

MANNA GUM SUBMISSION TO THE AUSTRALIAN MULTILATERAL ASSESSMENT

October 2011

The following submission relates to specifically to assessment of the **World Bank** and **Asian Development Bank**.

SUMMARY OF RECOMMENDATIONS

1. That a multilateral rating system give more attention to third party, civil society critiques of the World Bank and ADB than has hitherto been the case in AusAID and government literature.
2. If 'poverty orientation and impact' is a major criterion of a multilateral rating system, then it should include critical assessment of the effect of economic policy advice and prescriptions in developing countries.
3. If it is found that there is substance to the claims of inappropriate economic policy, then this would suggest that there may be a case for limiting the growth of core contributions to the banks in favour of greater selectivity of engagement (that is, earmarking).

THE DEBATE OVER THE BANKS

For well over two decades there has been a raging debate about the effect of the World Bank's lending on poor people, and a similar debate about the ADB has been going for the last decade and a half. However, official development circles have tended to assume a *modus operandi* that ignores the existence of a debate at all. Certainly, there is nothing in any major Australian aid policy document — whether it be budget statements, the Independent Review or the government's response — which would cause one to think there was anything but universal approbation of these institutions. The Independent Review considered the World Bank and ADB as "obvious candidates" for substantial and rapid funding increases.¹ Nevertheless, the case against the banks is voluminous and the allegations grave - nothing less, then the contention that the banks at times contributed to the creation or the worsening of poverty.

Given the centrality of the banks to Australia's official aid program and the very large volumes of money directed towards them, it is critical that any multilateral rating system give more serious attention to this debate than has hitherto been the case. In particular, as noted in the Multilateral Study of the Independent Review of Aid Effectiveness, some

¹ *Independent Review*, p.198.

attention needs to be given to critiques of third party, civil society voices which are frequently screened out in this sort of exercise:

Awareness of the existence of these sources and the information they contain is an important starting point for any serious approach to assessing multilateral effectiveness. They should provide an essential building block for Australia's assessments of multilateral organisations and help underpin comparative judgments between them. It is important that AusAID's [sic] dedicates staff time to synthesising, summarising and bringing to the attention of key players in Canberra, overseas offices and delegations the key information from these sources, to ensure important existing data is not overlooked.²

A summary of the debate about the banks is made in a new report by Manna Gum and Oxfam Australia, *Banking on Aid: An examination into the delivery of Australian aid through the World Bank and Asian Development Bank*. The report can be downloaded from this address - http://www.mannagum.org.au/whats_on/banking-on-aid - and we recommend that the AMA task force become acquainted with it. Below is a very brief overview of some of the key concerns about the impact of the banks upon the poor.

KEY CONCERNS

It should be stressed that noting concerns about the banks below, this submission *is not trying to argue the case for these concerns*. Rather, what needs to be more clearly recognised is that *serious cases have been made* and that these should be addressed. Fuller descriptions of these concerns and who is making them (including references) can be found in Section 2 of *Banking on Aid*.

Ideological bias in economic policy

While all institutions are subject to some ideological bias, a wide range of commentators have noted that the strength and resilience of this bias in the economic policy of the banks has resulted in significant harm in developing countries. Most notably, the problematic nature of this bias has been recognised by a major internal evaluation within the World Bank in 2006. Discussing the bank's research on globalisation, growth, aid and poverty, the report stated that "this research was used to proselytize on behalf of Bank policy, often without taking a balanced view of the evidence, and without expressing appropriate skepticism. Internal research that was favorable to Bank positions was given great prominence, and unfavorable research ignored".³ The report goes on to state that

much of this line of research appears to have such deep flaws that, at present, the results cannot be regarded as remotely reliable, much as one might want to believe the results. There is a deeper problem here than simply a wrong assessment of provocative new research results. The problem is that in major Bank policy speeches and publications, it proselytized the new work without appropriate caveats on its reliability. Unfortunately, as one reads the research more carefully, and as new results come in, it is becoming clear that the Bank seriously over-reached in prematurely putting its globalization, aid and poverty publications on a pedestal. Nor has it corrected itself to this day.⁴

The contention of many observers is that the strength of ideological bias within the banks has led them to misunderstand the causes and nature of poverty, and then to mis-prescribe policies to address poverty (such as in the areas of trade, agriculture, land, and essential services), resulting at times in an exacerbation of the conditions of poverty.

² "Multilateral Study", p.19.

³ Banerjee, A. (et.al.) 2006, *An Evaluation of World Bank Research, 1998–2005*, World Bank, p.6.

⁴ *ibid*, p.53.

Privatisation of essential services

There is particular concern that the privatisation agenda of the banks has had harmful impacts on the delivery of essential services to the poor. Most notably, there is a wide view that privatisation of water utilities in developing countries has largely failed, sometimes having the reverse of the desired effect. Some observers are also worried about pushes to privatise services in the areas of health and education.

Project impacts and accountability

Despite the existence of strong safeguards policies within the banks, there has seemingly been a high incidence of unintended negative impacts from bank-funded projects, particularly in the case of infrastructure projects. Negative projects impacts are often a result of poor consultation and participation of local people in project design, and poor monitoring.

Internal bank processes for identifying, acknowledging and rectifying unintended negative impacts are weak. Likewise, the culture of both banks is resistant to acknowledging negative impacts when these are pointed out by outsiders, including (especially, perhaps) those directly affected.

Both banks have semi-independent accountability mechanisms that theoretically provide a channel of redress for affected peoples. However, the technical and bureaucratic structure of these mechanisms makes them highly inaccessible to most project-affected peoples. The few who have sought redress through bank accountability mechanisms have received little in the way of satisfactory outcomes.

IMPLICATIONS FOR AUSTRALIAN AID

The graveness, breadth and longevity of critique of the banks warrants that they be addressed more seriously by AusAID and the government. In particular, the growing recognition (even within the World Bank) of the ideological tunnel vision of the banks, and the ways in which this has determined bank programs and sidelined alternate possibilities, should provoke a critical re-assessment of the appropriateness of some of the banks' policies and programs in some developing countries. This suggests that if 'poverty orientation and impact' is a major criterion of a multilateral rating system, then it should involve critical assessment of the effect of economic policy advice and prescriptions.

Furthermore, if it is found that there is substance to the claims of inappropriate economic policy, then this would suggest that there may be a case for limiting the growth of core contributions to the banks in favour of greater selectivity of engagement (that is, earmarking).

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About Manna Gum

Manna Gum is an independent Christian not-for-profit organisation which is motivated by a vision of a world in which there is enough for all. We seek to promote critical thinking on issues of aid and development, and to build awareness of our shared responsibility to this planet and its people. Manna Gum undertakes research, advocacy and popular education, working across secular and religious spheres.

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