flow of private investment from DAC countries to developing countries positively influenced the amount of Bank lending to the transportation, urban development, and DFCs sectors. The DFCs and urban development sectors were attractive to private co-financers. The Bank can easily find co-financers for these sectors. In other words, Bank lending to these sectors is influenced by whether external funds are easily mobilized.

Transportation projects are often managed by state-controlled agencies, but procurement for a transportation project is very attractive for private investors. Therefore, the Bank staff takes the flow of foreign private investment into consideration in determining transportation lending.

Bank lending for the telecommunications, industry, and population, nutrition, and health sectors cannot be explained well by the incremental model. Telecommunications loans have been small in amount and in number, which has produced fluctuations in the lending amounts almost every year. The non-existence of an independent department to deal with telecommunications lending also has prevented the development of lending SOPs like incrementalism.

Industry lending is determined within the framework of the industrial production sectors, industry, DFCs, and small industry. Changes in the industry lending amount are well explained by changes in the other sectors. The industry department, in fact, deals with lending to these three sectors. Therefore, Bank lending for these three sectors as a whole is well explained by the incremental model.

The population, nutrition, and health sector has been influenced by the change in lending policy and also external factors. The Bank under McNamara emphasized lending for this sector, which resulted in incremental growth of the lending amount. The change in lending policy by President Clausen directly affected Bank lending for this sector, but the economic crises in sub-Saharan countries again drew attention to this sector, which resulted in an increase in the lending amount. Being influenced by these factors, the Bank staff has not developed a lending SOP for this sector.

III. *Structural Adjustment Lending and Sector Adjustment Lending*

Bank non-project lending can be classified into three types: structural adjustment lending, sector adjustment lending, and other non-project lencing.[45] Structural adjustment loans (SALs) were begun in fiscal year 1980, and sector adjustment loans became prominent in fiscal year 1983. Both SALs and sector adjustment loans aim at reforming macro-economic policies and strengthening the administrative ability of institutions, while the latter focuses on specific sectors.

[45] The ratio of non-project loans increased two-fold from 1.7% in 1966–70 to 6.1% in 1971–75, and from 3.5% in 1976–80 to 8.2% in 1980–85. The high increase in the former half of the 1970's was caused by the recommendation of the Pearson Commission for greater use of a more flexible form of program aid to make Bank loans more effective. The content of many non-project loans in this period was mainly for rehabilitation programs, for example Bank loans for imports for a post-war rehabilitation program in Nigeria in April 1971 and a Bank loan for post-cyclone reconstruction in Pakistan approved in January 1971. The World Bank, *Annual Report* (1971), pp. 28–29.

The Bank does not appear to determine the lending amount for SALs and sector adjustment on the basis of an SOP, such as incrementalism. This is because of the short history of structural adjustment lending and sector adjustment lending. Rather, various actors currently seem to be at work formulating a rule for determining how much the Bank should allocate for these two types of adjustment lending. Therefore, a power model rather than the incremental model is more likely to explain the Bank's commitment to SALs and sector adjustment loans. The Bank President, the Executive Directors, the Bank staff, and the recipient countries are assumed to be the main participants in the bargaining to determine the actual lending amount provided for SALs and sector adjustment loans.

The socio-economic need for adjustment loans affects each bargaining player's demand for these loans as well as the power he/she has in securing them. The official criteria for allocating a SAL suggests what constitutes need in this case.[46] First, the Bank examines whether a country has structural problems that help create balance of payments problems. Countries which suffer from serious debt problems and/or trade deficits are eligible for SALs. Second, recipient governments are required to have enough administrative ability to undertake adjustment policies advised by the Bank.[47] If necessary, the Bank also provides developing countries with technical assistance to develop the ability to formulate and implement a credible program of reforms.

The purpose of this section is to examine the history of Bank adjustment lending focusing on the power relationship between the major actors.

Explanation by the power model

Nine years have passed since the Bank began SALs in 1980. These nine years can be divided into three perilods: (1) 1980–1982, when the Bank began SALs, (2) 1983–86, when the Bank expanded sector adjustment lending and issued SALs, and (3) 1987–present, when the Bank undertook organizational reform to support the further expansion of adjustment lending.

1. First Period

The Bank began to examine whether it should undertake structural adjustment lending in the last years of President McNamara's term. McNamara's concern with structural adjustment lending was mainly based on his economic opinion on development. In the 1970s, McNamara emphasized poverty-alleviation porjects as a development strategy, taking the political environment as a given. However, the outcome of a poverty-alleviation project often depended on the recipient government's administrative ability and political willingness to support the project. Therefore, it is reasonable that McNamara's poverty-alleviation policy led to the development of the structural adjustment policy, which emphasizes the importance of political factors and the necessity of policy reforms.

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[46] The World Bank, *Annual Report* (1985), pp. 52–53.

[47] J. M. Nelson points out the cases of Haiti in the 1960s and Ghana in the 1970s as examples of countries which failed to receive aid from the international financial community because of the government's irresponsible and corrupt policies. Joan M. Nelson, "The Diplomacy of Policy-Based Lending," in Richard E. Feinberg et al., *Between Two Worlds: The World Bank's Next Decade*, p. 69.

Bank President A. W. Clausen was very enthusiastic about the Bank's commitment to adjustment lending. First, not only the IMF but also the World Bank were increasingly expected to undertake a more active role in the resolution of debt problems in developing countries, which had become serious since the late 1970s. Second, Clausen had been president of Bank of America, which suffered from default and rescheduling problems in debtor countries. Therefore, he was very sensitive to the desires of American commercial banks that the Bank issues loans for lightening default or rescheduling problems in developing countries. Third, Clausen was also influenced by the idea that policy-based structural adjustments are necessary for economic growth, as shown by the Bank's experiences in the 1970s. Thus, he decided to enlarge Bank structural adjustment lending drastically.

The Board of Executive Directors has the responsinility of examining any lending policy proposed by the Bank President. The Executive Directors representing developing countries generally support increases in the amount of any type of Bank loan, either project or program. However, their attitude toward the expansion of SALs and sector adjustment loans is more complicated because of several conditions imposed by the Bank regarding the allocation of SALs and sector adjustment loans. The Bank usually gives advice on macro-economic policies, and it sometimes advances opinions about administrative matters in recipient countries. Bank policy advice is sometimes politically unacceptable to recipient governments. Thus, this advice is regarded as conditionality in the sense of IMF conditionality. The Bank's instrusions in domestic policies are seen as violations of national sovereignty. Even if borrowing governments agree to the conditions set by the Bank, these conditions are likely to provoke antipathy in borrowing countries because the conditions are perceived as imposed.[48] On the other hand, the purpose of a program loan is usually described more ambiguously in the loan agreement than in the case of project loans. Therefore, developing countries, in practice, have broader control over the usage of SALs and sector adjustment loans. To conclude, in spite of the critics of Bank conditionality, developing countries seem to want increases in the amounts of SALs and sector adjustment loans.

The Executive Directors from developed countries also have inconsistent attitudes toward SALs and sector adjustment loans. First, they generally oppose any large expansion of Bank lending because of the demand it places on developed countries to contribute more funds to the Bank. Second, they fear that the rapid enlargement of Bank lending resources will likely lead to a decrease in the quality of Bank loans. A sharp increase in Bank lending resources imposes pressure on the Bank staff, because it is not so easy to consume all resources for lending every year. Therefore, such an increase is likely to result in insufficient preparation of project plans. In fact, the rapid expansion of Bank lending during the term of President McNamara was frequently criticized for this reason.

Moreover, the Executive Directors from developed countries realize that the purposes of program loans are stated only ambiguously and that a method for evaluating the achievement of a program loan is still underdeveloped. They are afraid that the Bank's commitment to SALs and sector adjustment loans will damage the Bank's creditability as an efficiently managed "bank." However, at the same time, the developed countries expect the

[48] Paul Streeten, "Structural Adjustment: A Survey of the Issues and Options," *World Development*, vol. 15, no. 12, pp. 1469–1482.

Bank to take a more active role in resolving debt problems.

The U.S. is typical of the countries which have ambilavent attitudes toward the Bank's commitment to adjustment lending. The U.S. government was very critical of the increase in IBRD capital which placed an additional financial burden on the U.S. The U.S.'s resistance to capital increases is shown in its behavior with regard to IDA replenishments. The U.S. has delayed every payment of IDA replenishments since the first replenishment in 1965–68. The real fear of the U.S. was that the expansion of SALs and sector adjustment loans might result in IBRD and IDA capital increases. On the other hand, it is the U.S. commercial banks that suffer from the greatest problems among the banks of developed countries. Therefore, the U.S. has a vital interest in alleviating the debt problems of developing countries.

The need for adjustment lending was widely accepted by the Bank staff, its proponents insisting on this necessity from an economic standpoint. Moreover, the expansion of the Bank's commitment to SALs and sector adjustment loans was welcomed by part of the Bank staff because it served to consume the Bank's abundant resources for lending created by the increases of the 1970s. It cannot be denied that the Bank staff was looking for a new type of loan for just this reason.

There was a difference of opinion between the program divisions and project divisions within the Bank's regional departments concerning policy-based program lending, however.[49] The former were mainly engaged in preparing overall economic analyses of countries, while the latter actually prepared the contents of Bank project loans. As debt problems became more serious, the program divisions in regional departments actively claimed the necessity for wide structural adjustment lending. The Bank's commitment to policy-based program loans had the effect of strengthening the program divisions, as it is the program divisions that are responsible for preparing adjustment loans based on nation-wide perspectives of the recipient countries.

The project divisions criticized the Bank's engagement in SALs and sector adjustment loans first from an economic perspective. That is, since the scope of adjustment lending is very wide and the objectives of adjustment loans are ambiguous, the assessment of the achievements of Bank adjustment loans is more difficult than in the case of Bank project loans. They argued that Bank adjustment lending would result in a waste of money and that in turn would damage the Bank's credibility. Second, the project divisions opposed the Bank's undertaking of policy-based program lending because it would likely weaken their power within the Bank in calculating lending.

Actually, structural adjustment loans encompass many objectives. Moreover, compared with project loans, SALs and sector adjustment loans deal more with the ambiguous target of development. It is often suggested that loan conditionality should focus on a few selected issues that must be resolved to overcome the problems inherent in policy-based loans. Moreover, the Bank is expected to strengthen its method of assessment of the progress of policy reforms and to use its tranching policy more effectively as a leverage.[50] However, the strengthening of loan conditionality raises a conflict between the Bank and borrow-

[49] Statement of the author by a Bank staff member in 1983.

[50] The Bank releases the remaining commitments when the governments of borrowing nations take agreed-upon actions, which is referred to as "tranching" by the Bank. The World Bank, *Annual Report* (1988), p. 67.

ing countries over intrusion into national sovereignty.

A few members of the Bank staff also doubted whether the staff had enough ability and experience to carry out policy-based program lending. They argued that the analytical framework for policy-based lending was not as developed as that for project lending or that for IMF lending. Therefore, conditionality in policy-based loans is unlikely to be as consistent and predictable as IMF conditionality.[51] Bank policy advice may be inconsistent among many of the SALs and sector adjustment loans, and so the Bank must search for a consistent policy. However, this may lead the Bank into the dangerous practice of forcing simple and standardized formulas on borrowing countries without considering their individual differences.[52]

In fact, the Bank staff's ability to undertake SALs is often brought into question. The problem of economic adjustment is more political and country-specific than economic and general. The timing and phasing of policy reforms play a decisive role in adjustment lending. The Bank staff has to provide advice on various political matters such as the role of the government, the scope of activity allowed private enterprises, price policies, and the income distribution policy. These are controversial and politically sensitive problems, although the Bank regards them as administrative and not political matters.[53] Bank staff members, most of whom are economists or technocrats, are less prepared to give advice concerning such political matters.[54] Therefore, it was argued that if the Bank were to begin policy-based lending, it would have to improve the composition of the Bank staff and reform its organizational structure.

In addition, there is a problem of inconsistency between the IMF's policy advice and the Bank's policy recommendations.[55] The IMF was the sole multilateral agency engaged in policy-based lending until the 1970s, and the conditions specified in IMF loans are known as IMF conditionality. While the Bank, the longer-term lending agency, has examined the necessity of beginning middle-term SALs, the IMF, a short-term credit agency, will also be offering increased amounts of credit to deficit countries for longer periods of time. Both IMF stand-bys and Bank SALs and sector adjustment loans are usually disbursed over one to three years.[56] Therefore, inconsistency between IMF conditionality and Bank conditionality has become an important problem.[57]

Finally, a few Bank staff members are reluctant to accept the Bank's commitment to

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[51] G. K. Helleiner, "Policy-Based Program Lending: A Look at the Bank's New Role," in Richard E. Feinberg et al., *Between Two Worlds: The World Bank's Next Decade*, p. 62.

[52] For example, R. Feinberg argues that Bank trade liberalization may be appropriate at times, but Brazil, India, and China are examples of relatively closed economies that have also been doing very well recently. He further indicates that successful export promotion policies involved significant state intervention, judging from the cases of Asian newly industrialized countries. Richard Feinberg, "Overview: An Open Letter to the World Bank's New President," in Richard Feinberg et al., *Between Two Worlds: The World Bank's Next Decade*, p. 12.

[53] G. K. Helleiner, *op. cit.*, p. 56.

[54] R. Feinberg, "Overview," p. 13.

[55] Richard Feinberg, "The Changing Relationship between the World Bank and the International Monetary Fund," *International Organization*, vol. 42, no. 3, 1988, pp. 545–560.

[56] Joan M. Nelson, *op. cit.*, p. 70.

[57] Despite these similarities, there is a difference between the Bank's SALs and sector adjustment lending and the IMF's stand-bys. The Bank's SALs and sector adjustment loans are designed as successive programs, and they may be extended to up to five loans for any one country. However, IMF stand-bys are basically designed as single-shots, although many developing countries, in practice, have been provided IMF

policy-based lending because it may cause politicization of the Bank. The Bank's commitment to policy reforms in recipient countries inevitably involves the Bank in the domestic politics of those countries and produces conflicts over national sovereignty between the Bank and those governments. Those in the Bank staff taking this line of argument emphasize that the Bank's concentration on project lending has, in fact, contributed to the prevention of politicization of the Bank, because project lending can be dealt with technically.

Considering these circumstances, Bank President Robert McNamara recommended that the Board of Executive Directors weighs the necessity of beginning SALs, in his address to the Board of Governors at the Annual Meeting of fiscal year 1980. The Executive Directors decided to undertake SALs in the spring of 1980, and approved three SALs to Kenya, Turkey, and Bolivia. The Bank pointed out that SALs were consistent with traditional program assistance while at the same time clarifying the difference between them: traditional program lending was designed to respond to immediate difficulties; SALs concentrated on measures dealing with a country's underlying, middle-term structural problems.

The Bank approved six SALs, totaling $717 million, which shared about six percent of the total lending amount of the Bank during fiscal year 1981. The Bank increased the amount of its SALs to $1,071 million, 8 percent of the Bank's overall lending program in fiscal year 1982. However, in fiscal year 1981, the Executive Directors, fearing the rapid growth of SALs, decided to restrict the share of non-project loans to within ten percent of the Bank's total lending amount in the near future. They confirmed this ceiling in fiscal year 1982.

2. Second Period

In the second period, the Bank, under A. W. Clausen, endeavored to overcome the problems pointed out by critics, both from within the Bank as well as without. First, the Bank made an effort to maintain the quality of Bank loans by the suspension of subsequent SALs in cases when the recipient countries failed to satisfy the Bank's criteria. Elsewhere the Bank often provided SALs successively for the purpose of adjustment programs. In fact, it porvided SALs to Turkey five times between fiscal years 1980 and 1984, three times to the Cote d'Ivoire, Jamaica, Malawi, and Senegal, and twice to Chile, Kenya, South Korea, Mauritius, the Philippines, Panama, Thailand, and Togo between fiscal years 1980–87. However, the initial SALs provided to Bolivia, Senegal, Guyana, and Pakistan before fiscal year 1985 were not followed by a second SAL until fiscal year 1987. In the case of Pakistan, the Bank decided not to provide a second SAL because it judged the adjustnemt had been satisfactorily achieved and Pakistan would be able to receive aid from other sources.[58] The Bank staff suspended the second SALs to Bolivia and Guyana because of their poor performance regarding adjustment efforts.

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stand-bys continuously since the 1970s. In addition, the contents of policy advice given with IMF stand-bys are different from those in the case of Bank SALs or sector adjustment loans. While, with IMF stand-bys, advice is offered on financial adjustments, such as government policy on price, wages, and interest-rates, the Bank's SALs and sector adjustment loans are accompanied by much broader policy reforms, including advice on the government's macro-economic and administrative matters as well as financial policies. See J. M. Nelson, *op. cit.*, p. 71.

[58] J. M. Nelson, *op. cit.*, p. 75.

Second, concerning policy reforms in recipient countries, the Bank strove for consensus between itself and the recipient governments rather than impose its advice unilaterally. The relationship between the Bank and the recipient countries concerning policy advice was kept fairly good overall. As a result, the Bank disbursed SALs as the adjustment program progressed, and the loan installment disbursements were generally carried out smoothly. The recipient governments were, in practice, willing to consult with the Bank staff over domestic economic policy in policy dialogue at the successive stages of preparation through implementation. However, the Bank's conditionality in policy-based program lending was still seen as interference by the Bank in the internal politics of the recipient countries.

Of course, there were a few cases in which policy could not be agreed upon, and it often took a lot of time to form a consensus. A SAL for Senegal, approved in fiscal year 1981, was canceled because the recipient failed to accept the agreed-upon reforms, however.[59] About half of the second loan-installment disbursements for the thirty-one SALs issued in the end of 1985 have been delayed. However, delays or cancellations do not always imply a failure of Bank adjustment lending. In fact, the Bank and Senegal government reached a consensus regarding adjustment policy, which resulted in the Bank's approval of two SALs in fiscal 1986 and 1987.

Third, the World Bank endeavored to ensure consistency in its approach to SALs and sector adjustment loans. Basically, the Bank emphasized price incentives and the use of markets rather than government control in the domestic economy. For example, the Bank recommended avoiding administrative controls on external transactions. It insisted on appropriate real exchange rates and positive real interest rates. As far as longer-term development strategy is concerned, the Bank urged export expansion and overall outward orientation against import substitution, and advised liberalization of import barriers.

Besides these efforts by the Bank, the faith held by the United States in the Bank's ability to resolve debt problems assisted the expansion of Bank adjustment lending. James A. Baker, then U.S. Secretary of Finance, proposed a plan in 1985 in which the World Bank and the IMF were the principal figures in providing aid to debtor countries. The Baker plan tried to utilize Bank adjustment loans for mid-term growth objectives in debtor countries and the IMF's Extended Fund Facility for short-term stabilization of debt problems.

Policy-based program lending saw considerable expansion in fiscal years 1983–86. The percentage of the total Bank lending amount allocated for SALs was increased to nine percent in fiscal year 1983. While the Bank tended to decrease this percentage thereafter, it began to amplify sector adjustment lending in fiscal year 1983, which caused the rapid increase in the total lending amount allocated for adjustment loans.

The share of sector adjustment loans to the Bank's total lending amount was four percent in fiscal year 1983, and this was increased to 10 percent in fiscal year 1985 and 20 percent in fiscal year 1987 (Table 8). The Bank shifted its emphasis from SALs to sector adjustment lending in fiscal year 1985. The Bank argued that the development of adjustment policies in borrowing countries shifted the Bank's concern from SALs to sector adjustment loans.

The combined share of sector adjustment loans and SALs since 1983 has apparently exceeded ten percent in spite of the decision of the Board of Executive Directors in fiscal year 1981 to instate the ceiling for non-project loans. However, the lending amounts for

[59] *Ibid.*, p. 75.

TABLE 8. BANK LENDING FOR SALs AND SECTOR ADJUSTMENT LOANS

	SALs		Sector adjustment loans	
	$million	Percent	$million	Percent
1979	0	0	31	0.3
80	305	2.7	65	0.6
81	717	5.8	137	1.1
82	1,071	8.2	0	0
83	1,285	8.9	641	4.4
84	1,082	7.0	1,318	8.5
85	163	1.1	1,475	10.3
86	610	3.7	2,283	14.0
87	665	3.8	3,452	19.5

Source: *World Bank News* "Lending for Adjustment: An Update," Special Report, May 1988, p. 6.

TABLE 9. THE PERCENTAGE OF NON-PROJECT LOANS AGAINST THE BANK'S TOTAL LENDING AMOUNT PUBLISHED IN *Annual Reports*

FY	1980	4.6%
	1981	8.2%
	1982	9.5%
	1983	9.9%
	1984	8.9%
	1985	4.4%
	1986	8.1%
	1987	13.8%
	1988	8.8%

Source: The World Bank, *Annual Reports* (various years)

sector adjustment loans are calculated according to sector as if they are sectoral project loans rather than being counted as non-project loans in the statistics of the *Annual Report* of the World Bank every year. As a result, the percentage of non-project lending to total Bank lending appeared to be below ten percent in published *Annual Reports* until 1988, except for fiscal year 1987 (Table 9).[60]

The result is that the Bank staff is substantially free from the ten percent ceiling for non-project lending.[61] In other words, by shifting emphasis from SALs to sector adjustment lending, the Bank staff is able to escape the ceiling. In fact, the staff tends to increase the share of sector adjustment lending further, stating that "although the share of sector-adjustment loans in total Bank lending during the next three years is likely to be between 10 percent and 15 percent, it is expected that, eventually, the role of such lending will diminish as sustained reforms bring about progress in a country's domestic economic environment."[62]

[60] The Bank's non-project lending includes not only structural adjustment lending but the Bank's adjustment lending for trade policy or public enterprise sector which are different from the existing Bank sectors.

[61] G. K. Helleiner argues that the Board's constraints on the proportion of SALs, ten percent of total Bank lending and 30–40 percent of lending to any one country, do not make any sense, because forms of policy-based adjustment loans other than SALs, that is sector adjustment loans, are becoming very important now.

[62] The World Bank, *Annual Report* (1986), p. 49.

SALs were being issued to 31 countries since their first issue in fiscal year 1980 until fiscal year 1987. The Bank also provided 52 sector adjustment loans to 37 countries between fiscal years 1979 and 1987. In addition, 17 countries received both SALs and sector adjustment loans in the period 1979–87.

A correlation analysis between the amounts of SALs and sector adjustment loans a country received and the economic features for developing countries was undertaken to clarify the characteristics of the recipients (Table 10). Only one variable showed a relatively high correlation coefficient (0.45) with the amount of SALs provided during 1980–85. This variable was the ratio of the loan amount provided to a country in 1975–79 to the GDP of that country. Other variables measuring debt amounts or balance of payments could not produce high scores in the correlation analysis with the amount of SALs. Relatively speaking, the more loans provided to a country in the past, the more SALs the Bank tends to allocate to that country. As a result, although the objectives of SALs are different from those of project loans, the pattern of the allocation of SALs is similar to that in the case of traditional project loans. This is because the Bank staff evaluates the economic performance of borrowing countries and their willingness to follow the Bank's advice, based on their past lending experinece.

On the other hand, both the economic level measured by per capita GNP and the debt situation measured by the amount of public loans in 1983 and the amount of external public debt in 1983 showed relatively high correlation scores with the amount of sector adjustment loans during 1979–85. This indicates that the Bank used sector adjustment loans to help debtor countries more directly than in the case of SALs. Accordingly, Bank sector adjustment loans were mainly provided to Latin American debtor countries and other middle-income debtor countries. Three major debtor countries of Latin America, Brazil, Mexico, and Colombia, are the largest recipients of Bank sector adjustment loans. Turkey, Morocco, Nigeria, Palkistan, and South Korea were the other major recipients in this period.

The sector adjustment lending pattern suggests that the U.S. asked the Bank to use its resources to alleviate debt problems in Latin American countries directly, and it later proposed the Baker plan for this purpose. The Bank responded appropriately to America's demands by providing sector adjustment loans mainly to Latin American debtor countries and by expanding sector adjustment lending.

3. Third Period

The third period is characterized by the reorganization of the Bank in fiscal year 1987,

TABLE 10. THE RELATIONSHIP BETWEEN POLICY-BASED PROGRAM LENDING AND RECIPIENTS' CHARACTERISTICS

	SALs during 1980–85/GDP	Sector Adjustment Loans during 1979–85
Bank Loans during 1975–79/GDP	0.448	—
GNP/cap**	—	0.675
Public Loans**	—	0.624
External Public Debt**	—	0.688

* The figures are correlation coefficients.

** Independent variables are the figures of 1983.

which aimed at strengthening the Bank's capacity to carry out policy-based program lending.[63] After present Bank President Barner B. Conable's order to begin preparation for the reorganization of the Bank in October 1986, task forces were formed in January 1987 to review the organizational structure. Based on the task forces' proposals, the reorganization was begun in early May, and it was basically completed by July 1987.[64]

One of the main features of the reorganization is the increasing power of the Bank's President; that is, the number of staff members who could directly report to the President was decreased from eleven to only six, including four senior vice presidents.

The senior vice president for Operations who presides over the four regional vice presidents, the vice president of Financial Intermediation Services, and the vice president of Cofinancing substantially makes the final decisions regarding preparation for adjustment loans.[65] Four regional vice presidents have responsibility for traditional project loans and have greater control over the personnel management within the regional vice president offices than before the reorgnaization. The reorganization resulted in both an increase in power of the president and the decentralization of power to regional vice presidents.

Second, the Bank increased the number of senior vice presidents from two to four, including the Senior Vice President of Policy, Planning Research. This move was designed to intensify the Bank's role as a primary source of development studies and analysis. This is in response to critics who claim that the Bank lacked the experience required to undertake the adjustment lending policy.

The third feature of the reorganization is to intensify the focus on specific countries. This substantially implies more clearly differentiating program divisions within the regional departments of the Bank. As a matter of fact, the six regional departments were reorganized into four regional offices, within which country-level departments were created. The country-level departments combine the functions formerly divided between program and project departments.[66] These departments have full responsibility for all Bank lending and other activity such as the formulation of development policy, policy dialogue with recipient governments, economic and sector research, and technical assistance.[67] Loan officers coordinate the reports presented by the economists for each country and the sector economists and the investigation of projects by the staff members in project divisions and transform them into a loan package. As country-level economists' role in preparing Bank loans has increased in the new organizational system, the position of loan officers has been abolished.

One technical department was established within each regional office, but they do not affect the Bank's policy of focusing on a country as a whole rather than on individual projects. The reorganization of the Bank is explicitly designed to strengthen the power of former program divisions and to highten the Bank's capacity to undertake policy-based adjustment lending.

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[63] The Bank states that "the Bank must, therefore, be structured to reflect the changing emphasis from specific investments in productive capacity to adjustment lending." The World Bank, *Annual Report* (1987), p. 22.

[64] The World Bank, *Annual Report* (1988), p. 45.

[65] *Kikin Chōsa Kihō* (*The OECF Research Quarterly*), no. 56, 1987, p. 11.

[66] *Ibid.*, p. 24.

[67] *Ibid.*, p. 24.

In addition to the reorganization, the Bank has endeavored to resolve the problems of adjustment lending, first addressed in the early 1980s. The Bank now disburses most of its funds for adjustment programs by "tranching" or by "front-loading" of conditionality, in which borrowing governments take agreed actions before loans are approved at the Board of Executive Directors.[68] The Bank has undertaken a study to produce indicators to measure the degree of implementation of adjustment policies rather than broad macroeconomic outcomes, although meaningful measurements of the success of adjustment lending still remain underdeveloped.

Of course, the socio-economic need in recipient countries for SALs and sector adjustment lending basically determines future Bank lending for these adjustment loans. However, once the Bank structure is reorganized and designed for undertaking policy-based progarm loans, the Bank should begin to shift its emphasis to policy-based program lending. The Bank is now evolving from the project-dominant aid agency it has been for many years to a program-oriented organization. Accordingly, the Bank should change from a mere international economic organization to a new aid agency which uses a politico-economic approach to development. These changes in the Bank lending policy and structure can be seen as the Bank's response to changes in the structure of the international system where separating politics from economics is no longer possible.

The U.S. government proposed a new plan for the resolution of debt issues, called the Brady Plan, in March 1989, in which the Bank is expected to expand adjustment loans and new cash or guarantees for increasing commercial loans. The restructured Bank would intensify its adjustment lending and play a more important role for resolving the debt issues, in response to the expectation of the U.S.

IV. *Conclusion*

The Bank's sectoral lending policy represents the Bank's development strategy and has basically responded to the needs of developing countries. In the 1950s and 1960s the Bank placed emphasis on an infrastructure-oriented development strategy, essentially based on the modernization theory. The Bank under Robert McNamara stressed the importance of human resources for economic development and began to expand lending for poverty-alleviation projects in the 1970s. However, members of the Bank staff, as professional experts, were suspicious of the effectiveness of poverty-alleviation projects. In addition, as general bureaucrats, the staff members preferred the traditional sectoral projects in order to avoid uncertainty. The staff often resists new lending policy. Thus, a gap between changes in lending policy and the actual lending pattern was expected to be found.

The change in Bank lending policy in the period of President McNamara effectively changed the pattern of sectoral lending more than expected, however. The Bank rapidly decreased the percentages of its lending for infrastructure and industrial production sectors, and greatly increased the share of the poverty-alleviation sectors in the 1970s.

It should be mentioned that the absolute lending amounts to all of these traditional sectors increased greatly, however. As a result, the Bank still committed about half of its

[68] The World Bank, *Annual Report* (1988), p. 67.

total lending amount to the traditional infrastructure and industrial production sectors in 1976–80 and more than 40 percent even in 1986–88. In addition, the incremental amount for the traditional infrastructure lending in absolute terms was almost the same as that for the poverty-alleviation projects.

The Bank staff built up its lending SOPs for traditional or large sectors such as power, transportation, and agriculture and rural development and could employ incrementalism in determining lending for these sectors using expanding Bank funds. Therefore, the staff members did not oppose the expansion of poverty-alleviation sectors so strongly even if they had reservations regarding the effectiveness of poverty-alleviation projects. The enlargement of poverty-alleviation projects, such as education, water supply and sewerage, and rural development projects, was highly dependent on the expansion of lending resources. In other words, the great expansion of Bank funds in the 1970s was indispensable not only for responding to the increasing demands for Bank loans but for undertaking McNamara's new lending policy smoothly.

In the 1980s, the Bank shifted its emphasis from poverty-alleviation to adjustment lending. This change in lending policy was basically caused by the emergence of external debt issues, balance of payments problems, and budgetary crises in developing countries. The new President, with experience in private banking, intensified the Bank's concern with debt-issues. The borrowing governments and the Bank shifted their attention to the production of export crops, cutting social programs. With this change in atmosphere within the Bank, a few staff members, suspicious of the effectiveness of poverty-alleviation lending, began to criticize Bank lending for poverty-alleviation projects.

The Bank, in practice, did not decrease the share of its total lending amount to poverty-alleviation sectors, however. The Bank, in fact, increased its lending for poverty-alleviation sectors in 1981–85, in response to the urgent need caused by the economic and financial crises in sub-Saharan countries and in order to compensate for the decrease in public expenditures for social programs because of financial crises in many developing countries.

This does not imply that the Bank under Clausen is simply continuing McNamara's lending policy, however. Clausen emphasized the cost recovery of social projects and the efficient use of private enterprises in undertaking the poverty-alleviation projects. The substance of sectoral lending has changed. In addition, sector adjustment lending is calculated as if it were a sectoral project loan, although it is program lending in substance. As a result, the change in the actual lending pattern does not appear directly.

Clausen's lending policy is often regarded as conflicting with McNamara's policy of expanding poverty-alleviation projects. However, Clausen's lending policy is strongly related to that of McNamara. Both are critical of an economic development strategy which emphasizes investment in infrastructure and industrial production sectors. McNamara perceived the great effect of social factors on economic growth, and insisted on the expansion of poverty-alleviation projects. McNamara also recognized the impact of political factors on the implementation of Bank-financed projects and economic development in general. However, the assumption of the separation of economics from politics was still effective in his tenure. McNamara therefore should have been satisfied with insisting on a socio-economic approach for Bank lending. The experience with poverty-alleviation projects in the 1970s has indicated the importance of appropriate economic and financial policy for achieving the objectives of projects. A politico-economic approach is perceived as necessary, and the politicization of economic issues became more prevalent during the Clausen years than in the McNamara years. Thus, Clausen began to stress policy-based program lending.

Some Bank staff members were critical of Clausen's policy-based program lending, as they were of McNamara's poverty-alleviation lending policy, from a professional viewpoint. As bureaucrats, the Bank staff members might generally resist any changes, such as changes in lending policy.

Many actors took part in the decision-making process of making rules for SALs and sector adjustment loans. The U.S. government and commercial banks expected the Bank to play a more active role for the resolution of debt problems using Bank's adjustment loans. Responding to these demands, Clausen shifted emphasis from SALs to sector adjustment lending to escape from the principle of a ten percent ceiling for SALs and allocated sector adjustment loans mainly to Latin American debtor countries. In addition, Barber Conable reorganized the Bank to make it a more appropriate organization for undertaking adjustment lending. This examination of Bank sectoral allocation differs with the analysis of U.S. voting behavior on the Board of Executive Directors and suggests that the U.S. still has considerable influence over Bank lending.

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