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UNDERSTANDING MISSION CHANGE
IN INTERNATIONAL ORGANIZATIONS:
A LONGITUDINAL ANALYSIS OF THE WORLD BANK

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree of Doctor of Philosophy in the Graduate
School of the Ohio State University

By
Christopher W. Scholl, M.A.

* * * * *

The Ohio State University
2000

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Approved by
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ABSTRACT

This dissertation explores four major changes in the World Bank since its inception. In particular, it examines how the Bank has redefined its mission and the factors that have influenced this change. To operationalize the dependent variable, lending data was disaggregated to delineate shifts in patterns of lending among the following sectors: reconstruction, human needs, structural adjustment, and sustainable development. The roles of several independent variables are explored in a structured, focused comparison of the four cases of change. These variables are power, state preferences, leadership, and organizational structure. The research employs a variety of methodologies including content analysis, quantitative analyses, case studies, and interviews.

One of the primary findings of this dissertation is that single variable explanations miss too much of the process and do not provide a satisfactory understanding of change in international organizations. The most significant variable was change in organizational procedures. This variable alone cannot explain change, but worked as an enabling factor for both leadership and preferences of powerful state[s] to bring about change. Preferences of the most powerful state[s] is also an important variable in explaining changes in the Bank, but only when several conditions are present. First, the state must be focused on the organization. Second, the means by which a state pushes its
preferences within an international organization can influence effectiveness. Finally, when the preferences of the state coincide with the problem representation of the leader of the organization, then this also becomes a powerful variable for change. The other significant variable is leadership. In particular the problem representation of a leader strongly influences change in the organization. If the preferences reflect the leader’s PR and the state is focused on the organization, then change is extremely likely. However, if the preferences differ and the state is focused on the organization, then the ability of the leader to bring about change is limited. Finally, if the leading state limits the attention it gives to the organization then the leader’s role in change increases.
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Most of all, knowing they believed in me was just what I needed at times when the project seemed daunting. I am also grateful to my brother Andy, who helped me find World Bank books and other things all over Cleveland and Western Pennsylvania; in addition, he taught me how to use computer programs which made this process easier. Finally, I would like to thank the Koomar family, Paul, Therese, Michael, and Katie, for taking me into their home and making me feel part of their family. Theirs is a house where all of my worries seemed to melt away. In particular, Micheal Koomar was always a smiling face who provided me with energy and happiness throughout this project. His love for trains and zoos and rockets helped me to keep this project and the trials of graduate school in perspective—and I’m sure the magic Pokemon ball he gave me (because he felt bad about my lack of toys) is what really got me through the last month of writing!
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CHAPTER 1

INTRODUCTION

1.1 Overview

The spring 2000 marches to protest the World Bank/IMF meetings in Washington, D.C. and the economic meltdown of several Asian economies in 1997 have both aroused passionate interest in these international economic institutions. In particular, the Bretton Woods institutions, the International Monetary Fund and The World Bank Group, have become the focus of increasing positive and negative attention. If one were to look at the popular press, the attention has been primarily negative with these institutions portrayed as pawns of the US (Kahn, 2000). Yet the World Bank is on record as criticizing the policies of the IMF and the US Department of Treasury. This all reflects the fact that there is a raging debate over the strategies for attaining development even amongst the development organizations themselves. At its core, this study seeks to understand and shed light upon this debate.

This dissertation explores the changing developmental strategies of the World Bank over its 50+ years of existence. Of particular interest is not only why the Bank changed its policies, but also why change has occurred in a particular direction (i.e. infrastructure lending to human needs lending) and at a certain point in time. This
chapter will introduce the research question and the literature that this dissertation draws on in attempting to divine a more thorough and integrative answer than has previously existed about change in international organizations. First however, I will introduce the World Bank as an important international institution and provide an overview of the periods of change that will be analyzed in detail in the empirical chapters (Chapters 3-6).

1.2 Research question and significance

Under what circumstances do the various factors emphasized by extant theory explain change in international organizations? Approaches which address change in organizations tend to emphasize single variable explanations such as shifts in power balances, changing interests, the role of leadership, and organizational changes. I argue that these theories taken individually are too general and fall short of explaining the direction and timing of change. This project addresses these shortcomings by seeking to place in context and integrate several approaches. Toward this end, I explore cases of change within the organization of the World Bank.

Case selection in this study encompasses two issues: the selection of the organization itself and the selection of the cases of change. The World Bank is an appropriate institution to study in order to help understand change in international organizations for several reasons. First, the Bank is one of the older international organizations, having been created at the Bretton Woods conference, held in July 1944. Consequently, this is an organization that can be examined over time. Second, the Bank has experienced several periods of change in its strategies for achieving its initial goals: reconstruction of war torn societies and development of LDCs.
Additionally, the World Bank is an interesting case study for several practical reasons. In the field of international development, the World Bank is the single largest source of development aid and is an important supporter of projects designed to attract other forms of development funds. As a result of its size and expertise, many development agencies, countries, and private banks and corporations wait to invest until the Bank has signed off on the project. Consequently, it is a critical actor in international economics and international development. Finally, there is a need to conduct methodologically sound and systematic research on the Bank. Past research has often ranged from anecdotal evidence at best (Finnemore, 1996; Haas and Haas, 1995) to emotionally-laden, often Marxist analysis (Danaher, 1994; Rich, 1994). This organization functions as a lightning rod in the development debate, attracting both strong pro and con arguments. Past research is not necessarily bad, but lacks a structured, systematic approach that can identify causal variables.

Several periods of change within the organization across time provide cases for a structured, focused comparison (George, 1979). This type of research design, described more in Chapter 2, provides a way to examine the explanatory power of several variables across cases. The same questions are asked of each case, and their answers compared. These potential “causal” variables should be applicable to other international organizations with some modifications to control for the unique features of the Bank, such as its weighted voting system. Thus, the primary goal is not testing a comprehensive theory but building one. Indeed, this project is an attempt to begin to address the questions posed above by deriving and testing hypotheses about institutional change from several theoretical perspectives. I aim to discern under what conditions the
propositions of different theories provide the greatest explanatory power. This project
does not seek to prove or disprove any of the theories discussed below, but to gain insight
about the scope conditions that delimit the effects of each set of independent variables.

Before defining the case selection criteria for the change periods, it is helpful to
get a sense of the phenomena from a brief history of the shifts.

1.3 A brief overview of change in World Bank lending strategies

Consider the following views of achieving “development”:

[The World Bank is designed] chiefly to supply the huge volume of capital
that will be needed for reconstruction, for relief, and for economic recovery

It is only natural that, except for the early reconstruction loans, the Bank’s
lending operations have been concentrated in the field of basic utilities. An
adequate supply of power, communications and transportation facilities is a
precondition for the most productive application of private savings in new
enterprises. It is also the first step in the gradual industrialization and
diversification of the underdeveloped countries. These basic facilities require
large initial capital outlays, which, because of the low level of savings and the
inadequate development of savings institutions, often cannot be financed wholly
by the countries themselves. Moreover, most of the machinery and the
equipment used in the construction of these facilities must be imported.
Therefore the resources of the Bank are called upon to provide the foreign
exchange necessary for the building of these vitally important facilities (Bank,
1951, p. 14).

Our borrowing countries...must shape their internal policies in such a way that
their domestic resources can be utilized with greater efficiency. This means
redesigning policies: to stimulate agricultural production through a more
effective structure of incentives; to reduce the disincentives to private efforts; to
encourage exports; and to reduce the drain on government budgets from
unwarranted subsidies and ineffective enterprises...structural adjustment for
these countries to the realities of the global economy means in practice more
appropriate policy responses, more effective price incentives, improved market
signals, increased export activity, and overall better use of both material and
human resources (Clausen, 1986, pp. 11-12).

The greatest single obstacle to the economic and social advancement of the
majority of peoples in the underdeveloped world is rampant population growth.
The enhancement of human dignity, and the consequent capacity to lead a fuller,
freer, more thoroughly human life, is the ultimate objective of development.
Economic progress is a means to that end... We believe that economic progress remains precarious and sterile without corresponding social improvement (McNamara, 1969, p. 75).

Achieving environmentally sustainable development is a major challenge of the 1990s... The existence of acute poverty in the world and the degradation and contamination of ecosystems are related critical issues and essential concerns in environmentally sustainable development. The Bank must provide leadership in accelerating the improvement of living standards while incorporating the objectives of environmentally appropriate management and sustainability into the design of development policies and projects (Bank, 1994, p. 42).

These are examples of the Bank's reconception of its understanding of development over the years. Why these changes occurred is the focus of this dissertation.

The World Bank has experienced five different strategies in its lending practices and thus four significant periods of change in its lending practices⁠¹ have occurred. This section is intended to be a summary of the changes; an explanation of the use of change in this work is elaborated below. Initially, Bank lending was solely focused on the reconstruction of Europe from the devastation wrought by World War II. By the late 1940s to early 1950s this emphasis had changed to one of LDC development which was approached through the funding of infrastructure projects (Development, 1954). Infrastructure included a variety of areas embracing construction of transportation networks (roads, rails, & ports), increasing power supply and dissemination, mining, and enhancing the state's abilities to feed its own population. This last category was conducted through investment in large-scale agricultural projects such as dam building and construction of related irrigation schemes, clearing of land, and investment in modern

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¹ These changes in lending were not simply created by the author. Instead these are major changes in lending policies recognized by both those who study the World Bank (for example, Asher, 1973; Gwin, 1994; Haas, 1990), and those who work in the organization (Kraske, 1996; McNamara, 1981, and numerous interviews conducted at the Bank). However, it is also important to stress that the third period of change, human needs to structural adjustment lending, is often overlooked by academics and I added this
mechanized agricultural equipment. During this period success was predominantly measured through growth in GNP (Asher, 1973; Ayres, 1983; Rostow, 1972).

The second episode of change occurred in the 1960s as the Bank began to pay greater attention to "human needs" projects in the LDCs.

In the late 1960s the bank changed its basic philosophy of development lending from supporting infrastructure projects that were relatively remote from the direct experiences of poor people—hence the reliance on the theory of trickle-down—to the policy of supporting the advancement of basic human needs, with its implication of much more direct and intrusive intervention in the borrower's domestic affairs in order to gain access to their poor citizens (Haas, 1990, p.3).

Human needs thus took a more individualistic approach to development and attempted to eliminate poverty. To accomplish this goal the Bank commenced lending in a variety of new areas including education, provision of fresh water, housing, nutrition, and agricultural investments that focused on the small farmer instead of the large landowner or state-owned cooperative as in the earlier era.

During the early part of the 1980s the Bank changed again, adding structural adjustment lending to its pool of lending programs. The attempt here was to alleviate the tremendous levels of debt many of the LDCs had accumulated by the 1980s and in addition to help them rearrange the management of their economies to achieve a more efficient use of their resources (Leslie, 1987, chapter 3). Shrinking the size of the government, dismantling subsidies, increasing the performance of the "market," and promoting exports were all policies emphasized by the Bank to achieve adjustment and insure future economic growth and stability.
Since the late 1980s, the Bank again altered its lending policies to pay closer attention to sustainable development practices. This entailed bringing into the decision making process the interests of subnational actors affected by Bank projects, as well as considering environmental concerns and economic development as inextricably intertwined.²

1.4 Mission change: Definition

With the shifts described above in mind, it is possible to operationalize the dependent variable, mission change, in a way that is applicable to other development organizations as well. Defining this dependent variable also provides the criteria for the case selection. Change is an indefinite term that must be further specified. Certainly the World Bank has undergone numerous changes. One can argue that policies, personnel, and collections of beliefs change on a daily basis. While the overall goal of promoting development has remained the same, the meaning of the term “development,” and therefore the strategies employed to pursue this end, have shifted over time. Consequently, “mission change” for this project refers to changes in the priorities and strategies used. Such a major change in policy should be observed through both words and deeds, or as Hermann and Billings state, “problem re-representation...refers to both the cognitive processes and the resulting product” (Hermann and Billings, 1998).

Chapter 2 details the specific indicators used to determine the Bank strategies in terms of both words and deeds.

² An explication of the connection between the environment and economic development and the importance of subnational actors for sustainable development strategies is discussed in Our Common Future, 1987: and Agenda 21, 1992.
Operationalizing change with explicit indicators and then empirically tracing shifts in the World Bank’s mission are contributions in themselves. Most research fails to be explicit about the indicators for change. Further, work on the World Bank asserts that there have been four periods of change, yet most of these analyses have not been conducted systematically. Only empirically tracing these shifts as outlined above will allow discrete periods of change to be recognized and examined.

1.5 An overview of explanatory perspectives

While the specification of hypotheses is left to Chapter 2, this section briefly discusses several theoretical perspectives that are often employed to understand behavior in the international system and have been applied to the study of international organizations in extant literature. Each of the following perspectives focuses on a particular type of variable that may be the source of change in the World Bank. These approaches directly address issues that are central to the Bank and its decision-making processes. They are: power-based theories, interest-based theories, leadership approaches, and organizational theories.

As some have labeled them, “power-based theories of regimes” (Hasenclever, Mayer and Rittberger, 1997) focus on states as the primary actors in the international system and are concerned with power relationships among states (for example, Gilpin, 1981; Mearsheimer, 1995). Such an emphasis means that these perspectives are directly applicable to the Bank since it is an institution created and run by states. In fact, Katzenstein, Keohane and Krasner (1998) maintain that one of the exemplary features

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3 This section is intended to give an idea of the literatures consulted and is not intended as a full literature review (hence its brevity).
about this perspective is that it "operationalized the explanatory variable, state power, in terms of some overall measure of size... and the dependent variable, international economic behavior... These systemic theories could be proven wrong: either the pattern of international economic behavior changed with the distribution of power among states or it did not." In regards to the World Bank, what becomes important are actors which can influence the Board of Executive Directors. This is the group that handles the day-to-day operations of the Bank and must vote on all loans made by the organization and on changes in the structure of the organization. The weighted voting structure of the Bank reflects these power relationships and thus expectations are for a sound theoretical fit between these perspectives and the changes in the Bank (this is elaborated in Chapter 2). In fact, the US has always maintained predominance, inviting the conclusion that factors other than power are at work here.

Reflecting the broader debate in IR, companions to the power-based approaches are interest-based theories (Baldwin, 1993; Hasenclever, Mayer and Rittberger, 1997, p. 4). While the former argue that states are motivated by increasing power relative to others, the latter argue that states’ interests can be modified by participation in institutions. Therefore, while maintaining the basic assumption that the behavior of unitary state actors determines outcomes in the international system, interest-based approaches assert that preferences of states should be considered empirically and not equated with the maximization of power differentials. Further, as two early proponents noted (Keohane and Nye, 1977), power is not fungible across all issue areas and

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* For instance Robert Gilpin, in *War & Change in World Politics* describes how the hegemonic power in the international system sets up the institutions to run the system (Gilpin, 1981).
institutions, which necessitates an examination of state preferences within a particular institution. From the perspective of this study, change occurs because the preferences of leading states change. Subjecting this claim to systematic investigation also speaks to recent condemnations in the media and by protesters that the US only uses the Bank as a tool of capitalist imperialism. Although US preferences help explain some cases, there are other instances in which the US has been overruled. Again, it is necessary to seek additional explanations.

A third area of literature relevant to the study of organizational change is focused on the role of leaders (Burns, 1978; Hargrove, 1989). Leaders are not necessarily able to affect an organization's behavior in all situations. However, an important claim in this work is that during times of crisis and/or great ambiguity (Hermann, 1976), the individual leader has the opportunity to influence the organization’s priorities and impose his own vision about the mission and how best to achieve it. A focus on the President of the Bank may be especially useful because the President is perceived to have a degree of autonomous power, both from his home state and from the rest of the organization. Many analysts who study the Bank point to the presidency of Robert McNamara as being especially representative of the independent power of the president to transform the institution against the will of those in the organization and certain powerful member states. Still, there are other cases in which the Bank did not have a strong leader or the president did not express a distinct organizational vision. Building from this, it is those times in which other aspects of the organizations may be significant. This introduces the final theoretical perspective brought to bear to explain change in the IBRD.
While perhaps not denying the utility of power- and interest-based theories and leadership perspectives in explaining change, organizational theory offers yet a different level of analysis. Here change in mission (how to achieve development) occurs as a result of changes in the organization's structure. The Bank has changed organizationally over the years, in the following categories: bureaucratic structure, operational procedures, and membership. A great deal of literature in recent years looks at the influence of non-state actors (Ennals, 1986; Kerbs, 1986; Rahnema, 1985), including "epistemic communities" (Krasner, 1983) as engines of change. For the time period examined here, it is only in more recent periods that there was any relevant Bank-NGO interaction. Preliminary research showed that the more recent significance of the actors had more to do with the creation of channels for interaction created by changes in the organization. Therefore, in this study the NGO variable is incorporated into this general organizational perspective. As with the other theories, this view too has its shortcomings. For example, these theories undertheorize the power that is necessary to bring about these organizational changes, and the timing of change cannot be explained without looking to variables outside the organizational framework (state power and preferences, leadership).

This section has provided an overview of various perspectives; the goal of the research is to understand how they may fit together, i.e. in what kind of cases are some explanations more powerful than others? When can leaders act alone, when is power the most important, etc.? The next chapter elaborates the research design used to help answer these questions. In terms of contributions to the broader IR literature there are

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5 For Example Kimberly Zisk, Engaging the Enemy: Organization Theory and Soviet Military Innovation, 11
several. There is not enough empirical work that seeks to explain the behavior of international organizations, yet theorists still tend to make claims that power- and interest-based theories can help us understand that behavior. This dissertation will provide a base for evaluating that claim and a sense of the limits of those perspectives as applied to IOs. Further, by pulling together in one research design the system (power), state (preferences), organizational, and individual levels of analysis, at least some initial insight should be gained about how these affect each other.

1.6 Format

The next chapter describes in more detail how these questions are explored, including a description of the indicators and the explication of hypotheses. The subsequent chapters focus on each period of change: Chapter 3 covers reconstruction to infrastructure, Chapter 4 looks at the shift from infrastructure to human needs, Chapter 5 examines human needs to structural adjustment lending, and Chapter 6 focuses on structural adjustment lending to sustainable development. The final chapter compares the findings across cases and attempts to pull together the theoretical implications about the explanatory power of the individual perspectives and how they interact.
CHAPTER 2

RESEARCH DESIGN AND HYPOTHESES

2.1 Research design

As stated in Chapter 1, Alexander George’s method of structured, focused comparison will be used to evaluate the explanatory power of each of the different hypotheses under investigation. Such an approach allows for analysis of like variables across time periods. He states that the “analysis of cases is both structured and focused—focused because is deals selectively with only certain aspects of the historical case..., and structured because it employs general questions to guide the data collection and analysis” (George, 1979, pp. 61-62). This type of approach does not prove or disprove any particular theoretical perspective. Instead, as Juliet Kaarbo (1996, p. 513) states, “the purpose is not to provide a broad test of the hypotheses...Rather, the aim is to assess their plausibility for explaining these particular cases.” The questions addressed to each case are based on the four sets of independent variables discussed below as potential causes for mission change: power, preferences of the leading state, the role of leadership in the organization, and changes in the procedures and structure of the organization.

Since power and preferences are two essential ingredients for change in some theoretical perspectives, then the cases selected should be of interest to those emphasizing such variables. Therefore, cases should be drawn from organizations that
matter to such theorists since some may concede that distributions of power do not
provide any understanding to changes in certain institutions that are of minimal
significance. International economic institutions should fit this requirement, since even
many realists are beginning to view international economic relations as the new “security
arena.” Additionally, the World Bank can be considered a critical case for these theories
since formal decision making is based on weighted voting. This is a case where
structural power relations would be anticipated to have the largest effect.

As mentioned above, the World Bank has undergone at least four distinct periods
of mission change. Each of these episodes will be treated as an individual case. There is
also the evidence that all of the independent variables came to bear on the decision
making processes of the Bank at various times. Therefore, it should be possible to
evaluate the applicability of the various explanations to the different cases, exploring how
and why the context may have affected the weight of particular variables at different
points in time. The results will not be conclusive, but should highlight plausible
explanations for change that can be tested on other cases/organizations. To strengthen
the conclusions drawn from this study, any hypotheses derived from the analysis could be
applied to an additional international organization, especially those in the development
field, for instance the IMF or UNDP. This will be discussed further in the concluding
chapter.

2.2 The dependent variable

Relating the concept of change to the World Bank means that mission change
occurred when the Bank redefined “development” and reprioritized the means for
achieving this general goal. Chapter 1 described the way in which this has happened
several times in the fifty-plus year history of the World Bank; Chapters 3-6 will each give a more detailed view of the changes and their significance.

Because these are major alterations in policies, it is anticipated that reference to the new approaches will appear both in major policy speeches by leading individuals in the organization, i.e. the president, and in financial outlays. Activities and statements of the Bank can have significant influence on the development field because it is the single largest provider of development aid. Martha Finnemore (1996, particularly p. 98) sees the Bank playing an important role not only through its financial contributions but also its role of signaling states and other lenders about shifting strategies/goals of development resulting from its expertise and intermediary role. In terms of the World Bank, the activities are the loan disbursements.

Expenditure of institutional resources is the measure of the dependent variable. Yearly outlays are recorded in the *World Bank Annual Report*. These expenditures are sorted according to sector. The sectors are categories created by the World Bank. These data have been recorded since the first loans were disbursed by the Bank. Collapsing the categories allows for a more thorough categorization of loans by the analyst, instead of relying upon how the Bank categorized particular loans. This is important because Bank categories do not always correspond with the categories under investigation in this dissertation. For instance a forestry loan could mean building a road into virgin tropical rainforests to enable lumber extraction, or at a different period in time this could include a loan to pressure a virgin rainforest for a national park to maintain the local ecology and biodiversity. The analyst doing the coding needs to distinguish between infrastructure in the first instance and sustainable development in the latter.
From the description of each loan included in the *Annual Reports*, the coder can list the loan as falling into one of five distinct categories representing the lending priorities of the Bank. These categories are: reconstruction, infrastructure, human needs, structural adjustment, and sustainable development. Each of these categories is fully defined in section 2.3 and the content analysis method is described. This coding process allows for the creation of a systematically derived data set that can be analyzed for change in the institution. As stated in Chapter 1, one of the serious flaws in much of the literature on the Bank is the reliance on anecdotal evidence about changes that have occurred and not systematic analysis of actual lending strategies. Since the Bank is such a large institution it is not surprising that people can find examples of their perspective in its lending practices. However, we cannot tell if this is the norm or merely an anomaly.

To assert that a shift in development strategy has occurred, it is important to choose a percentage at which lending in a particular area should realistically be considered a change in policies—in other words, a “threshold of change.” There are two reasons for looking at percentage of spending in a particular strategy area. First, the budget of the Bank has grown immensely since 1947, both in real and absolute dollars. Comparing the percentage of the budget dedicated to each area is more useful when looking over time. Second, the Bank often does not fully terminate any particular type of project. Instead, it continuously adds new development sectors and then adjusts its lending priorities; therefore, it would not make sense to expect the dollar values of lending to a new area to surpass the amounts given to the added areas. The next question then becomes what is a reasonable threshold of change? By the time of the final shift to sustainable development, according to secondary sources on Bank history there are five
lending areas. An even distribution across strategies would be twenty percent. As noted, however, the fact that the Bank keeps lending to earlier strategies makes it unrealistic to expect this large of a shift when a new strategy is conceptualized by the IBRD. Therefore, a threshold of ten percent of new lending was chosen as the most reasonable point at which change in lending would be recorded. The results of such analysis, given in both absolute dollars and as a percentage of overall lending, are displayed in Tables 2.1 and 2.2 and Figures 2.1 and 2.2. These figures will be discussed in-depth in Chapters 3-6.

2.3 Content analysis method

Content analysis is the technique chosen to determine the strategies of the Bank because it best fits the goals of the research. Indeed, it is "a procedure in which a judgment is made whether a specific unit of material contains certain words or ideas assumed to indicate a theme or variable under study" (Hermann, 1983, 1987, p. 1). Content analysis can be either qualitative or quantitative. The method presented here is both: using the rules specified below, the coder determines if loans made by the Bank fit in one of five categories, then these are tallied over time and the frequencies are compared. Indeed, with a quantitative content analysis, the basic assumption is that the greater frequency of a specified theme or variable appearing in the units of text being analyzed, the more important and representative that theme or variable is to/of the source (Hermann, 1983, 1987).

The purpose of this content analysis is to read text concerning "development" and to recognize different strategies emphasized to achieve the goal. The analysis of the coding will help in understanding which strategies were more dominant at a particular
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Table 2.1: World Bank lending by priority in millions of dollars
Figure 2.1: World Bank lending by priority in millions of dollars
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Table 2.2: World Bank lending by priority as a percentage of total
Figure 2.2: World Bank lending by priority as a percentage of total
time, and when there are shifts in development strategies by the World Bank. This scheme should be applicable for any text focusing on this issue area, however this format will focus on the loans of the Bank. Specifically, the texts will be composed of annual reports of the World Bank; this choice provides consistency because these reports are available for every year. Particular words and phrases in a paragraph will be utilized as indicators of development strategies. The unit of analysis for this project is the paragraph, because in general a paragraph tends to contain words and phrases related to one strategy. Using the paragraph also allows for a sufficiently large N.

Five development strategies have been advocated by the World Bank over the years. These are: reconstruction; infrastructure/industrialization; human needs; structural adjustment; and sustainable development. Each of these will be explained further below, but first a discussion of what is meant by development strategies is necessary. Development strategies are particular means of achieving the overall goal of the Bank, which has always been:

to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes...to promote private foreign investment...[and] to promote the long-range balanced growth of international trade...(Bank, 1946, p. 4)

Consequently, the goals of the Bank have remained those of encouraging international investment, development, and overall global economic growth. This is a clear reflection of the economic thinking during the waning days of World War II when the Bank was conceived and the Articles of Agreement were written. The perception was that much of the international turmoil of the previous decades could be traced at least in part to the economic inequality between states and the limits to international trade. The concern of
this research project is understanding not the goals of the Bank, but the different strategies the Bank employed to achieve these goals. In other words, the focus of the research is how the Bank redefined the term “development.”

**Coding Procedure.** The annual reports contain loan descriptions. The unit of analysis is the paragraph in the loan description. The paragraph, and not the sentence or individual words, is the optimal unit because in general each paragraph contains one strategy. Because of this, it makes less sense to count the words. Further, as will be apparent in the specific coding rules below, the context set by the paragraph helps give meaning to the individual words. The objective is to develop an understanding of the types of development strategies being employed, and to be able to evaluate the relative importance given to each strategy. There may be statements that do not pertain to development strategies. These aspects of the text can be ignored in the coding process. For the reports, this extraneous material includes information beyond the statement about what the loan is for, such as co-financing. Thus, the rule about what kind of information to code and not to code is that no information is coded except who the loan is to, what the loan is for, and the expected outcome of the loan.

Before the coding categories and rules are described in detail, a discussion of the potential problems of this method and how they are addressed is in order. In general, obstacles are any factors that diminish the ability to make strong inferences (Winter and Stewart, 1977, pp. 31-32). First, the texts selected have to be representative of the output of the Bank and also a representative sample of that output over time. Both are assured by using the annual reports on loans for all years (thus this is not a sample but in fact the universe).
Second, intercoder reliability is crucial. This requires that "the categories for analysis of content [are] described or defined in such a way that different people, working independently, will make the same judgments when using the same material" (Winter and Stewart, 1977, p. 33). For this study, three coders in addition were trained in the method by the principal analyst; two of these coders were undergraduates from Baldwin-Wallace College and one was a graduate student at The Ohio State University. Trials were conducted on materials not coded for the dissertation. Intercoder agreement was high from the beginning (approximately 82-90%) and after several trials reached 90% for all the coders. This high degree of agreement was possible because the coding rules are very straightforward and easily learned.

Third, the variables assessed must have basis in theory. As will be apparent below, the lending strategies are derived and the coding rules are developed from theoretical approaches in developmental literature.

Strategies. The following section outlines the different development strategies employed by the World Bank. Under each strategy is a brief description accompanied by a few example sentences and key words. It is important to understand that the "key words" are just suggestive exemplars of the types of words that may identify a particular strategy, and are not comprehensive lists.

Reconstruction

The purpose of "reconstruction" is to rebuild economies ravaged by war or other disasters. Contrary to most Bank lending, loans are not made to particular projects, but to states to rebuild war damaged parts of the economy. Statements that mention reconstruction, war damage, reconversion, etc. should be included in this category.
Mines, industrial plants, and infrastructure are the primary focus of the loans, though some loans were made to cover temporary shortages of hard currency for imports. The important aspect is that loans are being made to *rebuild* aspects of the economy that were war damaged.

*Key words*: reconstruction, repair, rebuild, war damage, reconversion, recovery.

*Examples:*

1. The proceeds of the loan will be made available to 24 Dutch corporations in various industries to finance part of their requirements for imports of equipment from hard currency areas required for reconstruction and modernization (Bank, 1949, p. 26).
2. The purpose of the loan is to finance the purchase of equipment for the Luxembourg steel industry and of rolling stock for its railways... Owing to under-maintenance during the war, the industry is in need of modernization (Bank, 1948, p. 22).

*Infrastructure/Industrialization*

The focus of this strategy is on the development of *new* means of production and infrastructure, not reconstruction. In some regards this strategy may contain similarities with reconstruction but a key distinction is the *purpose* of infrastructure lending—it is *not* for rebuilding infrastructure after disaster or war. Another major difference is that this is largely development in the "third world," but does not have to be limited geographically.

Infrastructure includes road construction, railroads, airports, port facilities, and communications. Also included in this category is the stock necessary for each (i.e. train cars, trucks, airplanes, etc.).
**Key words:** power, energy, dams, electricity, transportation, ports, railroads, roads, highways, communications, industry, mining, forestry, agriculture, agribusiness, farms, GNP.

**Examples:**

1. The program will enable the company to keep pace with Algeria's growing demand for electricity, particularly in the main urban centers of population and industry (Bank, 1956, p. 39).
2. The purpose of the loan is to assist in the execution of a five-year program being carried out by the Railway to improve efficiency and handle increasing traffic (Bank, 1956, p. 47).
3. Agricultural loans as necessary to support large basic investments, particularly in irrigation, flood control and land clearance.
4. The Bank is assisting in increasing the steel production ability of South Asia.

**Human Needs**

The distinguishing aspect of this strategy is that it is more focused on the individual. Development resources are channeled towards projects that try to improve the quality of life for the less fortunate in society such as: population control, education, health and poverty alleviation. Human needs became a popular term with the realization that much of the earlier development efforts benefited the state as a whole, but not all the people. There was a realization of a gap between the "haves" and "have nots" within the recipient states. Human needs was an attempt to make development policies affect the lives of the less fortunate.

**Key words:** population control, family planning, education, schools, teachers, technical training, poverty alleviation, income distribution, entrepreneurs, unemployment, small farmers, rural development, subsistence farming, health, food production, nutrition, clean water, sanitation, sewage treatment, urban housing.
Examples:

1. Everything I saw supported our decision in the Bank to give a new emphasis to population planning, educational advance, and agricultural growth (McNamara, 1981, p. 81).
2. More attention must be given to curriculum design, teacher training and long-range educational planning.
3. Massive urban unemployment is the result of policies which fail to stimulate labor-intensive industries, or reflect a lack of proper balance between rural and urban development.

An important but subtle distinction between the infrastructure strategy and human needs involves agricultural policies. Both strategies provide for agricultural lending. However, the infrastructure strategy emphasizes loans to large farmers or regional projects, whereas human needs focuses on small farmers and rural development that is aimed at assisting these farmers to increase production or to improve access to markets.

Examples:

Infrastructure

1. The loan was made to Peru for the acquisition of large agricultural machinery.
2. The Bank will support the Indus river valley irrigation scheme which will improve the amount of land under cultivation.

Human needs

1. There is an innate conflict between the expansion of relatively large farming, and the survival of the small, family-oriented farm.
2. Lack of support for the less advantaged peasants can lead them to leave the countryside and add to the population problems in the cities.

Structural Adjustment Loans (SALs)

Structural Adjustment Loans are made to states in an attempt to help them open up their markets, increase economic transparency, and limit government intervention and price supports. These loans are often made to states that have balance of payments...
problems and can no longer afford to import essential goods; and usually made in conjunction with the IMF. These loans are made to help the state stay solvent until it can correct its larger economic deficiencies. Part of the goal is to assist the state in restructuring its economy to be more open and reflective of a market economy. Thus an emphasis on SALs are considered to be non-project loans by the World Bank since the resources are not invested in a particular project. Although SALs were most visible in the 1980s, this strategy is not necessarily limited to this period. The current Russian and Asian crises are similar situations.

Key words: structural adjustment loans, adjustment, non-project loans, economic restructuring, debt relief, balance of payments, currency stabilization, reduce deficits, policy reform, state subsidies, market economy, transparency, economic inefficiencies, public sector efficiency, sound business practices

Examples:

1. The nature of the policy changes needed to promote adjustment and longer-term growth... (Clausen, 1985)
2. External financial support can soften the impact of these costs and help deliver the economic benefits of rehabilitation and recovery (Clausen, 1985).

Sustainable Development

The two most significant features of this category are the protection of the environment and undertaking economic policies that do not sacrifice future economic gains. Sustainable development is a broad and often ill-defined policy approach. For this project, I rely on the meaning the Brundtland commission gave to sustainable development. The Brundtland report is considered authoritative because it was the major
report to the UN on this issue and is the basis for most research and writing on sustainable development (this report is discussed more in Chapter 6).

Since sustainable development is a holistic strategy it can be difficult to distinguish it from other strategies. Consequently, it is important to pay particular attention to the emphasis on the underlying causes and connections made in the statements. In particular, population control may fit with the human needs approach, but when the sustainable development strategy is being used, population is connected to environmental degradation or future growth. For example, "future population growth brings with it the risk of appalling environmental damage." Another area where there is a strategy overlap at first reading is forestry. This was an important component of infrastructure developmental strategies, but it is also a focus of sustainable development. The difference is that the first strategy focused on forests as an extractive good whereas the latter views them as an endangered resource that needs to be protected and even expanded. The coder considers the way in which the leader discussed this topic and codes accordingly. This development strategy is a bit different from others in that it may not contain large financial resources. Instead, what is important is how traditional lending areas are evaluated with a concern for sustainability. Implementation of long term feasibility studies or environmental impact statements are some examples of these changes. These may sound initially as tough distinctions to make, but the four coders were able to achieve agreement in most cases.

**Key words:** sustainable development, environment, environmental impact, environmental protection, future use, carrying capacity, forest protection, conservation, soil conservation, project life/longevity. Other key signs of this strategy are sentences in
which particular problems such as population growth, highway building, etc. are connected to environmental damage/negative environmental impact.

*Examples:*

1. The achievement of sustained and equitable development remains the greatest challenge facing the human race (Bank, 1992, p. 1).
2. Humanity’s stake in environmental protection is enormous, and environmental values have been neglected too often (Bank, 1992, p. 1).

The next section moves to the description of the independent variables and how they were made operational. Hypotheses are derived from each theoretical perspective relating the independent variable to expectations of change.

### 2.4 Independent variables and hypotheses

This section develops several hypotheses from the different theoretical perspectives that address the issue of change in international organizations. After each hypothesis, observable indicators for each of the variables are described. During periods of uncertainty, when there is change in the external environment or a perceived failure of current policies, each perspective takes as its focus a different central actor which is responsible for guiding the institution towards a new position. For example, power-based and interest-based approaches emphasize the balance of power in the international system and state preferences, while leadership points to the unique position and power these individuals have in interpreting the problem area and promoting solutions. It is not the contention of this paper to prove or disprove any of these theories, but to explore when and how they may be significant for understanding change in international organizations. In other words, different contexts may affect the power of particular independent variables. Aspects of the general context that could play a role in the Bank’s decision...
making are changes in the global economy, particular demands of recipients, or the
degree of uncertainty about the Bank's role in development may be pivotal aspects. Here
I will be more inductive, exploring the kinds of contextual variables that affect the
applicability of the explanatory variables. A priori, it is unclear what kinds of effects
any of these factors may have because they would be filtered through the Bank's leaders,
the organization, and perspectives of its powerful members.

2.4.1 Power-based and interest-based perspectives

Recent work in IR theory has emphasized the potential theoretical advances that
can be made if power- and interest-based approaches, usually focused on state behavior,
are applied to international institutions (Schweller and Priess, 1997). Since theorists
writing within these paradigms aim to explain such phenomena and because they focus
on the important issue of power, I include in this study hypotheses derived from them.
Both of these perspectives contend that the state is the most important actor in the
international arena, and that institutional change is a reflection of either a change in the
distribution of power or the preferences of the powerful (power-based views) or a change
in preferences within/as modified by membership in the particular institution (interest-
based views) (for a discussion of these distinctions, see Hasenclever, Mayer and
Rittberger, 1997, especially Chapter 1).

Power-based theories consider alterations in the international structure and
distribution of capability as primary determinants of change (Gilpin, 1981; Waltz, 1979).
Interest-based theories consider power as a more fungible resource; change occurs when
rules within a specific issue area no longer reflect the interests of the most powerful
countries in this specific issue area. Issue linkages are considered problematic and
infrequent; the important question is not who is the most powerful overall but rather who is the most powerful in a particular issue area.¹

Power-based perspectives link institutional change to alteration in the preferences of the “important” actors; operationally this usually means the strongest powers in the international system. Mearsheimer, for example, states: “Realists maintain that institutions are basically a reflection of the distribution of power in the world. They are based on the self-interested calculations of the great powers, and they have no independent effect on state behavior” (Mearsheimer, 1995, p. 7). Similarly, Tony Evans and Peter Wilson view international institutions as “arenas for acting out power relationships” (Evans and Wilson, cited in Mearsheimer, 1995, p. 13). Given this conceptualization of international institutions, change occurs when a new distribution of power arises or as a result of a change in the preferences of the leading power or hegemon. According to Robert Gilpin: “In every international system the dominant powers in the international hierarchy of power and prestige organize and control the processes of interactions among the elements of the system” (Gilpin, 1981, p. 29). The order created by the hegemon decays with a decline in its power; that is, regime change reflects the new distribution of power: “A precondition for political change lies in a disjuncture between the existing social system and the redistribution of power toward those actors who would benefit most from a change in the system” (Gilpin, 1981, p. 9).

¹ Haggard and Simmons point out an inherent weakness of the issue structural/regime approach: They show the difficulty in defining precisely the parameters of what constitutes the particular regime or issue area. More broadly, this is a problem with the entire regime literature. However, when applying these concepts to organizations and institutions the vagueness of boundaries is muted (Haggard and Simmons, 1987).
For realists such as Mearsheimer, NATO was "a manifestation of the bipolar distribution of power in Europe during the Cold War..." Consequently, it will disappear or "reconstitute itself on the basis of the new distribution of power in Europe" (Mearsheimer, 1995, p. 14). Following the logic of hegemonic and structural realist theories, a change in any particular institution or regime should be preceded by either an alteration in the preferences of the leading power or through a redistribution of power in the international system (or within a particular institution, which generally reflects a shift in systemic power).

Hypothesis 1: When there is a change in the distribution of power within the IBRD, then the institution will change to reflect this new distribution.

Many theorists have suggested ways of measuring power in the international system, with a special concern being the relative capabilities among the leading states or poles (Mansfield, 1994). This dissertation will use the weighted voting system of the member states of the Bank. This measure is valid because first, the formula utilized by the World Bank is a reflection of states' economic power in the international system (see below). Consequently, this variable measures power within the institution but is also a proxy measure of economic power in the international system. Second, voting power allows for comparison between states and across time of the same state. Distribution of power within the World Bank can be measured with the percentage of votes any given state has within the organization. A relatively unique feature of the Bank is its weighted voting system where it is not one state/one vote, but a system roughly based on contributions and "ability" to pay. Since many decisions only require a simple majority, the leading 5-7 states which represent about 51% of the vote are the focus. Shifts in
which states represent this majority vote is significant. The US, followed by these other largest donors, represents a “veto player,” (Tsebelis, 1999) in certain types of decisions which generally have to be onboard for any change in policy.

Day-to-day operations of the Bank and voting on all loan projects is handled by the Board of Executive Directors. There are only twenty-four directors (since 1994; the original number in 1947 was twelve), and the five states with the largest percentage of the vote retain a special position on this board since they are the only states with their own representative. All other members of the institution are represented by an executive director who represents a group of states. These directors are elected by the group’s members and vote the total members’ shares. Thus, to reinforce the fact that the power of these few states is crucial to Bank behavior, in the decision making body of the World Bank in 1994 there were 177 member states, but only 24 people serving on the board of executive directors. The president also resides over all executive director meetings. This further privileges the leading five states in that it is easier to promote their preferences in the organization than others who must work through a joint executive director who is most likely from a state other than their own. Because shifts in power among the five states could be important, this study will track the changes in voting power of not only the leading state, but also the other four most powerful states (see Figure 2.3).

Hypothesis 2: When the preferences of the most powerful state change, then the lending practices of the Bank will change to reflect those preferences.

Tracing the preferences of the leading power within the World Bank requires an understanding of the development preferences of the US. While this is no easy task, a concerted effort was made to find all sources with data on US-Bank relations (see below).
Figure 2.3: Voting power as a percentage of total
Since WWII, the US has played the role of the leading power (Figure 2.3), though with a diminishing gap between its resource commitment and other states, particularly of the G-7. Timing is vital in understanding power of preference change as a cause of Bank change. In other words, were preferences pushed by the US before or after change had occurred in the Bank?

Preferences are notoriously difficult to construct, let alone trace over time as is necessary for this research. To make matters worse there is an almost complete lack of information concerning the most powerful decision making body within the Bank; the boards of executive directors. Though Bank documents have been increasingly made public in the last decade, the files of the executive directors have remained closed. The most tractable means of tracing US preferences is to follow the policies promoted by the US executive director. However, reports of the executive director are not in the public realm for several reasons. First, it was believed from the earliest days that states would only divulge important economic data to the Bank if the state knew that this data would not be released to others. Second, there is an understanding within the Bank that all decisions on loans are the decision of the Bank, not some members within the Bank. Third, it is believed that opening the executive directors' minutes and meetings would institute political pressures into a decision-making process that is supposed to be based on sound economic principles. This secrecy of the decision-making process has constantly vexed members of Congress, and increasingly, the American public. Members of the US government have found it difficult to evaluate the Bank due to the secrecy of its decision making processes (Comptroller General of the United States, 1973)(Sanford, 1982). This complaint about the secrecy of the institution has continued to this day and
pressure for greater transparency was included in the protests this spring and has composed part of the Congressional agenda for reforming the Bank and the IMF. Of course, this fact makes difficult creating a dataset of definitive US preferences. The rest of this section explains how this issue was tackled.

An exhaustive search of government documents indicated that the most consistent and systematic information available on US preferences within the Bank are the annual reports of the National Advisory Council. The NAC was created after WWII with the urging of Congress as a concession for voting for the creation of the Bretton Woods institutions. The statute that created the NAC “directs the Council [NAC] to coordinate the policies and operations of the representatives of the United States on the International Monetary Fund and the International Bank for Reconstruction and Development” (Council, 1946, p. 2). The NAC reports are an annual description of US activities regarding multilateral development banks; each bank receives its own section within the report. Much of this report summarizes the MDBs’ yearly activities, but it also contains US policies towards the Bank. To supplement understanding of US preferences, secondary sources such as the Congressional Record and academic evaluations from the Congressional Research Service were consulted.

To classify US preferences in these documents, a qualitative analysis was conducted. All instances in which a statement about US preferences regarding development strategy and mission of the Bank were classified according to the five lending categories. It should be noted that in some cases no preferences were expressed.

^ For current debate in the US on the issue of transparency and other reforms of the Bretton Woods institutions see the press releases of the Joint House and Senate Economic Committee who have been holding IMF and World Bank reform hearings throughout the fiscal year.
A second indicator necessary to evaluate this hypothesis involves timing, as noted above. Once an inventory was taken of US preferences, any shifts in preferences were lined up against the mission change in the Bank (change in lending strategy). The hypothesis is only considered valid if the change in the Bank followed change in US preferences.

2.4.2 Leadership

The two independent variables discussed above view the organization as a fairly malleable entity that simply responds to the whims of states, the external environment, or pressure from non-state actors whether through expertise or a change in mass beliefs. The organization itself is not viewed as an autonomous or semi-autonomous actor. However it seems logical that any change of an organization will require some guidance or leadership (see Hargrove, 1989 for a classic discussion of the significance of leadership in institutional change). Hermann (1976) points out that leaders are especially important at times of crisis or "when the situation is ambiguous and demands definition."

Part of the reason for the possibility of the importance of leaders is their ability to act with fewer constraints on their decision making powers. As Hermann (1976, p. 327) states, "roles are less likely to be well defined the higher in the organization one climbs...furthermore, there are fewer, if any, people above one to change or modify the decision." For the study of international institutions, this points to the potential importance of the leader of the particular institution—especially when there is a sense of ambiguity about the way development should be pursued. In the case of the World Bank this individual is the president.

Much of the leadership literature in international relations and foreign policy considers various leaders' different personality types to derive expectations of
effectiveness in leading the government. Though an interesting and important area of research, what is important for this paper is that leaders have a definite ability to influence on organization and may utilize this power. The focus here is understanding when leaders' influence does come into play. For understanding mission change in international organizations, leadership may be a key variable in understanding the timing and content of change. To explore the role leaders may have played themselves in bringing about change, this research looks first at change in the president as a cause of change and then at change in the president's problem representation as a cause. These are discussed in turn.

Hypothesis 3: When there is a change in the president of the Bank, then there will be a change in the lending practices (consistent with the leader's prior experiences).

This hypothesis puts forth the simple idea that a new person in the job may bring with him new ideas. Each president has come to the Bank with a different background, and thus may think that development should be pursued in vastly different ways. Their ideas may derive from their successful experiences and worldviews developed elsewhere. For example, Eugene Black (1949-1963) was a Wall Street Banker whose central focus was infrastructure; loans to develop infrastructure were the best way to increase GNP (and also pay back the bank). On the other hand, George Woods (1963-1968) was also a banker but had more experience in the developing world. His key idea was that education and other human needs lending was the best way to improve the lives of the developing world. The main indicator for this variable is simple: a change in leadership; this is compared to the timing of mission change (which has to follow a new leader for this hypothesis to be valid). Additionally, the case studies describe the
experiences that each leader brought to the position to suggest if and how the Bank should change with that new leader.

Whether a new leader or not, a president may change the way the challenges that face the Bank and the optimal solutions to those challenges are defined. For example, new elements of problem and solution may be placed on the leader's agenda by the pressures of states or campaigns of non-state actors. In an effort to get closer to the decision making of this leader, this project looks at leaders' problem representations towards development (Sylvan and Voss, 1998). As an analytic focus, research on problem representation (PR) deals with the "the manner in which a problem is defined and represented" (Sylvan and Voss, 1998, p. 1). Problem representation is a good tool to utilize here because it helps focus on how the individual, the president of the Bank, perceives that the organization can best achieve its goals. Thus, in this study PR entails the different conceptions leaders have of strategies through which the Bank can meet its development goals. We can "map" out the representation of the Bank's presidents over time to find out if changed representations of the problem preceded changes in the Bank, or vice versa.

*Hypothesis 4: When the president changes his representation of how the organization can best meet its goals, then the lending activities will change to reflect this new representation.*

The indicators for this variable are the lending strategies coded in the leaders' annual addresses to the Board of Governors. The purpose of these speeches is to highlight the previous year's lending and, most relevant here, to set the agenda for the next year. In doing so, they give an overview of how they see the developing world and the role the Bank has in addressing development problems. Thus, from these statements
a clear picture of that leader's public vision for the institution is available. Further, because all of the presidents give this address every year to the same audience, this is the most consistent, comparative way to look at problem representations across time. The coding is conducted the same way as for the dependent variable (described in section 2.3 above) with a few exceptions, detailed below. Because the presidents' addresses are given in September to set out the goals for the next year, and the annual reports (see discussion of dependent variable above) are compiled in July of the following year, changes in the speeches for one year are compared to changes in lending for the following year (for example, the 1954 speech is compared to the 1955 annual report).

Using the same coding rules as for the dependent variable, the leader's speeches will be coded for the five strategies (reconstruction, infrastructure, human needs, structural adjustment, and sustainable development); indeed, the speeches make arguments about what the Bank should do and why. Further, strategy importance will be evaluated according to three aspects of any particular speech: frequency, placement, and verbiage. The first feature of a speech that must be recorded is the number of times per speech each particular strategy is mentioned. There will be sections of speeches, such as a sentence or paragraph, etc. that contain mixed strategies. In these instances, all strategies alluded to should be recorded by the coder. Second, the emphasis given to each strategy in a speech according to the placement of the references. What is considered most important will be placed in the introductory and concluding three or four paragraphs. Finally, the coder must pay attention to the verbal emphasis given to any particular strategy. Examples of important words are: the most important, paramount, vital, etc.
The coding of the three dimensions is conducted as follows. When the speaker refers to a development strategy, the coder counts each reference once; the first column of the coding sheet is for a tally of the frequencies. If the reference is in the introduction or conclusion, the coder counts each reference appearing in these sections in the frequency column, but also places another mark in the placement emphasis box. Finally, there will be a mark for one reference in the third column, if it also contained emphatic verbiage. An example would be if the following sentence occurred in the introduction or conclusion of a speech: “The most important assistance we can give developing countries is to assist them in the creation of an industrial base.” This sentence would be tallied once for mentioning infrastructure, again for placement, and again for the word “most.”

In the speeches, there may be statements that do not pertain to development strategies. These aspects of the text can be ignored in the coding process. Statements about the Bank’s finances need not be evaluated, for example: “What we have done in recent months is to look for new sources of funds” (McNamara, 1981, p. 60) or “An issue of World Bank bonds, with 8 to 15 years maturities, was sold in Germany a few months ago at a cost to us of 6.52%” (McNamara, 1981, p. 61). However, statements about global economic conditions can be important indicators of the strategies being proposed. How the global economy is defined may indicate the strategic direction toward which the president is leaning. For example, defining global economic problems caused by a lack of capital flows, debt problems, and limited transparency in some states’ economies, are hints of a strategy of Structural Adjustment Loans, since these are designed to address exactly these issues.
When all of this initial coding is completed for a particular speech, the overall score for each of the development strategies is calculated. The total marks for each strategy are tallied and the percentage each strategy is used is calculated. The percentage frequencies can then be compared across time. As with the dependent variable content analysis, intercoder tests established the reliability of the method for coding the leaders' problem representations as visible in their speeches. The lending strategies in the problem representations are compared to the dependent variable; for this hypothesis to be valid, changes in PR should precede changes in lending. Figure 2.4 shows the leaders' representations over the Bank's history; each chapter focuses on the relevant leader for that time period.

2.4.3 Organizational change

The focus of the literature in this area is on mechanisms within the organization itself as causes of change (see Huber and Glick, 1995 for a recent categorization and review of factors affecting organizational change). Research proposes various aspects of organizations that can affect how they function and consequently why they change (for example, Zisk, 1993). Of the variety of independent variables proposed, this study hypothesizes that the most relevant to changes in the IBRD are changes in bureaucratic structure, operational procedures, and membership. These are the factors that would most likely affect the kinds of projects to which funds will be allotted.

Bureaucratic structure. One segment of this theoretical approach focuses on how the structure of the bureaucracy influences its activities and the ability of various actors to “be heard” or “set the agendas” (Jacobson, 1984; Riggs and Plano, 1994; Soroos, 1986). This structure determines the decision making process and any changes to this structure
Figure 2.4: Presidential emphasis by lending strategy
can affect policies, goals, and outcomes. This may be a fairly “common sense” variable, but nonetheless important to explore as the ramification can be wide ranging. For international institutions, addition of new units and new offices is a common type of bureaucratic change that can have unforeseen consequences. For example, more recently the Bank has opened channels for interaction with non-governmental actors; this project examines the extent to which this interaction has influenced true change. Some of these fall under the rubric of “epistemic communities,” (Haas, 1992) others are referred to as “global civil society” (Wapner, 1995) What ties this seemingly diverse body of literature together is an interest in the “influence of ideas and normative change on international relations and foreign and domestic policy changes” (Sikkink, 1993, p. 438). While it initially seemed prudent to consider NGOs/global civil society as an entirely different theoretical perspective, research revealed that the Bank did not interact with them for its first three decades. For comparative purposes, the NGO variable is therefore incorporated into this general organizational perspective.

Once the organization changes to interact with external actors, how does this shift bring about change? Let us take epistemic communities as an example. This term broadly refers to elite-based perspectives concerning knowledge and preference formation. Specifically, Peter Haas has coined the term to mean, “a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area” (Haas, 1992, p. 3). Epistemic communities build and transfer consensual knowledge to international organizations and interested members, they build confidence in new understandings and thereby promote a belief in the validity of the concepts.
Similarly, Judith Goldstein and Robert Keohane (1993) posit that the policy process is affected by "causal beliefs" rooted in consensual knowledge, the diffusion of new ideas and information, and members' training and expertise in the area under consideration. As Haas (1992, p. 3) argues, "...control over knowledge and information is an important dimension of power and [that] the diffusion of new ideas and information can lead to new patterns of behavior and prove to be an important determinant of international policy coordination." Epistemic communities are one means by which knowledge can influence change in international organizations. That is, once the bureaucratic structure alters to provide channels to these external experts, the knowledge these experts share can in turn bring about consensus on mission change. NGOs can act in this same way, but try to influence change with both expertise and political pressure. For example, Haas and Haas (1995, p. 260) argue that "typical roles [of NGOs] include providing representation, articulating interests, furnishing informational feedback to the clients back home, and (occasionally) making decisions that matter." However, they cannot do so until organizational restructuring provides an inroads.

**Change in operational procedures.** A second category of bureaucratic change is the development of new rules of doing business. Over the years, the Bank has instituted conditions on loans such as the requirement that no loans go to education, a rule in the 1950s. Both changes in structure and operational procedures may be significant because they create enabling structures for leaders, powerful states, or non-governmental actors to effect change.

**Change in membership.** A final organizational change that is likely to produce a change in behavior is membership. For the Bank, an obvious difference over time has
been the tremendous influx of new members, especially in the 1960s. At the very least, this influenced a change in the composition of the Board of Executive Directors. Additionally, many new employees were hired over the years from these states altering the general makeup of the personnel. The actual effects this might have had are investigated.

Hypothesis 5: When there is a change in the organizational structure, a change in lending strategies will follow.

As is apparent from the discussion above, there are several “parts” of the organization that need to be studied in order to see if they change and precede change in lending strategies. For bureaucratic structure, the indicator is reorganization. That is, the elimination or addition of new posts or offices, and/or the change in duties of existing offices. Information on this variable is available in the annual reports and additional IBRD documents, some of which were collected in field research at the Bank headquarters in Washington, D.C. Also, interviews (March 1999 and May 1999) with staff members of the Bank provided further information.

Under the rubric of bureaucratic structure change, NGO activity should be monitored as well. First, research paid attention to structural change in the Bank to open interaction with NGOs. Then, interviews were conducted with staff members of this NGO unit (March 1999 and May 1999); they provide details about the lack of interaction with these actors in earlier years and about the kinds of contact they have with NGOs in more recent years. These interviews and secondary sources on NGOS and the World Bank (Fox and Brown, 1998; Nelson, 1995) provide information on the kinds of strategies they pressured the Bank to pursue.
For the procedures, indicators are any change in decision making rules, for instance procedures on accepting loans and conditions on granting loans. Also important are any new institutional policies, such as how money is raised. For changes in membership, the indicator is apparent: any new members or departure of current members counts as a change. Because the most powerful states are already members, there is no basis on which to hypothesize that particular types of new members will lead to a greater/less magnitude of change. However, it makes sense to expect that the departure of a powerful member would be more likely to bring about change of a greater magnitude (however, this is a very unlikely situation). This information is available in the IBRD’s annual reports.

As with the other variables, timing is a key part of evaluating the hypothesis. Thus, the alterations in the bureaucracy have to precede the shifts in lending strategies. The case studies keep track of this timing. Also, because extant literature does not provide ideas about how the possible changes described produce the change to specific lending strategies, the case studies document any shifts that seem related to the changes in organization so that we can increase our knowledge of this phenomena.

2.5 Supplemental interviews

Interviews of current Bank staff were conducted as part of the research process for this dissertation. These interviews were intended to add depth and insight to the understanding of change in the Bank. These interviews serve as a window into the phenomena being studied.
An attempt was made to interview as much of a cross-section of the Bank as possible, thus individuals in different departments and at various levels were interviewed. Additionally, attempts were made to interview a variety of nationalities. Since not all people were available or open to being interviewed this diversity was not complete. Again, this was not considered a thorough sample of Bank personal, but sufficient to add understanding and depth to the inner-workings of the Bank. The individuals below represented primarily the NGO Unit, the Operations and Evaluations Department, the Human Resources Department, and a vice president involved with strategic planning for the Bank: Ralph Hanan, Jim Huttlinger, Gregg Ingram, William Reuben, Julian Schweitzer, Najma Sidikhi, Lars Vidaeus, Helen Watkins, Kris Zedler.

Questions were developed to get at how individuals within the Bank perceive any changes being implemented and if/how they witness actors working to effect change. The interviews were conducted informally, using open-ended questions as a guide; depending on the course of the conversation, additional clarifying questions were asked. The general questions revolved around the following points: Who were the important actors in the Bank (does the interviewee emphasize states, individuals, etc.)? Looking at change in the Bank over time, what has been the role of NGOs, US power, the Bank president, internal changes in procedure? Who or what do you think influenced the change to SAL and/or sustainable development (only these two changes were included because the SAL change is as far back as most interviewees would have been familiar with, based on their length of employment)? Is the decisionmaking process more aptly described as “top-down” or “bottom-up” (do the lower level bureaucrats have any input)?
2.6 Multivariate analysis of lending history

An initial coarse cut of the explanatory power of the various independent variables was conducted with the results presented in Tables 2.3-2.6. The reconstruction category of the dependent variable will not be examined in this manner since it was mostly an empty category and was the original strategy of the Bank; this dissertation is looking at change away from this category. Each of the variables will be explored more thoroughly in the following chapters, however, this section provides an interesting look at the variables over the entire history of the organization. Such an approach allows for a first analysis of some of the variables that may be significant in influencing mission change. It is important to remember that by stretching the independent variables across the entire history of the Bank some of the results may be significant here, but not in the particular time period of change, which is one reason why a more qualitative analysis of each shift is also necessary.

Multiple regression models were estimated for each of the lending categories of the dependent variable. The independent variables in these models are: change in US preferences (as a dummy variable), change in organizational structure (as a dummy variable), change in president (as a dummy variable), voting power of leading seven states, individual president (as a dummy variable), and leaders' problem representation regarding the particular lending category. Each of the models is significant and has a high adjusted R²: .755 (infrastructure), .901 (human needs), .968 (SAL), .840 (sustainable development). The Pearson correlations and significance levels are given in the tables; instead of detailing each one, this section will discuss general results across the cases for
<table>
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<th>Sig. (1-tailed)</th>
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* ORGSTRUC=changes in organizational structure, USPREF=changes in US preferences, individual leaders=when in office, PRES=change in president, individual states=voting power, PR INFRA=presidents' problem representations for infrastructure lending.

Table 2.3: Multiple regression results of independent variables on infrastructure lending, 1947-1994*
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Table 2.4: Multiple regression results of independent variables on human needs lending, 1947-94

* ORGSTRUC=changes in organizational structure, USPREF=changes in US preferences, individual leaders=when in office, PRES=change in president, individual states=voting power, PR INFRA=presidents' problem representations for infrastructure lending.
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<td>USPREF</td>
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<td>.156</td>
<td>.155</td>
<td></td>
</tr>
<tr>
<td>CONABLE</td>
<td>.727</td>
<td>.891</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>CLAUSEN</td>
<td>.385</td>
<td>.296</td>
<td>.026</td>
<td></td>
</tr>
<tr>
<td>MCNAMARA</td>
<td>--</td>
<td>-.257</td>
<td>.046</td>
<td></td>
</tr>
<tr>
<td>WOODS</td>
<td>.001</td>
<td>-.167</td>
<td>.140</td>
<td></td>
</tr>
<tr>
<td>BLACK</td>
<td>-.088</td>
<td>-.318</td>
<td>.018</td>
<td></td>
</tr>
<tr>
<td>MCCLOY</td>
<td>-.015</td>
<td>-.126</td>
<td>.208</td>
<td></td>
</tr>
<tr>
<td>PRES</td>
<td>-.045</td>
<td>.039</td>
<td>.401</td>
<td></td>
</tr>
<tr>
<td>CHINA</td>
<td>.198</td>
<td>-.229</td>
<td>.067</td>
<td></td>
</tr>
<tr>
<td>FRANCE</td>
<td>.043</td>
<td>.108</td>
<td>.243</td>
<td></td>
</tr>
<tr>
<td>GERMANY</td>
<td>-.274</td>
<td>.433</td>
<td>.002</td>
<td></td>
</tr>
<tr>
<td>INDIA</td>
<td>-.320</td>
<td>-.338</td>
<td>.012</td>
<td></td>
</tr>
<tr>
<td>JAPAN</td>
<td>.442</td>
<td>.753</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>-.040</td>
<td>-.686</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>.119</td>
<td>-.664</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>PR SAL</td>
<td>-.036</td>
<td>.335</td>
<td>.013</td>
<td></td>
</tr>
</tbody>
</table>

* ORGSTRUC=changes in organizational structure, USPREF=changes in US preferences, individual leaders=when in office, PRES=change in president, individual states=voting power, PR INFRA=presidents' problem representations for infrastructure lending.

Table 2.5: Multiple regression of independent variables on structural adjustment lending, 1947-1994*
<table>
<thead>
<tr>
<th>Variable</th>
<th>Beta</th>
<th>Pearson Correlation</th>
<th>Sig. (1-tailed)</th>
<th>Adjusted R² for model</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORGSTRUC</td>
<td>.005</td>
<td>.374</td>
<td>.006</td>
<td>.840</td>
</tr>
<tr>
<td>USPREF</td>
<td>.008</td>
<td>.110</td>
<td>.239</td>
<td></td>
</tr>
<tr>
<td>CONABLE</td>
<td>.362</td>
<td>.875</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>CLAUSEN</td>
<td>-.425</td>
<td>.018</td>
<td>.454</td>
<td></td>
</tr>
<tr>
<td>MCNAMARA</td>
<td>-.297</td>
<td>-.103</td>
<td>.253</td>
<td></td>
</tr>
<tr>
<td>WOODS</td>
<td>-.111</td>
<td>-.151</td>
<td>.165</td>
<td></td>
</tr>
<tr>
<td>BLACK</td>
<td>--</td>
<td>-.287</td>
<td>.029</td>
<td></td>
</tr>
<tr>
<td>MCCLOY</td>
<td>.003</td>
<td>-.114</td>
<td>.231</td>
<td></td>
</tr>
<tr>
<td>PRES</td>
<td>.125</td>
<td>.107</td>
<td>.245</td>
<td></td>
</tr>
<tr>
<td>CHINA</td>
<td>-.086</td>
<td>-.269</td>
<td>.039</td>
<td></td>
</tr>
<tr>
<td>FRANCE</td>
<td>.288</td>
<td>.047</td>
<td>.382</td>
<td></td>
</tr>
<tr>
<td>GERMANY</td>
<td>.460</td>
<td>.413</td>
<td>.003</td>
<td></td>
</tr>
<tr>
<td>INDIA</td>
<td>.731</td>
<td>-.388</td>
<td>.005</td>
<td></td>
</tr>
<tr>
<td>JAPAN</td>
<td>-.675</td>
<td>.666</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>1.177</td>
<td>-.532</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>-2.398</td>
<td>-.596</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>PR SUSDEV</td>
<td>.308</td>
<td>.723</td>
<td>.000</td>
<td></td>
</tr>
</tbody>
</table>

* DECOLON=decolonization, ORGSTRUC=changes in organizational structure, USPREF=changes in US preferences, individual leaders=when in office, PRES=change in president, individual states=voting power, PR INFRA=presidents' problem representations for infrastructure lending.

**Table 2.6: Multiple regression of independent variables on sustainable development lending, 1947-1994**

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the independent variables. Included is an assessment of how these coarse estimates fit with the hypotheses discussed above.

The organizational structure variable shows mixed results, only being significant in the third and fourth periods of change, and is positively related to change. These results would lead us to expect greater organizational changes in these later periods of change. Conversely, if the hypothesis above is valid we would not see significant organizational change in the first two periods.

Change in US preferences is only significant in the shift to infrastructure lending. This is a negative and weak relationship. This is puzzling since US preferences would be anticipated to have some affect on change; and certainly not to move in the opposite direction. The actual relationship will be explored in more detail in the case chapter. The voting power of the leading states has a strong relationship with changes in lending although some are negative and some are positive relationships. The US and UK variables show especially strong correlations, but this is not surprising since there is a constant decline in US and UK power over the history of the institution and the institution is experiencing change across time. In terms of evaluating the hypothesis on changes in voting power, this kind of correlation does not shed much light on what is really going on at the Bank. From another angle, the US is still always the strongest power, so the interpretation could be that there is no significant change in power across time. Relatedly, of importance in evaluating the role of states' power on influencing the dependent variable is consideration of collinearity. In each instance nearly all of these variables have a high collinearity problem and very low tolerance values (.026, .009). This is why it is important to look more specifically into these periods of change.

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though, these will be explored in more detail in the ensuing chapters because with these mixed results it seems that only a more qualitative approach can sort this out.

The next relationship that stands out is the change in presidents. According to the regression, hypothesis 3 is not supported at all. This may be because it takes time for a new leader to implement change; another conclusion would be that presidents as individuals do not matter at all. However, the results for the individual presidents show otherwise. The tables show that several of the terms in office of the presidents are significantly correlated with changes in lending, more specifically with the types of lending initial historical information leads us to expect them to promote. For example, for Black's tenure, there is a moderately strong (.598, sig=.001) correlation with infrastructure lending (see Chapter 4). McNamara’s time in office is even more strongly related to human needs lending (.68, sig=.001); see Chapter 5. This information actually supports hypothesis 3.

A final trend that stands out in the regressions is the problem representation variable. Change in problem representation for the particular strategy that constitutes the dependent variable is highly correlated with the dependent variable (for example, PR for human needs has a Pearson correlation of .628 [sig=.001] when the dependent variable is human needs lending). How does this information fit with hypothesis 4? It seems to indicate that the relationship suggested in that hypothesis does indeed exist. As with the other relationships discussed above, however, a more qualitative analysis will enable a closer look at what is going on in the individual cases.
2.6 Conclusion

The research design proposed in this paper addresses the question of mission change in international organizations, in particular the World Bank. An assumption is that the current theoretical perspectives that have been applied to understanding change in international organizations are either too general to determine the timing and direction of change, or too narrow, focusing on a single variable such as leadership. Consequently, each perspective alone leaves out important variables. Further, each fails to address the conditions under which its explanatory variables may be most applicable. The four independent variables that are explored in this paper are: power, preferences in the institution, leadership, and organizational structure. The purpose of this project is not to prove or disprove any perspective [s], but to understand when each is most valid, and especially, how they may fit together. In order to enhance the case study approach that investigates each variable in the four time periods, a statistical analysis for the entire history of the Bank examines the explanatory power of the variables taken together.

The following chapter applies the framework described here to the first period of change, the initial move from European reconstruction to LDC infrastructure lending as the primary way of addressing problems of development. Table 2.7 summarizes the results of the coarse analysis discussed above.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Expectation</th>
<th>Empirical Patterns of Ind. Variable</th>
<th>Evaluation of Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power in institution</td>
<td>Change in institution is a reflection in the change in distribution of power</td>
<td>Change in voting power of every state shows significant correlation, but US is always strongest</td>
<td>Mixed results</td>
</tr>
<tr>
<td>Preferences of most powerful state</td>
<td>Preferences of the most powerful state are same as new lending preferences of institution</td>
<td>Only significant in one case, and that is a weak correlation</td>
<td>Not supported</td>
</tr>
<tr>
<td>Leader changes</td>
<td>New leader brings in new ideas and changes organizational lending</td>
<td>No correlation in any case</td>
<td>Not supported (weakest relationship)</td>
</tr>
<tr>
<td>Leader changes Problem representation</td>
<td>Leader changes preferences during tenure and these reflect new lending practices</td>
<td>Significantly, strongly correlated and in expected direction</td>
<td>Most strongly supported</td>
</tr>
<tr>
<td>Organizational structure</td>
<td>Changes in organization affect changes in lending practices</td>
<td>Significant, moderately strong correlations in two cases</td>
<td>Mixed results</td>
</tr>
</tbody>
</table>

Table 2.7: Independent variables and their explanatory power
CHAPTER 3

EUROPEAN RECONSTRUCTION TO LDC INFRASTRUCTURE:
THE FIRST PERIOD OF CHANGE

3.1 Introduction

This chapter evaluates each of the variables discussed in the previous chapter as they apply to the initial case of change in the Bank. First, the chapter will examine the establishment of the Bank to create the foundation and context for change. Next, the dependent variable and its change in value will be presented. Finally, each of the independent variables will be examined. In particular, the expectations of each will be compared with the actual research findings. This particular chapter will be significantly shorter than the following empirical chapters since it covers a time period of only three years.

3.2 Establishment

The focus of this dissertation is on understanding the mission changes of the International Bank of Reconstruction and Development (IBRD). However, to form a complete understanding of the institution and the changes it has undertaken in its lending practices, it is important to discuss briefly its initial establishment. The IBRD was established along with the IMF at Bretton Woods, New Hampshire in July 1944. The classic discussion of the formation and politicking behind the construction of the Bretton

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Woods institutions was written by Richard Gardner (1969). From the earliest days it was clear that the institution was designed to assist not only in the reconstruction of Europe after WWII but was also conceived to alleviate the economic underdevelopment of the LDCs. During the Bretton Woods conference Lord Keynes stated:

> It is likely, in my judgment, that the field of reconstruction from the consequences of war will mainly occupy the proposed Bank in its early days. But as soon as possible, and with increasing emphasis as time goes on, there is a second primary duty laid upon it, namely to develop the resources and productive capacity of the world, with special reference to the less developed countries (Mason and Asher, 1973, p. 2).

This is important to note since the initial change under investigation is from a Bank focus on European reconstruction to infrastructure development in the LDCs. Consequently, the shift in policy is not necessarily unexpected, but what becomes important here is the timing of the mission change. Since this shift in policy focus was acknowledged from the outset as the future role of the Bank, there is also an implication here that this first instance of mission change is different from the other cases in that the future alterations in lending strategies were not envisioned by the founding fathers of the institution nor placed into the Articles of Agreement as was this initial change. In other words, timing is the important question to investigate in this instance, whereas with the other periods of change both timing and direction (where the new ideas came from) are important. Thus, the central question for this chapter is why the Bank shifted to infrastructure development in 1948-49 and not earlier or later.

The idea of assisting in both the reconstruction of Europe and the economic development of the poorer states in the world is further supported by Article I (i) of the Articles of Agreement that state one purpose of the Bank is to:
assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed and disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries (Bank, 1945, Article I, i).

The other purposes of the Bank were to: promote private foreign investment, promote long term and balanced growth of international trade, focus loans on most "useful and urgent" projects first, and conduct operations with regard to the effects on international investment in member states (Bank, 1945, Article I, ii-v).

Since the Articles of Agreement did not specify which of these two actions, reconstruction or development, should be addressed first, the decision was left up to the Bank. Disagreement had already resulted during the Bretton Woods negotiations over the use of institutional funds. As can be expected the European states pushed for reconstruction and the LDCs for development. The compromise was to ignore the conflict and leave it up to the Bank once it was up and running (Mason and Asher, 1973, pp. 21-23).

Consequently, one of the first major debates within the institution formed around the utilization of institutional resources. In this section of the Articles of Agreement, the Bank leans slightly towards reconstruction. First, it states that resources will be used "with equitable consideration to projects for development and projects for reconstruction alike" (Bank, 1945, Article III, section 1a). However, immediately following this it declares that in regard to states whose economies have been damaged by war, the Bank should "pay special regard to lightening the financial burden and expediting the completion of such restoration and reconstruction" (Bank, 1945, Article III section 1b).

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The other important feature of resource utilization is that they should be employed "except in special circumstances, … for the purpose of specific projects of reconstruction and or development" (Bank, 1945, Article III section 4, vii). As will be noted shortly, this provision was broken almost immediately after the Bank commenced activities. Additionally, this provision is still upheld as a feature of Bank lending, but has been ignored at various times throughout the history of the organization. In fact, the first two loans that the Bank dispersed, to France and the Netherlands, were vague "program" loans, not project loans. The French loan of $250 million was to be used to "assist in financing reconstruction and development of the French economy" while the Dutch loan of $195 million was to "be devoted exclusively to the reconstruction of productive facilities in the Netherlands homeland" (Bank, 1947, p. 18).

3.3 Dependent variable

The first period of time that will be explored in this dissertation is a very brief episode from June 25, 1946, when the IBRD commenced functioning to 1949. This time period is defined by the dependent variable, which is change in lending priorities for the Bank. The following table clearly displays the change from reconstruction to development in the LDCs.
<table>
<thead>
<tr>
<th>Year</th>
<th>Reconstruction</th>
<th>Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946-47</td>
<td>445</td>
<td>--</td>
</tr>
<tr>
<td>1947-48</td>
<td>64</td>
<td>16</td>
</tr>
<tr>
<td>1948-49</td>
<td>31</td>
<td>126.6</td>
</tr>
<tr>
<td>1949-50</td>
<td>15</td>
<td>151.3</td>
</tr>
<tr>
<td>1950-51</td>
<td>--</td>
<td>297.05</td>
</tr>
</tbody>
</table>

Table 3.1: World Bank lending by priority in millions of dollars

To create Table 3.1 each loan description for this period was evaluated according to the content analysis scheme presented in Chapter 2 and placed in the appropriate lending category. The results present a clear picture of change in the Bank’s lending strategies. 1949 is consequently taken as the year of transition away from reconstruction and towards a focus on infrastructure development predominantly in the LDCs, though the Bank would lend to states in Europe and Oceania for years to come. In other words, the Bank would continue to make loans to European states but they would constantly represent a decreasing percentage of overall lending and focus on specific development projects; they would not be broad reconstruction loans. As the data in the table shows, this is a pronounced transition taking only a few years to completely dispense with reconstruction lending. Another interesting feature about the Table 3.1 is the size of the loans in the first year. The Bank would not surpass this lending total again until 1958.

3.4 Independent variables

The central question this dissertation is trying to answer is what caused this change in the policies of the World Bank, and particularly at this point in time. As the

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1 Lending data taken from the World Bank Annual Reports.
earlier chapters have laid out, there are a variety of potential causes for change in international organizations. Table 3.2 presents each of the variables and their expectations. Each will be evaluated according to its expectations and ability to explain the change in lending strategies of the IBRD.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Expectation</th>
<th>Empirical Patterns of Ind. Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power in Institution</td>
<td>Change in institution is a reflection in the change in distribution of power</td>
<td>Minimal change, US power declines but still overwhelmingly strongest state</td>
</tr>
<tr>
<td>Preferences of Most Powerful State</td>
<td>Preferences of most powerful state are same as new lending preferences of institution</td>
<td>Preferences change but effect is indirect; bilateral focus on reconstruction “frees” Bank to pursue second priority</td>
</tr>
<tr>
<td>Leadership Change</td>
<td>Change precedes change in Bank lending</td>
<td>Change, but not influencing Bank lending</td>
</tr>
<tr>
<td>Leadership changes problem representation</td>
<td>Change reflects new lending practices</td>
<td>Change in president does not precede decision to loan to LDCs, but does precede decision to make these loans to LDCs infrastructure</td>
</tr>
<tr>
<td>Organizational Structure</td>
<td>Changes in organization affect changes in lending</td>
<td>No change, but old policies influence new lending</td>
</tr>
</tbody>
</table>

Table 3.2: Summary of hypotheses and empirical findings, 1946-1949

3.4.1 Power

Hypothesis 1: When there is a change in the distribution of power within the Bank, then the institution will change to reflect this new distribution.

The first hypothesis explored is that change in the practices of the institution is the result of a change in the distribution of power within the organization. Therefore the
expectation here is that change in the lending strategies employed by the World Bank will coincide with change in the states that have the most influence in the Bank. This is measured by looking at the voting power of each state within the institution since the IBRD functions on a weighted voting system. This voting power is also a reflection of the general economic power of each member state in the international system. As a result of this voting structure, two important questions to explore are who is the leading power, and who are the five most powerful states. This second question is significant since these five states have more influence on the decision-making processes of the institution. Their executive directors are nominated by the state, whereas other states are represented by a director elected from a regional grouping of states. Consequently, the ability for any one state to affect the decision-making actions of these elected directors is limited.

Throughout this time period the US is by far the most powerful actor within the institution (see Table 3.3).

<table>
<thead>
<tr>
<th>Year</th>
<th>China</th>
<th>France</th>
<th>India</th>
<th>UK</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>6.68</td>
<td>5.88</td>
<td>4.55</td>
<td>14.17</td>
<td>34.22</td>
</tr>
<tr>
<td>1948</td>
<td>6.57</td>
<td>5.78</td>
<td>4.47</td>
<td>13.93</td>
<td>33.65</td>
</tr>
<tr>
<td>1949</td>
<td>6.55</td>
<td>5.76</td>
<td>4.45</td>
<td>13.88</td>
<td>33.51</td>
</tr>
<tr>
<td>1950</td>
<td>6.56</td>
<td>5.78</td>
<td>4.46</td>
<td>13.91</td>
<td>33.6</td>
</tr>
<tr>
<td>1951</td>
<td>6.54</td>
<td>5.75</td>
<td>4.44</td>
<td>13.85</td>
<td>33.46</td>
</tr>
</tbody>
</table>

Table 3.3: Voting power as a percentage of total

US voting strength represents 34.23% of the total votes within the Bank in 1946. In comparison, the next most powerful state is Britain with 14.17% of the vote and then China with 6.88%. This dominance by the US is sustained throughout this first period of
change. The US voting power does decline from its initial level to 33.46% by 1951. One interesting feature of this table is the absence of Japan and Germany, both currently powerful states in the IBRD; yet they did not become members of the organization until 1953. Regardless, there is minimal decline in US power and they maintain their relative power over other states by an almost equal decline in their voting power. Clearly, there is no change in who is the most powerful actor in the institution. Yet there is a change in the lending strategies promoted by the institution. Thus, a look at the other powerful states within the institution is necessary.

Concerning the five leading powers within the World Bank, in 1946 they consist of the US, Britain, China, France, and India, respectively. Throughout this period of operational change these same five states retain their positions of eminence within the institution. Their voting power like the US declines but almost imperceptibly. Additionally, there is no transition of not only who are the five most powerful states, but also in the order of voting power of these states. There is change in the dependent variable but not a commensurate alteration in the distribution of power. Consequently, this independent variable does not provide insights into the changes in the World Bank during this time period.

3.4.2 Preferences

Hypothesis 2: When the preferences of the most powerful state change, then the lending practices of the Bank will change.

As the previous section has highlighted, the US is the most powerful state in the World Bank during this, and as it turns out, all other time periods. Consequently, the preferences that are of interest are those of the US. Recall from Chapter 2 that
preferences of the most powerful state are constructed from government statements about
Bank lending, primarily reported in the NAC's annual reports to Congress.

The preferences of the US during this phase are relatively unambiguous: support
for the reconstruction of the European economies. The NAC documents are consistent in
their support for reconstruction and do not even mention LDC development (Council,
1946). Europe was having problems with post war reconstruction and the US was
pressuring the Bank to become involved in alleviating these problems. "From the day it
opened, the Bank was besieged by European governments and some members of the
American administration [including the Secretary of Treasury] who pressed it to relieve
urgent needs for foreign exchange, raw materials, and food" (Kapur, Lewis and Webb,
1997, 75). Members of the Bank worked to not succumb to US pressure and even the
president McCloy, a US citizen, was alarmed enough to state to the executive directors
that "unless we are very careful we definitely may lose our international character as an
international bank" (Kapur, Lewis and Webb, 1997, p. 76). Shortly thereafter the US
government passed the Marshall plan, and the role of the Bank changed dramatically.
The US voice was diminished if not for the sole reason that US decision makers were
concerned with the Marshall plan and the increasing heat of the Cold War. LDC
development and the relatively small financial outlays of the IBRD were no longer a
focus. This is reflected in the lack of policies promoted by the US onto the Bank.

Additionally, it could be argued that Truman's Point Four Program was an
example of the US leading the Bank into LDC development. Truman envisioned that the
US must:
Embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas... I believe that we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a better life. And, in cooperation with other nations, we should foster capital investment in areas needing development (Truman, 1949).

Point Four signaled a movement of US interests into LDC development, but cannot be considered the cause of change in Bank lending practices. First, Congress never passed the Point Four Program. Second, the Bank had already moved into infrastructure lending the year before Truman’s address, thus it could not have been an engine of change, merely support for policies already undertaken.

Consequently, this variable helps explain the change in lending practices of the Bank, but not in the anticipated manner. Change in the leading power’s preferences are anticipated to lead to an alteration in the strategies of the institution to reflect these new preferences. Instead, in this instance a change in preferences of the US (the leading power) transpired but these preferences only led to the US supporting massive reconstruction loans to Europe in a bilateral manner, resulting in effect, in putting the Bank “out of business.” Since the Bank’s resources were no longer needed, and it may be argued no longer wanted by the leading power since they could not have complete control over their disbursement, then the Bank was free to strike out into its other area—development.
3.4.3 Leadership

Change in the president

Hypothesis 3: When there is a change in the president of the Bank, then there will be a change in the lending practices (consistent with the leader's prior experiences)

Eugene Meyer

During this time period the position of President of the World Bank was the most fluid in the institution's history. Part of this was undoubtedly the result of the newness of the organization and the lack of definition of the powers of the president. Eugene Meyer, the first president, was elected to the position only after the initial candidates were unable to serve for various reasons. The first choice was the head of a major US corporation, however this was deemed politically unacceptable. The second choice was Secretary of Treasury Fred Vinson; however, Truman nominated him to the Supreme Court (Kraske, 1996, p. 7). Meyer was finally elected and took office in June 1946. His tenure was short and marked by conflict with the executive directors concerning who would be responsible for establishing lending policy for the Bank. In early December of the same year Meyer resigned as president. He resigned so early that the Bank had not even made its first loan, which means he was not able to change the lending strategies of the Bank. His influence is minimal at best, having had a rough relationship with the executive directors and withstanding pressure by member states to lend quickly in order to create an institution the loans of which were based on sound economics (Mason and Asher, 1973, pp. 40-48). The latter was based on a realization that no one would buy Bank bonds unless they were backed by sound economic considerations on the part of the Bank. Additionally, his resignation does not coincide with mission change in the Bank.
John J. McCloy

John J. McCloy replaced Meyer as president on March 17, 1947 and served until June 1949. This change in leadership does coincide with the change in lending that shifted from reconstruction to development. However, there is nothing in McCloy’s background that would lead one to believe he would make these changes. McCloy was a lawyer by profession. He was opposed to much of Roosevelt’s domestic programs in the 1930s and he fought a legal battle against Roosevelt’s National Industrial Recovery Act. This opposition to government involvement in the domestic economy is not the sign of an individual who would lead the Bank to lend to LDC states. He had been brought into the administration during the war and served as assistant secretary of war. This certainly promoted his international vision, but not necessarily of LDCs. After his time at the Bank he became high commissioner of Germany. None of these experiences, then, support an individual leading the Bank into the realm of LDC infrastructure lending. An examination of how he and his predecessor viewed the role of this institution is necessary to further understand if they influenced change.

Change in problem representation of leader

_Hypothesis 4: When the president changes his representation of how the organization can best meet its goals, then the lending activities will change to reflect this new representation._

Unfortunately, Meyer’s tenure at the Bank was so brief that there is not a record of his view on the institution. The presidential speeches that are used in this research were not presented during the first annual meeting of the Board of Governors. Thus, for this one year, secondary sources are employed. It seems clear that Meyer came onto the scene rather late, and the Bank had already been meeting for several months with the US
executive director Emilio Collado serving as de facto head of the organization. Discussions on policy and lending had already occurred. However, Meyer did have influence in turning down the first request for a World Bank loan. This was presented by Chile and consequently rejected by the president (over US objections) on the grounds that the fledgling institution needed to convince Wall Street of its viability. Meyer argued that the Bank had to commence operations with states that the market can trust to pay back the loans (Kraske, 1996, pp. 30-31). Consequently, whether by his own choice or a feeling that consequence precluded him from doing anything else, European reconstruction became the focal point of activities during his tenure.

John J. McCloy took over the office of president in March 1947. The content analysis of his speeches reveals a change from reconstruction towards infrastructure development as Table 3.4 shows.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Reconstruction</th>
<th>Infrastructure</th>
<th>Human Needs</th>
<th>SAL</th>
<th>Sustainable Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>50</td>
<td>36</td>
<td>--</td>
<td>14</td>
<td>--</td>
</tr>
<tr>
<td>1948</td>
<td>20</td>
<td>40</td>
<td>--</td>
<td>40</td>
<td>--</td>
</tr>
</tbody>
</table>

Table 3.4: Percentage of development strategies referenced by McCloy

As mentioned in the previous chapter, the policy statements by the president are compared to the lending of the Bank in the following year. This is because the president makes his speech in September and the Bank publishes its year's lending activities in July (the end of the fiscal year is June 30). Influence of presidential representations of the institution's role would affect the following year's lending. There is a noticeable swing
away from reconstruction lending, but also of interest is the emphasis on structural adjustment. Infrastructure lending did not in fact increase substantially, the real "winner" was SAL. The World Bank did not make any loans in this area for another couple of decades. However, it is clear from the above results that this was a concern of at least some of the presidents of the Bank from the very beginning. From McCloy's speeches it is also obvious that the Bank was still organizing and searching not only to define its mission but also to solidify its position as a responsible international organization.

Initially, he did not see the Bank moving out of European reconstruction. He stated that

I do not regard the Marshall Plan as a substitute for or as precluding loans by the Bank to the countries participating in the Paris deliberations. On the contrary, any grants or credits which may be made available... will most probably tend to make the Bank's loans at once more productive and more appealing (Bank, 1947, p. 8).

The majority of his presidential addresses do not focus on lending priorities but instead on raising resources and the importance of the organization. In other words, he was not selling development theories, but the organization. He chose to "sell" the organization by making sure that any loans were soundly based and would be repaid. "We have established mechanisms to assure that the proceeds of our loans are not diverted to purposes other than those for which the loans were granted" (Bank, 1947, pp. 6-7). The resource concern focuses on the fact that initially only the US made available the full 20% of their share. Other states were not willing or able to do this, and consequently the Bank was short of funds.

Thus, for several reasons it is rather hard to determine the influence of the president in the changing of Bank lending to that of LDC infrastructure development.

First, there is a degree of instability in the presidential position in the early years of the
Bank. Second, the data is scarce not only because of the short terms in office, but also because lending priorities were only secondary concerns of the presidents. They were trying to get the organization up and running and make it acceptable to both the public and states, in particular Wall Street where all the funds were raised at this point in time and Congress who was skeptical of international institutions.

For this variable it is difficult to assess the relative causal power. There is a marked change in the emphasis given to reconstruction. However, there is not a substantial growth in infrastructure lending references. Instead there is a considerable increase in the number of references to structural adjustment lending, yet the Bank does not become involved in this type of until another 30 years. It would be a stretch to argue that McCloy had an effect, because if he did, an increase in the SAL loans should have been observed.

3.4.4 Organizational Change

Hypothesis 5: When there is a change in the organizational structure, a change in lending strategies will follow.

Here important factors include alterations in the actual structure of the institution, new policies and procedures that affect the operations of the Bank, and new membership. Conceptually, the idea is that any of these changes could lead to new outputs by the organization and enable new ideas to come into the institution. During this brief episode there were only minimal changes in the structure of the Bank. Most of the major decisions involved simply setting up the IBRD so it was able to fulfill its mandate; there were also some internal debates about how best to achieve this.
Change in bureaucratic structure. Probably the most significant debate and structural factor in the first few years of the Bank were the establishment of the parameters of the positions of president and the executive directors. Eugene Meyer was placed in a position that was underdefined and spent much of his six months at the Bank involved in turf wars with the executive directors, in particular the US director who had served as interim president until Meyer was elected (Mason and Asher, 1973, pp. 40-48). The executive directors envisioned their position to be concerned with "matters of policy determination...membership, financial policy, interpretation, information, and liaison" (Bank, 1946, p. 6). The president was relegated to administrative duties. This conflict was a contributing factor in Meyer's early departure from the Bank.

Issues between the president and the executive directors were not resolved until McCloy took over as president. Part of his demands for accepting the position was that the president be involved in all the policy decisions of the institution. In fact, he went even further and took power to determine which loans the executive directors would consider. The relationship between the two did not evolve into the working partnership which exists today until Eugene Black, the former US executive director during the McCloy years, took over the post of president (Kapur, Lewis and Webb, 1997, p. 79). Ultimately, this conflict had little affect on the lending strategies of the Bank. It allowed the president to hold more power and not be a pawn of the executive directors. So, it could be argued that had the executive directors remained strong, the Bank may have stayed involved in reconstruction and never entered into infrastructure lending. What is clear is that the president gained more freedom of action.

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As noted in Chapter 2, interactions with non-governmental organizations are being considered under bureaucratic structure because it is necessary for there to be access to the institution in some way. There seems to have been little influence on the World Bank from these actors in the early years. World Bank employees that were interviewed stated that there was really no means for these types of actors to access the Bank until the 1980s. This is also consistent with NGO activity in general. After World War II NGOs existed, but the numbers and more importantly influence, have grown significantly over the years. However, in these early years they had little influence in international events, so the variable is not significant in this case.

**Change in operational procedures.** The first important aspect concerning operational procedures is that LDC development, as discussed earlier, was part of the Bank's mission from its inception. These procedures then influenced the Bank to change direction from European reconstruction to LDC development. However, there was not a definition of how to assist in the development process. To understand the focus on infrastructure lending it is important to consider the problem representation of McCloy as discussed earlier.

Beyond the desire to make “safe” loans so the financial backers of Bank bonds would trust their investment. The second, and related was the lack of “bankable” projects. Few states, especially outside of Europe had the capacity to undertake the economic research the Bank required before making loans. Consequently, the Bank sent out technical missions around the world to look at states’ economic needs and assist them in writing up development programs. This policy may be partially significant in the change in Bank lending since it took several years for these missions to conduct their
work and collect a significant pool of information for use when the Bank could start lending to LDCs. In other words the Bank did not lend to infrastructure in the early years because the LDCs could not provide the appropriate information.

Another issue that falls under the rubric of operational procedures includes interactions with other international institutions as a requirement for conducting its own work. This is also important in other periods as well. According to the Articles of Agreement the Bank “shall cooperate with any general international organization and with public international organizations having specialized responsibilities in related fields” (Bank, 1945, Article V, section 8a). According to the UN Charter the Bank was to be one of the specialized agencies and have a working relationship with the UN under the Economic and Social Council (ECOSOC). These specialized agencies were to negotiate relationship agreements with ECOSOC and the UN would have some oversight of these agencies. The Bank stalled in creating this agreement and finally negotiated one that “was more a declaration of Bank independence from than cooperation with the United Nations.” The Bank then interacted with ECOSOC in their administrative and coordination committee by sending a representative and “putting up a mist of cooperation” (Kapur, Lewis and Webb, 1997, p. 1168).

The other significant liaison the Bank was instructed to establish by its Articles of Agreement was an advisory council. This was to meet once a year and include:

representatives of banking, commercial, industrial, labor, and agricultural interests, and with as wide a national representation as possible. In those fields where specialized international organizations exist, the members of the Council representative of those fields shall be selected in agreement with such organizations. The Council shall advise the Bank on matters of general policy. The Council shall meet annually and on such other occasions as the Bank may request (Bank, 1945, Article V, section 6a).
Here was another means for the UN and its specialized agencies to have some impact on the operations of the Bank. Instead, this Council met in 1948 and 1949 and has not met since. Consequently, the opportunity for other IOs to have an influence on Bank lending was negated, and this also signifies the go-it-alone attitude of the Bank, at least in its early years. From its inception, it appeared highly unlikely that this type of an institution was going to take signals from other IOs.

Change in membership. During this episode the Bank membership grew from the 38 original members to 48. The new membership was a mixture of war ravaged European states like Austria, Italy, and Finland, and LDCs such as Columbia, Venezuela, and Thailand. Certainly the new LDC members would increase demands for infrastructure lending. However, these would have been offset by the new European members that would desire reconstruction loans. This is especially true when considering the LDCs share of the vote was miniscule, usually less than .5%. Given these facts, the influx of new members is not considered an important factor in the change to infrastructure lending.

3.5 Conclusion

This is an unusual case of change relative to the following periods because the direction of change, from European reconstruction to LDC lending was already determined by the Banks Articles of Agreement. Contrary to other periods of change where the significance lies in understanding the direction and the timing of change, this period the direction of change is partially predetermined, LDC development, but the actual type of aid, infrastructure, is not determined. Direction of change refers to the
what type of lending the new strategy constitutes. In other words at any particular point in time the Bank could theoretically change to adopt any type of development strategy; they are not predetermined. Timing refers to the exact year of change. Again, the assumption is that the Bank could change strategies in any given year. Thus a more nuanced understanding of organizational change should help us understand why change took place at a particular point in time, and why it changed to a particular strategy. To better understand this timing the type of lending a set of independent variables was investigated. Each are displayed in Table 3.5.

Shifts in power are minimal and the US retains the dominant position as the most powerful actor in the institution so this does not explain the change. However, shifts in the preferences of the leading state are significant. The preferences of the US shift away from the Bank as its tool of European reconstruction and focus on the bilateral Marshall Plan. This bilateral lending provides the US with greater freedom of action in determining loans, and significantly for this project, takes the focus of the US off the Bank. As noted above, that seems to have resulted in greater freedom of action by the institution. Additionally, the vast sums of the Marshall Plan dwarf the lending capacity of the Bank and negate its necessity in European reconstruction. As the president stated, “I think we are going to be driven into a very different field sooner than I thought, into the development field” (McCloy, 1947). Consequently, the Bank moved on to its other area of lending as determined in the Articles of Agreement: LDCs.

Organizational structure helps understand this change. While there was indeed a change from one part of the mandate to the other, this was not because of a change in the organization itself. Thus the expectation of the hypothesis is wrong, no change in
structure leads to change in lending practices. Leadership does play a role in understanding the type of change, infrastructure lending that occurred. The background of the first president in banking helps set the agenda for a Bank that is cautious about the types of loans it makes, but he plays little role resulting from his brief term of service. The second presidents' problem representation shows a deep concern was for the buyers of Bank bonds, and consequently looked for sound economic projects to lend to. Infrastructure lending was the type of activity that the Bank was involved in in Europe, and thus it had expertise. Additionally, these are the type of projects that could be “sold” to investors as being safe and leading to a calculable rate of return. Social projects like feeding the poor, educating the illiterate, or providing better health services to the masses, though commendable, were not considered to lead to high rates of return and thus not an area for the Bank to become involved in. The switch to these kinds of loans did not happen under the leader who recommended them, but it is plausible to argue that the first president had an indirect agenda-setting role.

In summary, US preferences is the most viable explanation of the timing of change in this first case, when they relinquished attention to the Bank the institution could act independently and fulfill its other goal. The direction of change was partially predetermined by the Articles of Agreement; leaderships’ role was not significant until the US shifted its focus away from the Bank. Then the cautious lending practices and desire to please investors, at this time the US bond market, led to an emphasis on infrastructure lending. Chapter 4 will investigate the explanatory power of the theoretical perspectives with regard to the shift from infrastructure to human needs lending.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Expectation</th>
<th>Empirical Patterns of Ind. Variables</th>
<th>Evaluation of Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power in Institution</td>
<td>Change in institution is a reflection in the change in distribution of power</td>
<td>Minimal change, US power declines but still overwhelmingly strongest state</td>
<td>Does not explain change</td>
</tr>
<tr>
<td>Preferences of Most</td>
<td>Preferences of most powerful state are same as new lending preferences of</td>
<td>Preferences change but effect is indirect; bilateral focus on reconstruction &quot;frees&quot; Bank to pursue</td>
<td>Does not explain direction of change but does explain timing</td>
</tr>
<tr>
<td>Powerful State</td>
<td>institution</td>
<td>second priority</td>
<td></td>
</tr>
<tr>
<td>Leadership Change</td>
<td>Change precedes change in Bank lending</td>
<td>Change, but not influencing Bank lending</td>
<td>Does not explain change</td>
</tr>
<tr>
<td>Leadership changes problem</td>
<td>Change reflects new lending practices</td>
<td>Change in president does not precede decision to loan to LDCs, but does precede decision to make loans to LDC infrastructure</td>
<td>Explains change to infrastructure lending</td>
</tr>
<tr>
<td>representation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational Structure</td>
<td>Changes in organization affect changes in lending</td>
<td>No change, but old policies influence new lending</td>
<td>Does not explain change</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(while the original mandate does explain the direction of change, this variable is change in the organization, so the mandate doesn't fall in this category)</td>
<td></td>
</tr>
</tbody>
</table>

Table 3.5: Independent variables and their explanatory power
CHAPTER 4

INFRASTRUCTURE LENDING TO HUMAN NEEDS:
THE SECOND PERIOD OF CHANGE

4.1 Introduction

After the shift to infrastructure lending described previously, the Bank continued
with that lending strategy for years. Then, there was a shift to human needs lending in
approximately 1968; the period preceding the shift is examined here as the World Bank’s
second period of change. First the chapter will briefly outline the differences in the
development strategies explored in this time frame. Next, a succinct overview of events
in the greater development community will be discussed to set the international context
for the period. Then the data collected for the dependent variable will be displayed
showing the change in the development strategy of the Bank from a complete reliance on
infrastructure development to the adoption of a human needs approach. Finally, each
independent variable will be examined with particular emphasis on how well the
expectations of each were met.

As discussed in Chapter 3, infrastructure loans were granted to assist states in
building up productive economic assets. The belief was that as the “quality” of loans
increased the development of the state, then the state would be better able to create more
capital for future investments and also attract more capital from the private sector.
Human needs lending had an entirely different agenda, primarily concerned with the poorest people in society and helping them achieve self-sufficiency and independence.

The basic needs approach gives priority to the attainment of the basic needs of all people. This may vary from region to region but usually includes meeting certain levels of health, nutrition, and education (Stewart, 1985, p. 1). As a result of this adoption of an approach that reflected these needs, the World Bank began lending to assist developing countries in meeting them. Instead of the traditional Bank policy of evaluating a country's eligibility to repay a loan by the likelihood that the project will produce enough growth to earn the country the funds to repay the loans, the World Bank changed to an evaluation process that considered the country as a whole and its ability to repay the loan.

The “basic needs” approach was foreshadowed by the findings of the United Nations Expert Group on Social Policy and Planning for Development. This group devised the “unified approach” to development policy. This new approach was ratified by the General Assembly at the end of 1970. This approach called for the:

1. Dropping of the distinction between economic and social development.
2. Blurring of the lines of distinction between agencies.
3. Creation of links between departments in LDC governments to facilitate a more integrated approach.
4. Planning of development strategies that reach all segments in the society.
5. Insured participation of the population that will be affected by the project.
6. Consideration of development as a societal process thinking of the quality of life in conjunction with raising incomes. (Higgins, 1992, p. 143)

It is easy to see that the basic needs approach was an adaptation of components of this unified approach.

One aspect of basic human needs is that better nutrition, health, and education are extremely beneficial in developing human resources (Straten and Javed, 1981, p. 13).
Throughout this episode the Bank lent to some or all of these areas. Initially the loans were made to rural agriculture projects that focused on the poor and often landless rural population with an attempt to increase food supply, and later moved into other areas necessary to produce a vital rural society.

The World Bank Group has continued to pay increasing attention to the development of agriculture during the past year. Among developing countries the failure of food production to keep pace with population growth is causing increasingly serious difficulties... The Bank has continued to provide support for large construction projects in the agricultural field such as flood control and irrigation [infrastructure]... The main development during 1966/67, however, was the increased number of projects financed or under investigation by the Bank which involve other aspects of agricultural development such as farm credit, livestock production, land settlement, seed improvement, grain storage, and training and extension work (Bank, 1967, p. 11).

Next the Bank moved into funding education projects and, by the 1970s, had added the areas of population control, nutrition, provision of safe, clean water, and urban renewal (focusing on urban poor as opposed to the earlier focus on rural poor).

4.2 Global context

Economic development first became a significant issue in international relations in the late 1940s and early 1950s. This was partially due to the earlier preoccupation of the international community with the dismantling of the Axis powers and the reconstruction of Europe. However, by the 1950s international actors began to seriously look at the unique problems confronting LDCs. This interest in LDCs was not limited only to IGOs and states, but also included academics. The late 1940s witnessed the genesis of the field of development economics (Krugman, 1999, pp. 6-8). During this
period Eugene Black\textsuperscript{1} became the new president of the World Bank and is considered by many to have helped redirect the efforts of this organization from assisting in the reconstruction of Europe to the economic development of the LDCs (Rich, 1994, p. 68).

The approach to development that was advocated at this time was coined the "Big Push" by the World Bank (Rich, 1994, p. 73). Physical infrastructure was the focus of development projects during this stage (Todaro, 1985). It is recognized that this modernization approach also called for the creation of open and liberal markets both within and between states. This would help promote the transfer of goods, wealth, and economic growth. However, since the Bank's focus is on project lending within states, this part of the development perspective will be the focus. By developing the physical infrastructure of the LDC states, it was believed that the other characteristics of an LDC, for example high illiteracy, political instability, and subsistence farming, would all disappear. This was because the infrastructure would enable the LDCs to trade with the rest of the world, thus achieving economic growth that resembled the economically developed countries (EDCs) of the North.

This reasoning was in agreement with the basic beliefs about development that were popular at the time. Modernization theory was the predominant theory of the 1950s. Using developed states as models, advocates tried to understand what factors contributed to the success of the EDCs and then applied their conclusions to LDCs. This approach, which had support among the academic community (Almond and Powell, 1965; Deutsch, 1961; Lerner, ; Shils, 1962), in general argued that once economic development occurs

\textsuperscript{1} A more in-depth analysis of Black's leadership and potential influence on Bank lending is discussed in the leadership section of this chapter.
the remaining deficiencies of an LDC would disappear. This reflected an optimistic outlook probably generated by the newfound success of the United States in helping to defeat Germany and of the reconstruction of Western Europe. A new era had arrived, marked by many successful ventures already. The 1950s probably marked the only time so far that there has been consensus about the problems of and solutions for economic development.

Modernization was not limited to the academic community, but also had adherents in the policy community. The Bank supported the belief that attitudinal changes must and will occur with development. "Economic progress, not for the first time in history, has proved to grow out of a state of mind: out of the knowledge of people that a better life is, in fact, attainable." The Bank goes on to state that "machines demand changes of habit and organization." Changes that occur are not just economic but social and political (Bank, 1955, pp. 38-39). As the Truman Point Four speech was quoted in Chapter 3:

We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. The old imperialism—exploitation for foreign profit—has no place in our plans. What we envisage is a program of development based on the concepts of democratic fair dealing (Truman, 1949).
This post-war statement divided the world into developed and underdeveloped. In response, Mexican Gustavo Esteva stated:

Underdevelopment began, then, on January 20, 1949. On that day, two billion people became underdeveloped. In a real sense, from that time on, they ceased being what they were, in all their diversity, and were transmogrified into an inverted mirror of others’ reality:...a mirror that defines their identity...simply in the terms of a homogenizing and narrow minority (McMichael, 1996, p. 30).

This new “plan” President Truman spoke of, a strategy for improving the conditions in the LDCs, was modernization.

The division between the developed world and the underdeveloped world was generalized to be a matter of degree that could be set right by the project [modernization]. First, no matter how diverse was the cultural heritage of Third World nations, the Western experience became the boilerplate model for their development. Second, conditions in the Third World were viewed as early stages on a universal path to modern society (McMichael, 1996, p. 31).

All of these statements reflect the prevailing attitude of modernization both in the academic and policy communities, especially in the states of the industrialized North.

Of course there was not complete agreement on the modernization thesis, for example some were skeptical of the ability/will of the EDCs to help develop the LDCs. Of course one of the earliest writers in this area was Lenin (1916). Other, more contemporary writers building on some of his basic beliefs about the international system did not foresee economic development occurring in the LDCs. Instead, they envisaged the modernization approach as advantaging the wealthy EDCs and their corporations at the expense of the underdeveloped LDCs. The current division of developed and underdeveloped states would at the best continue and at the worst intensify (Baran, 1957;
Regardles of their research and publications, their voice was predominantly drowned out by the modernizationists.

By 1960, major changes were taking place in the realm of LDC economic development. This was primarily a result of the growth in the number of LDC states and their admission into a variety of international organizations, not the least of which were the World Bank, International Monetary Fund, and the United Nations. In 1960 alone, seventeen new states joined the UN, and all could be considered LDCs. Consequently, this group of states began to gain the numerical advantage in these organizations. Not surprisingly, in 1961 the General Assembly declared the United Nations Development Decade. This declaration outlined vague strategies to increase the rate of growth in the LDCs. For the first time, a target was set for achieving growth rates of at least five percent by the end of the decade. In declaring the Development Decade, the UN helped to bring the issue of economic development to the center of international attention. This decade also started the trend of setting actual goals to be achieved in this area. Before, there were only the non-time bound articles in the Charter that stipulated development as an important topic. Now the developing countries were attaching an element of time to the process. Also reflective of the growing importance of the LDCs and economic development within the UN is the growth of agencies designed to provide assistance and guidance in this realm.

Other development IGOs. In the 1950s, the only new agencies created in the development area were the International Finance Corporation (IFC) and the Special United Nations Fund for Economic Development (SUNFED). The IFC was established in 1956 and is a part of the World Bank, though it retains a separate means for raising
resources, implementing loans, and management. Its purpose is to promote the flow of private investment into LDC firms through direct loans or by underwriting private investment loans. Compared with the IBRD, this agency has very limited funds. The UN to address developmental issues created SUNFED, or the Special Fund, in 1959. This was the culmination of a decade of LDC lobbying to create a concessional lending agency where LDC had a voice in the decision making (Hadwen and Kaufman, 1960). Placing such an institution under the auspices of the United Nations General Assembly would allow for this type of LDC input; as opposed to the IBRD where the LDC voice was diminished by the weighted voting system. This agency focused primarily on conducting pre-investment projects, including surveys, training, pilot projects, etc… Again, this agency was relatively underfunded and was finally incorporated into the UNDP in 1965 (see below). An interesting feature of the Special Fund is its ties to the World Bank. The president of the Bank is a member of the three-person consultative board of the Special Fund. Additionally, the Bank acts as the executing agency for several of the Fund’s projects. Finally, the Bank lent staff members to the Special Fund to assist it in project appraisal (Bank, 1960, pp. 16-17).

Another related IGO is the International Development Association (IDA), created in 1960 to provide capital grants (World Development Report, 1991) or “soft loans” to the poorest states. Though a part of the World Bank Group it has different management, voting levels, and fund raising activities. Some have seen this creation as a response by the United States to the Soviet Union’s efforts to gain influence in the developing world through aid programs (Riggs and Plano, 1994, p. 289). Additionally, there is the claim that this was merely the Bank’s attempt to circumvent any influence SUNFED may have
in the development community. However, both of these claims would require research to uncover the reasons for its creation, something that has yet to be done. Regardless of why the IDA was created, it has grown in its financial stature and, as will be seen below, has played a vital role in the Bank Group not only as a lender to the least fortunate, but as a test area for new development strategies.

The 1960s witnessed a tremendous growth in international development agencies, particularly growing out of the UN. This process began with the establishment of the United Nations Conference on Trade and Development (UNCTAD) in 1964 and the United Nations Development Program (UNDP) in 1965. UNCTAD was created by the countries of the South as a means of obtaining the amount and kind of development aid that they thought necessary. This was an attempt to bypass many of the other UN development agencies that the LDC nations, or the “Group of 77” as they became known after this conference, deemed controlled by the EDCs (economically developed countries) (Bennett, 1991, p. 241). UNCTAD has a permanent secretariat and has conducted high-level meetings among LDCs every four years. Its main concerns have been centered on commodity price stabilization, increasing aid flows and alleviating debt burdens, technology transfer, and special aid programs for the least developed countries. UNDP by contrast is more of a functional organization, providing a vast array of services to developing countries. Its core areas of assistance include the survey and assessment of development potential (farmland, forests, mineral resources), application of appropriate technology, economic and social planning, and technical cooperation among LDCs (Nations, 1986, p. 204).
Finally, towards the conclusion of the 1960s, there was the establishment of the United Nations Industrial Development Organization (UNIDO) in 1967. This was established by the General Assembly to promote industrial development within the LDCs and has since evolved into a specialized agency in the UN system. UNIDO is involved in activities ranging from research and training to surveys and pilot projects. Like UNCTAD, this agency was created out of the General Assembly in an attempt to bypass ECOSOC, which was viewed by LDCs as unfairly influenced by the EDCs.

This contextual overview is meant to present in broad strokes some of the global events that were a backdrop for the World Bank activities that are being investigated. It is understood that there is a dialogue between actors involved in international development. Learning and the sharing of ideas and experiences is taking place at all levels, within states, international organizations, and by non-governmental actors. This project does not in any way mean to diminish the value this interaction, however for reasons of explicating change, this is not a focus of this project for two main reasons. First, this dissertation does not ignore the importance of the context and the interactions within the greater "development community." Instead, these ideas are incorporated into the research when they can be "observed" and their influence evaluated. In other words, interactions between other IGOs and the Bank are traced through the structural and operational changes made at the Bank. Questions asked include: is there a formal dialogue between the institutions? Does the Bank share staff, resources, etc with another institution? Are there institutions that the Bank generally works with in the field? Is there an exchange of staff with another organization? In these instances, the dialogue between development entities is taken into consideration. Second, learning and
international dialogue are difficult concepts to uncover and trace their timing of incorporation into an individual let alone their subsequent affects, in this instance on the Bank’s lending. Suppositions can be put forth about the influence of learning in the broader “development community,” but one of the features of this dissertation is attempting to be systematic in an area that has predominantly been studied in a less than systematic approach (see Chapter 1).

4.3 Dependent variable

The second period of change explored in this dissertation extends from the heyday of the infrastructure lending in the late 1940s to the mid-1960s. This is the longest period of policy stability in the Bank’s history. The focus of the Bank had changed from a reconstruction of Europe, which (described in Chapter 3), to LDC development. Ultimately, this has turned out to be the work that has occupied the Bank until the present. Reconstruction of Europe was completed, at least for the World Bank, and the next fifty years were marked by a desire to find the best means of achieving economic development in the LDCs. The strategies employed varied, but the purpose of the institution has remained the same: development.

This period after the shift to infrastructure was the institution’s initial endeavor into the field of LDC development. It may not be surprising then that the Bank chose to mimic in some regards the policies it had been employing in Europe, namely the reconstruction of the industrial sector. To accomplish that task, the Bank lent primarily to two sectors: industry and transportation infrastructure. These policies were transferred to LDC development with the addition of agricultural sector lending. This is not necessarily surprising considering at this time the Bank did not possess expertise in any
other area. Additionally, this supports other findings that will be highlighted throughout this dissertation, namely that when the Bank changes, that change is incremental. This fits with Haas' "incremental growth model" of change for organizations (Haas, 1990, Chapters 2 and 5). In other words, the organizations do not change their mandate but are constantly adjusting policies to meet new situations or in response to feedback.

All of this type of lending I have placed under the rubric of "infrastructure lending." The objective of the loans was to raise the economic output of recipient states, many of which were newly independent. Agriculture has been placed within this category because at this time the purpose of agriculture was seen as raising exports and earning hard currency for these relatively poor states. In other words, this was industrial agricultural development. Most of these projects did not focus on the local farmers, but instead were designed to develop the agricultural infrastructure of these states. Consequently, agricultural loans were predominantly of two types: for irrigation projects or for the importation of expensive modern agricultural machinery. This machinery was well beyond the means of the typical LDC farmer and was thus used by the wealthy landowners or more commonly by state-run farms. A typical example of this vision of agriculture was espoused in Ghana, where "an ambitious program of large, mechanized state farms would supplant the small peasant farms that then dominated the rural economy" (Rapley, 1996, p. 31). The agricultural sector was viewed as a means for feed, in a literal and an economic sense, industrial development and urban investment. "Not only was this official attitude commonplace in Africa, but it did not really diverge from conventional development theory of the day" (Rapley, 1996, p. 32). The following are examples of these types of loans made to Italy and Pakistan, respectively: a $20 million
loan which “will meet part of the cost of an irrigation project to supply water to 75,000 acres of the Catania Plain in eastern Sicily” (Bank, 1955, p. 11); and the “Bank’s $3.25 million loan to finance imports of tractors and other machinery needed in a project for clearing, plowing, seeding and constructing watercourses on 660,000 acres of the Thal area in Punjab Province” (Bank, 1953, p. 20). These are clearly infrastructure-related loans, but even if these were classified as agricultural loans, the latter still only represents a small proportion of Bank lending during this episode. As the Bank’s own evaluation states:

Since 1948 when lending began for economic development, more Bank loans have been made for electric power than for any other purpose; loans for transport have taken second place. These two purposes together account for more than half of the Bank’s lending. The remainder, apart from postwar reconstruction loans, has been for industry, agriculture and other development purposes, in that order. This pattern was repeated in the past year’s lending. The bulk was for basic services; about 40% was for power, 30% for transport and the balance for industry, agriculture and multi-purpose projects (Bank, 1956, p. 8).

The view expressed above was certainly in keeping with some of the dominant development philosophies of the time which measured level of development by the size of the Gross National Product (Mason and Asher, 1973; Rapley, 1996; Rostow, 1972). This transition in Bank lending is clearly shown in the Tables 4.1 and 4.2 and graphically presented in Figures 4.1 and 4.2.

Obviously, the end of European reconstruction and the beginning of efforts to address “basic human needs” brackets this case. The data presented above clearly show the changes in Bank emphasis. As mentioned earlier, the Bank, like many institutions, is reluctant to terminate completely previous strategies. Change then has been defined as a “significant” alteration of the lending activities of the institution (10% or more, and/or
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<th>Infrastructure</th>
<th>Human Needs</th>
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Table 4.1: World Bank lending by priority in millions of dollars

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<th>Sustainable Dev.</th>
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Table 4.2: World Bank lending by priority as a percentage of total

94
Figure 4.1: World Bank lending by priority in millions of dollars
Figure 4.2: World Bank lending by priority as a percentage of total
procedural changes). This episode of change is clearly marked by the alteration in lending foci. A complete transition to a new lending strategy, infrastructure, is not experienced again in the Bank’s history. Reconstruction loans disappear from the IBRD’s “tool kit” until the early 1970s when they are resurrected to assist in the reconstruction of war-ravaged Nigeria (see Chapter 5). Data presented illustrates a complete domination of infrastructure lending for most of the period under discussion. This is also an anomaly in Bank lending, though infrastructure remains the dominant lending strategy throughout much of the institution’s years. Also of interest is the first loans to human needs lending. This strategy is closely related with McNamara’s years at the Bank in the literature (Finnemore, 1996; Mason and Asher, 1973), and among Bank staffers. Interviews conducted at the Bank for this research revealed a limited institutional history, but a strong belief in McNamara’s change of the institutions direction to include human needs lending. Yet, the data disclose that this type of lending, albeit in minute but growing amounts, was inaugurated a decade before McNamara arrived at the Bank. This period is not only significant because the Bank was just commencing its role LDC development, but this marked the beginning of development as a significant area of work for states, other IGOs, and individuals.

4.4 Independent variables

As explained in Chapters 1 and 2, each of the variables utilized is anticipated to explain change in the lending strategies employed by the World Bank. A critical factor in understanding change is to be able to account for the direction (infrastructure to human needs) and timing (1968) of change. Post hoc, these may not appear as significant questions, but there is no objective reason why the Bank had to choose human needs
lending; it could have maintained the status quo or altered in some other area such as towards the environment, and the timing of change is also not a given. Table 4.3 provides an overview of each variable, its expectations, and the findings from this chapter.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Expectation</th>
<th>Empirical Patterns of Ind. Variable</th>
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<tbody>
<tr>
<td>Power in institution</td>
<td>Change in institution is a reflection in the change in distribution of power</td>
<td>US remains leading power, but degree of power declines (33.5% to 24.7% of the vote)</td>
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<tr>
<td>Preferences of most powerful state</td>
<td>Preferences of the most powerful state are same as new lending preferences of institution</td>
<td>Preferences of the US change. Most changes not related to lending strategies or to Bank activities specifically</td>
</tr>
<tr>
<td>Leader changes</td>
<td>New leader brings in new ideas and changes organizational lending</td>
<td>Several changes of leadership</td>
</tr>
<tr>
<td>Leader changes problem representation</td>
<td>Leader changes preferences during tenure and these reflect new lending practices</td>
<td>Some change in preferences seen in problem representations of leaders</td>
</tr>
<tr>
<td>Organizational structure</td>
<td>Changes in organization affect changes in lending practices</td>
<td>Change in organization, especially in educational areas</td>
</tr>
</tbody>
</table>

Table 4.3: Summary of hypotheses and empirical findings, 1949-1968

4.4.1 Power

*Hypothesis 1:* When there is a change in the distribution of power within the Bank, then the institution will change to reflect this new distribution.

This hypothesis is measured through an observation of the change in voting power of states within the institution. As explained in previous chapters, this voting power is not a direct reflection of state’s economic power in the international system, but is a close approximation. Since the World Bank functions on a weighted voting system, voting power is a particularly significant tool for influencing institutional activities. Loans
require a simple majority for approval while changes in the charter of the Bank require 75% of the votes. Additionally, it is important to keep track of the five most powerful states, measured by votes, because they have special privileges within the Board of Executive Directors of the institution. Recall that the Executive Directors are the individuals that actually cast votes. However, the Board is not set up to reflect the one state/one vote, or equal votes for all states practices of the General Assembly and the assemblies of most of the specialized agencies in the UN system. Instead there are a limited number of Executive Directors in the Bank. Only the states with the five largest number of votes are represented by their own director. All others have their votes pooled under a handful of additional (to the five) executive directors. Consequently, when looking at voting power it is not only important to see if there are changes in the most powerful actor, but also in the five with individual executive directors. Table 4.4 and Figure 4.3 display the voting power of the leading actors.

The first and most important aspect of voting power during this time period is that the United States is overwhelmingly the strongest state. This is a constant throughout the history of the organization. Beyond the formal institutional powers, the US has additional influence over Bank policies mostly as a result of proximity. First, several aspects of US influence result from the location of the World Bank in Washington, D.C. In addition, even though the US does not have enough votes to block specific lending levels and loans, as the largest single vote-holder it is an important member to consider—especially since most decisions in the Bank are now made by consensus (Gwin, 1994, p. 56). Third, as a result of tradition, the president of the World Bank is a US citizen. This has not always resulted in a smooth relationship between the
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<td>1969</td>
<td>3</td>
<td>4.17</td>
<td>5.06</td>
<td>3.2</td>
<td>10.18</td>
<td>24.72</td>
</tr>
</tbody>
</table>

Table 4.4: Voting power as a percentage of total
Figure 4.3: Voting power as a percentage of total
largest donor and the Bank, but can result in a special understanding and encourage shared beliefs. Further, this potential influence over the management of the Bank is strengthened by the strong presence of US citizens in key staff and management positions. Americans hold roughly 26% of the staff positions. Finally, Gwin states,

The United States has paid closer attention to the Bank than has any other major shareholder and has frequently flexed its muscle... The United States is the only country that carries out detailed reviews of every Bank loan proposal and the only one to maintain constant contact with the Bank through government officials in addition to its representative to the board (Gwin, 1994, p. 59).

What may be more important, considering the Cold War was raging during the 1950s and 1960s, is what constituted a “majority vote.” According to George Tsebelis (Tsebelis, 1999, p. 198), a system will be responsive to preference change relative to the number of “veto players,” described as “an individual or collective actor whose agreement is required for a change in policy.” As stated earlier, for the Bank, who constitutes a veto player depends on the type of decision being made; a basic loan decision requires a simple majority, while decisions concerning overall Bank funding levels and changes in the charter require a higher percentage of the vote. For this project the primary interest is lending priorities. Thus, knowing which states comprise the necessary 51% of the vote is vital. Because of the overwhelming power of the U.S. in the Bank, in addition to its informal powers due to location, a U.S. president, largest representation on the staff and financial power of U.S. in the international development community, the U.S. can be considered a veto player. The U.S. and a handful of its allies were able to secure the necessary majority of the vote throughout this period.
Consequently, the hypothesis is not fully supported since the leading power in the institution—on the many dimensions noted above—has remained the same (though the US has experienced an overall decline in power) yet there has been change in the organization. Obviously, this change in the development strategies is not simply the result of another state taking over control of the organization and forcing a different set of development preferences. At the same time it is also important to recognize that the US has experienced constant erosion of its power. Again, this is persistent throughout the history of the Bank. Considering that the Bank commenced operations with the US controlling nearly 35% of the votes, it is not surprising that their power decreased. So, even though the U.S. does not lose its lead in the organization, its dominance of power does decline. Yet, its power at the end of the period is still nearly 25% of the total, and possibly more significantly, this is two and a half times the strength of the next leading power. To see if there is any significant statistical relationship, a regression model was estimated in first differences. Figure 4.4 below details the results of the statistical analysis of the influence of US power on the change to human needs lending. The independent variable in the equation is US voting power as a percentage of total voting power, and the dependent variable is percentage of total Bank lending to human needs. As the figure shows, the adjusted $R^2$ is .032 and the significance is .106, showing a very weak relationship. Thus, this evidence does not support the hypothesis.
Regression Statistics

- R: 0.284
- R Square: 0.08
- Adjusted R Square: 0.032
- Beta: 0.537
- Standard Error: 1.909
- Observations: 21
- Significance: 0.106

Figure 4.4: Influence of US voting power on human needs lending
To check further the influence of the US and the impact of the five leading powers (discussed below) a multiple regression, estimated in first differences, was conducted with the voting power of several leading states with the results in Table 4.5. The dependent variable again was human needs lending and the independent variables were the percentages of total voting power of the leading states.

<table>
<thead>
<tr>
<th></th>
<th>Beta</th>
<th>Pearson Correlation</th>
<th>Significance (1-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHINA</td>
<td>-.082</td>
<td>-.307</td>
<td>.088</td>
</tr>
<tr>
<td>FRANCE</td>
<td>.208</td>
<td>-.289</td>
<td>.102</td>
</tr>
<tr>
<td>GERMANY</td>
<td>-.223</td>
<td>.299</td>
<td>.159</td>
</tr>
<tr>
<td>INDIA</td>
<td>-1.701</td>
<td>-.294</td>
<td>.098</td>
</tr>
<tr>
<td>UK</td>
<td>.599</td>
<td>-.285</td>
<td>.106</td>
</tr>
<tr>
<td>US</td>
<td>1.287</td>
<td>-.284</td>
<td>.106</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td></td>
<td></td>
<td>.745</td>
</tr>
</tbody>
</table>

**Table 4.5: Effects of voting power on lending**

According to these statistical results, when the states' voting power is analyzed together, there is little correlation between change in power and change in lending. The adjusted $R^2$ of the model is only -.114 and is not significant. Additionally, none of the Pearson correlations of the independent variables are strong or are statistically significant at the .05 level.

In the late 1940s to the early 1950s, only the three most powerful states in the institution controlled over 52% of the vote. These states were the US, Britain and China (Taiwan). Since this was during the height of the Cold War, it can be inferred that the US was able to influence their voting posture in the Bank. By the end of this period of
infrastructure development, the US was still able to cobble together a majority within the institution with the assistance of Britain, Germany, France, and any two of a number of close US allies such as Taiwan, Canada, Australia, Japan and Netherlands. Due to their unique status in the organization, one additional factor to explore is any change in the five leading powers. During the time period under examination there were a few changes in this elite group. At the beginning, 1949, the five in descending order were the US, Britain, China (Taiwan), France and India. Fiscal year 1959-60 was a transition, with China dropping out of the top five. In its place, France moved up to third in terms of voting power with Germany in fourth place, and then India. This situation was only slightly altered in 1966 with Germany and France trading places. In terms of effecting change in developmental strategies of the Bank, these variables do not appear to be significant (see statistical results in Table 4.5). However, China’s dropping out of the top five spot does coincide with the introduction of education lending in the IDA. To fully explore the influence here of this transition, the preferences of Taiwan need to be examined. This dissertation does not, however, explore the preferences of other states beyond the US both for data reasons and because of the preponderance of power the US has within the institution. As will be seen below, 1960 also marked the first year of a new president of the Bank and this may prove to be a stronger indicator of change. The second change indicated above (France and Germany exchanging positions) is so insignificant in magnitude and considering the alliance between these states, seems highly unlikely to spawn changes in the institution. Secondly, this change occurred at a time when there was not any change in the lending practices of the World Bank, so there appears to be no correlation.
In summary, the hypothesis concerning change in power within the institution does not explain the change in the development strategies employed by the Bank. The greatest power within the institution does not change, for that matter neither does the second leading power, though its overall power does decline slightly. Secondly, the US never had a majority within the institution, requiring it to rely on its allies for assistance. Yet, it required only two accomplices at the beginning of the infrastructure era, and by the end this had grown to four, two of which could be composed of a variety of states. Consequently, the US position, and power relationships in general changed very little within the institution. The one major change was the dropping of Taiwan from the top five list, but they were replaced by a close ally of the US, West Germany.

4.4.2 Preferences

Hypothesis 2: When the preferences of the most powerful state change, then the lending policies of the Bank will change

In general, during this period there was minimal guidance from the US on particular development strategies that should be implemented by the Bank. Instead the Bank was generally supported by the US and was used as a tool of foreign policy by directing which states received loans, not what the loans were utilized for. For instance in the late 1940s the Bank declined loans to several East European states, even loans which had received favorable reports from the Bank staff. This is believed to be the result of US pressure (Gwin, 1994, pp. 65-67) and ultimately led to the states of Eastern Europe dropping out of the institution for the next forty years. The Bank was often urged by the US government to support particular states that were seen as vital in the global security environment of the Cold War. This resulted in Nicaragua becoming one of the
largest recipients of Bank loans in the 1950s. Additionally, "the Bank lent to Yugoslavia soon after its break from the Soviet bloc in 1948" (Webb, 1997, p. 103). Again, though this highlights the US's exercise of preferences and influence in the Bank, it does not show influence over the lending strategies the Bank employed which is the focus of this research.

Another area of US preferences was financial support for the US/Eximbank. The IBRD saw this as a direct competitor in its area of business, especially since the Eximbank had larger capital resources and was charging lower interest rates. Resulting from this competition was a decision by the Bank's directors only to conduct business with states that would agree not to do business with the Eximbank (Webb, 1997, p. 106). For some years this policy delayed the process of the Bank becoming involved in LDC lending; overall lending levels remained low and the majority of loans were targeted on relatively wealthier states (Southern Europe, Japan, and Oceania). Ultimately, there was the realization by the late 1950s that demand for assistance was significantly greater than either organization could supply. Again, this conflict, significant though it may be to understanding who received aid, does not help in understanding why the Bank changed its lending practices to begin to address human needs problems. Some may argue that the types of states (European or LDCs) receiving Bank loans may influence its lending strategies. However, there is no evidence to support this supposition. Loans to LDCs or Europe during this episode both entailed lending to large infrastructure projects. As lending increased to LDCs, this just opened up more areas where infrastructure loans could be sent; it did not determine a new set of loans.
Another area where the US expressed its preferences was in the creation of two Bank affiliates; the International Finance Corporation (IFC) and the International Development Agency (IDA). A more detailed description of this process is provided in the organizational structure section of this chapter. The bottom line is that these two agencies did not change Bank lending strategies.

An area where US preferences do seem to play a role in the change of lending strategies is the Cold War. Throughout much of the 1950s and 60s US foreign assistance was often justified on the grounds of preventing the spread of communism. By 1959, there was a realization of both the growth in number of LDCs and their potential instability after Castro’s successful coup. There was a growing realization of the importance of poverty alleviation, especially in the rural areas (Krasner, 1983). The US was pushing for more concessional lending with the creation of the IDA, which could lend to more social areas since it did not have to worry about economic rates of return (Webb, 1997, pp. 160-171).

In addition, by 1961 President Kennedy had come into office with an aggressive development agenda. This included the Alliance for Progress (focusing on development assistance for Latin America), the creation of the Agency for International Development and the Peace Corps. The long-range goal of these programs was to promote economic and social development, which was a break with the past where success was evaluated by measuring GNP. Finally, the Foreign Assistance Act of 1961 passed by Congress emphasized what the goals of US assistance were. "Development assistance would be designed to support improvement in the lives of poor in developing countries so that they would then be less likely to look to communism for relief" (Ruttan, 1996, p. 93).
Building on this push into new areas of development aid were Congressional hearings in the early 1960s. These encouraged greater attention and resources to be paid to agricultural reforms and social progress by the multilateral development banks. Additionally, the wanted a larger share of resources to be targeted on African states, away from Asia (Congress, 1964).

Throughout the decade of the 1960s, the Foreign Assistance Act was amended to add greater clarity to the lending direction of US aid. In 1962, amendments were added to make loans to small farmers and vocational training the highest priority. This is in support of the general human needs concept of education and helping the poor, including those in rural areas. By 1967, this included focusing aid expenditures on agriculture, health, and education programs stating that:

The first objective of assistance shall be to support the efforts of less-developed countries to meet the developmental needs of their peoples for sufficient food, good health, home ownership, and decent housing, and the opportunity to gain basic knowledge and skills required to make their own way forward...particular emphasis shall be placed on utilization of resources for food production and family planning (section 102 of the 1967 Foreign Assistance Act, cited in Ruttan, 1996).

To further support the concept of human needs lending this act added population control to its wording in 1968.

All of these features are components of human needs lending: agricultural development (especially focused on the rural poor), education, health, and population control. Clearly the US was making a transition in its lending activities to stress these areas. However, the direct pressure on the Bank to respond to these changing interests is limited. A few congressional hearings expressed an interest in promoting these new development policies. However, Congress at this time was still reticent to take an active
role in influencing specific US policy in the MDBs (Schoultz, 1982). This remained the case until 1973, which is discussed in the next chapter. Consequently, there is a change in US preferences and certainly the Bank was aware of these changes, but there is not evidence of a US agenda to alter the lending strategies of the institution. Instead the primary focus of the US when it came to the IBRD was to block loans to states that had expropriated overseas branches of US corporations. This was not a lending strategy, but instead using the institution to achieve bilateral goals—something that gives credence to power-based theorists but does not provide an answer to the change in lending strategies.

In conclusion, there were changes in US preferences in developmental lending, but it was questionable whether these were overtly pushed on the World Bank or just affected US bilateral lending. It would be anticipated that the Bank staff was well aware of these changes and subsequently Bank lending did not oppose these US developmental preferences. However, to show direct US influence is difficult. The NAC record is quiet on this regard. Only references to the formation of the IFC and IDA and the balance of payments problems in the mid-1960s appear in the NAC record. There is no mention of US preferences towards the Bank in terms of lending strategies; this will not appear until the 1970s (discussed in the next chapter). Thus this variable is inconclusive.

4.4.3 Leadership

Change in the president

Hypothesis 3: When there is a change in the president of the Bank, then there will be a change in the lending practices (consistent with the leader's prior experiences).

In this section the main question that is asked is whether the change in lending of the World Bank coincided with a change in the leadership. Understanding who the leader
was is important to evaluate how they envisioned the Bank and what type of ideas they may have brought into the institution. This gives an indication of whether or not the president was primarily responsible for the new activities of the institution. Additionally, it is important to examine briefly the activities of each leader, looking for changes they implemented which may have led to the new lending strategies. The following section looks at each of the presidents who served from 1949 to 1969 and explores the above questions. Although McCloy had left the institution long before the change to human needs, it could be the case that his vision for the Bank included that different strategy. Therefore, the leadership analysis starts with him.

John McCloy

Between 1949 and 1969, there were four presidents leading the World Bank. The period starts with the final year of service by John McCloy. He did not serve a full term in office, only remaining on the job for 27 months. McCloy fought hard to get the Bank up and running. He had contentious arguments with the executive directors since he tried to limit their powers to that of part-timers, while making the president the seat of real decision making. This created the division of so-called "management" and the executive directors that still troubles members of the US government (Sanford, 1982, pp. 182-184). This division means that the executive directors vote on loans, but are not involved in other policies. This process has become much less predominant in the last decade or so, but in the 1950s and 1960s was the key form of governance. After the reconstruction phase was finished, McCloy felt that he had wrapped up that purpose of the Bank. He oversaw the change from reconstruction to LDC development (Kraske, 1996, Chapter 2), but was not associated with the Bank when the human needs approach appeared as part of
the Bank’s strategies. Ultimately, he left the Bank when he was asked by President Truman to become the high commissioner for Germany in 1949.

McCloy was seen as a trouble shooter and consensus builder. He had numerous close connections with the power establishment both in Washington and in the New York financial and legal world (Kraske, 1996, pp. 37-42). Since the Bank had before his arrival still been waiting to award its first loan, but was also operating for the previous three months without a president, it was viewed by many in the outside world as an institution with a severe reputation problem. One description of the Bank at this time stated it was “leaderless and in a state of dispirited confusion” (Demuth, 1961, p. 6). In accepting the presidency of the Bank McCloy laid down several stipulations. The president would not be responsible to the dictates of the US executive director; in fact the US government would consult the president of the Bank on their selection of a director before appointing a new one. More importantly for the Bank he established the role of the president in leading the Bank and that of the executive directors of voting on loans only after the entire application process had been completed. Earlier, under Meyer, the directors attempted to place themselves in the position of having input into the entire policy process (Sanford, 1982, p. 182). To some this created an environment where the president led the organization in its changes.

There would be pressures to modify the relative roles of the executive directors and the president. Tensions, when they occurred, consisted largely of efforts to broaden shareholder influence and to increase borrower influence. But the principles of executive initiative and authority and of nonpolitical lending have by and large held (Kraske, 1996, p. 52).

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2 This power of the president in the selection process of the US executive director did not last over the years. However, it is generally considered an informal part of the selection process that the president and the US director must at the least get along.
After these tasks had been completed, McCloy focused on lending and establishing the fact that the Bank was a neutral agency that did not make political decisions, but instead made decisions based on sound economic judgment. This was a major concern for the Bank in the early years since it had to establish credibility in order to borrow money in capital markets. Indeed, this has remained an important issue for the Bank and is often invoked in defense of its lending policies. Whether this is a convenient excuse or a necessary tenet can be debated *ad infinitum*; it is probably a mixture of both. Regardless of this, the Bank needed to borrow money in order to function. By the end of 1947, the Bank only had $727 million in lendable currency. This was a result of the capital authorization process of the Bank and the war-ravaged economies around the world. Thus, in order to be an effective international lending agency, the Bank had to raise capital by selling bonds. Since the major source of capital in the world at this time was in the US, McCloy believed that the Bank could only lend to projects that would be accepted by the New York financial community (Asher, 1973, p. 54).

The Bank’s first LDC infrastructure loans were granted while McCloy was president. These consisted of a $16 million loan to Chile in 1948 and then loans to Mexico and Brazil in 1949. But none of this seems to provide even the slightest hint that he helped influence the change to human needs. Certainly, he was not directly responsible since these changes were not made for another 20 years. Still, his insistence

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3 The original capitalization of the Bank was $10 billion. However, member states were only expected to pay in 20% of their dues. The other 80% were held in reserve in case of default and to create equity for the Bank. Additionally, only 2% of the dues needed to be in convertible currencies or gold. Finally, in the early years, since so many economies were just beginning to dig out of the devastation wrought by war, this 2% barrier was waved. Consequently, the Bank held many invaluable currencies and its lending ability almost solely relied on the US dues.
on the autonomy of the World Bank president may have set a precedent for future leaders having increased influence on the strategies used by the Bank.

Eugene Black

Eugene Black took over the office of president in July 1949 and served until January 1963. These fourteen years in office are the longest presidential term in Bank history. His service coincided with the longest period of stable lending policies by the Bank. Again the timing of his leadership does not coincide with the changes to human needs. This transition of the Bank was certainly not a reflection of the new president’s outlook on development.

In fact, he took over an organization that had existed for three years but accomplished exceedingly little. In total the Bank had made 10 loans its first three years of operations. There were 408 employees from 21 states and little knowledge of the Bank in the outside world; “even inside the Bank there was not as yet a vision of its role and potential” (Kraske, 1996, pp. 75-76). By the time Black left in 1962, the financial resources of the Bank had grown dramatically, and lending had also increased such that the Bank had made 330 loans to 60 different states totaling $6.8 billion. Finally, he helped the institution grow in stature and professionalism. Discord between the president and the executive directors diminished tremendously. Undoubtedly, this positive relationship was assisted by the fact that Black had previously served as an executive director. Additionally, the staff expanded to 833 from 55 states. Organizationally, the Bank group also added the International Finance Corporation in 1956 and the International Development Agency in 1960. Regardless of all these positive developments under the Black presidency, the question remains: was he responsible for
leading the Bank to change its lending policies to a more human needs-focused approach? The change did not take place until 1967-68 and by then Black had been out of office for over five years. Even given a reasonable lag for projects to become funded, the correlation between his term and the change is minimal.

What is interesting is that Black is generally considered the man who led the Bank during its period of infrastructure development. However, the data on Bank lending presented above shows that the Bank started lending in this area as far back as 1957. Clearly this was not a consistent lending policy nor were the amounts very substantial. However, the minimal beginnings of change toward human needs are evident in the data and warrant a closer examination of Black’s presidency so the transition of the institution can be fully understood.

Black’s background was in finance and he had close ties with leading members of the financial community (Kraske, 1996, pp. 80-82). This was critical because of the aforementioned necessity to raise funds for lending. As the Economist stated, “It should always have been evident that the main problem of the Bank would be to find not borrowers, but lenders prepared to accept reasonable terms” (Economist, 1947, p. 339). Raising funds proved to be a difficult task for Black since monies needed to be raised primarily in the US and most institutions (national banks, insurance companies, pension funds, etc...) needed the approval of either Congress or their state legislatures to invest in the Bank’s bonds. Consequently, Black had to campaign at the state and federal level to overturn these restrictions. Additionally, he had to overcome U.S. investors’ fears of foreign lending (Asher, 1973, pp. 125-132). The Depression had left many with
insolvent loans. This necessary desire to please the financial community also influenced Bank lending. Lending to states that had a high probability of paying back loans and projects that could easily be evaluated in regards to their financial benefit became a criterion for approving loans. Thus loans went primarily to the more economically sound states. It took the Bank over ten years until it attained a stable AAA bond rating from the three bond rating services (Asher, 1973, p. 132). Certainly the argument can be made that the Bank could not explore new development strategies until it had convinced the financial community that it made sound investments and paid off its loans.

In terms of lending, Black supported the words of the Articles of Agreement that "loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects." The fear was that unspecified loans, or program lending, would result in resources being used in an inefficient manner.

If the Bank were to make loans for unspecified purposes or for vague development programs... there would be danger that the Bank's resources would be used either for projects which are economically or technically unsound or are of a low priority nature, or for economically unjustified consumer goods (Bank, 1954, p. 45).

The Bank documents go on to state that in the early years of development lending there were numerous projects submitted for funding that were poorly prepared and economically unsound (according to the Bank's criteria). Consequently, one of Black's first lending activities was to initiate economic survey missions. Over 24 of these missions were sent out by 1964 when the system was phased out. These missions lent the Bank's economic expertise to the LDCs and tried to devise development strategies.

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4 U.S. investors had made over $11 billion in loans in the 1920s. By the end of WW II over one third of these investments were still in default.
Interestingly, many of these missions were conducted before the states became independent so they could hit the ground running.

In regard to lending in the human needs arena, the Bank was far from considering this in the 1950s. In explaining its lending practices, the Bank states that projects are considered according to the overall economic needs of the state. These are projects which "contribute most to strengthening the economy of the borrowing country."

Consequently, in evaluating and ranking the desirability of projects the Bank may decide that

Some projects which have not been submitted to the Bank and for which financing has not otherwise been arranged nevertheless merit a high priority; and, second, that a number of those submitted to the Bank, while worthy of consideration, are of relatively low priority (Bank, 1954, pp. 46-47).

This obviously gives the IBRD great discretionary powers in deciding loans to borrowing states. They are to emphasize economic growth, be consistent with the overall economic plan of the state (developed by Bank staff) and finally, no matter what the state requests, the Bank may have its own list of priorities.

To further decrease the chances of any non-infrastructure loans being made, the Bank states that the Articles of Agreement limit the types of loans the Bank can make.

As a matter of general policy, derived implicitly for the Articles of Agreement, the Bank concentrates its lending on projects designed to contribute directly to productive capacity and normally does not finance community projects of a primarily social character, such as sewage, street-paving, water supplies, housing, and health and education facilities...the Bank believes that its loans...can most effectively be applied in the more directly productive sectors of the economy (Bank, 1954, p. 48).
As president, Black went out into the field and saw the conditions that existed in many member states. He spoke of the problems of development and after leaving the Bank he was an active member of the Population Council. He saw the importance of education and population growth, but during his tenure the Bank just barely became involved in human needs lending. However, in his last presidential address he does foreshadow the later direction of the Bank. He states:

What the Bank has been able to do is by no means inconsiderable: in fact, the volume of sheer physical creation—the scores of factories, the millions of acres of land, the millions of kilowatts of electric power capacity, the tens of thousands of miles of roads and railroads—can only be called impressive. But the Bank’s work is not to be assessed in terms of the building of cold monuments of stone and steel and concrete; it has had a deeper purpose—to enlarge the riches of the earth, to give men light and warmth, to lift them out of drudgery and despair, to interest them in the stirring of ideas and in the grasp of organization and techniques, toward the realization of a day in such plenty will be a real possibility and not a distant dream (Bank, 1962, p. 16).

One major change that Black helped instigate was the creation of the International Finance Corporation (IFC) in 1956. Its purpose was to lend to private corporations, an activity that the Bank did not become involved in until the 1960s predominantly due to a concern over using the Bank’s public funds to help private interests. Black had to fight the US government to get the IFC initiated and enrolled the help of the UN in this conflict. When the US finally acquiesced, the new institution was created with a severely restricted mandate and funding (Kraske, 1996, pp. 104-106). The creation of the IDA also shows a change in the thinking of Black and may have had some unanticipated long-term affects on the Bank; this will be discussed in the section on organizational changes.
George Woods

George Woods took over the reins of the World Bank on January 1, 1963. Again the timing of the Woods accession to the presidency does not correspond with the change in the Bank’s lending which occurred in 1967-68. However, it is important to see that the lending in the human needs area rose steadily under the Woods presidency and he set in motion the change in focus that would gain more momentum under McNamara. The largest percentage of human needs lending under the Black presidency was 1.7% in 1960. During the first year Woods held office, human needs lending rose to 4.9% and during his five years in office it rose to a high of 5.1% and never went below 2.4% of total Bank lending. Human needs lending does not cross the designated 10% threshold, but these increases and the experimentation with human needs lending cannot be discounted.

Similar to his predecessors, Woods came from a financial background, primarily with the First Boston Bank where he became chairman in 1951. His work with First Boston brought him into contact with the Bank and its senior staff since this was one of the private sector firms that helped underwrite the Bank’s early bond sales. He had close contact with Black and the Bank throughout Black’s tenure to the point that he often traveled abroad with Black as an advisor. The first of these numerous consulting expeditions was to India in 1952; his consulting role expanded by the 1960s when he consulted on behalf of the Bank in the establishment of the Private Development Corporation of the Philippines (Oliver, 1995, pp. 47-51). This was one of several national development banks the World Bank was helping to create in an attempt to spur domestic development. Finally, in February 1962 he became a member of the advisory board of the International Finance Corporation (IFC).
An important step towards human needs lending was the support of agricultural training and extension programs supported by the Bank. Previously, the Bank had supported agriculture, but this was through infrastructure projects such as road construction so farmers could get produce to market, large irrigation projects, and acquisition of heavy machinery for large agri-businesses. Shortly after taking office Woods established a committee to determine appropriate guidelines for this new type of lending (Oliver, 1995, p. 74). Part of this new investment came from Wood’s belief that the Bank should be involved in development at an “earlier” stage than it had previously. This meant financing of agricultural projects to help the mass population of developing states and assist in feeding these burgeoning populations; also this involved funding of education to help the people help themselves (Kraske, 1996, pp. 130-131).

Importantly for the international development community, Woods sought out the expertise of other UN specialized agencies, especially in these new areas of lending. In particular, he tried to work closer with the FAO and UNESCO. For instance in 1964, the Bank started to work jointly with the FAO to develop lists of potential projects that at that time did not exist. In education this resulted in “working in cooperation with the United Nations Educational, Scientific and Cultural Organization under a cost-sharing agreement…to help in the choice and preparation of projects” (Bank, 1964, p. 8). Prior

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5 Some individuals claim that Woods only instigated these new agricultural programs because of the solid arguments presented to him by Lord Howick, who had considerable experience in Africa. Unfortunately,
to Woods taking office, the only mention of UN agencies was the Special Fund that the Bank president was a member of the advisory council and the Bank was the executing agency for all of their loans.

In fact, one of the most significant actions Woods may have taken to help change the Bank and support his trial initiatives in “helping the poor” was the selection of his successor. Woods was the individual that initially considered Robert McNamara for the job of president of the World Bank. Since McNamara’s speech in 1966 where he argued that the “irrefutable relationship between violence and economic backwardness [and] security means development” (Webb, 1997, p. 215), Woods had been interested in McNamara.

**Robert McNamara**

Only the first year of McNamara’s presidency falls into this period of change. Most of his 13 years in office take place in the next transition episode; from human needs to structural adjustment lending. Therefore, I will discuss Robert McNamara primarily in the next chapter. However, in the next section there is a brief discussion concerning the content analysis results of McNamara’s speeches made in this time period.

**Change in president’s representation**

*Hypothesis 4: When the president changes his representation of how the organization can best meet its goals, then the lending activities will change to reflect this new representation.*

In this section the intent is to uncover how each of the president’s viewed the role of the World Bank in terms of the lending strategies under investigation in this project.

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this shows the difficulty in tracing the genesis of ideas. It is difficult to prove this influence on Howick’s part, especially as it relates to changing Bank policies.

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To accomplish this, presidential speeches have been content analyzed according to the coding scheme described in Chapter Two. Again, this scheme will be applied to each of the presidents during this time period to see if and how understandings of Bank goals change. The results of this content analysis are presented below in Table 4.6; the change in leaders is noted. Figure 4.5 shows these results arrayed with the dependent variable.

These results are useful, yet not always straightforward. First, it is important to remember the years of transition between presidents of the Bank. These results commence with McCloy's last year in office. The next thirteen years, 1949 through 1962, represent the long service of Eugene Black. Next, Woods served from 1963 through 1967, with the final year in this section, 1968, being the first year of McNamara's long service to the Bank. To see if there is any significant statistical relationship, a regression model was estimated in first differences. Figure 4.6 below details the results of the statistical analysis of the influence of the presidents' problem representations on the change to human needs lending. The independent variable in the equation is the percentage of the presidents' references to human needs lending, and the dependent variable is percentage of total Bank lending to human needs. The adjusted $R^2$ of the model is .397, significant at .001; this is a relatively strong relationship and shows some support for the hypothesis. The relationship would be even stronger if the early Black years, when the Bank had yet to lend to human needs, were taken out of the equation. Woods and McNamara seem to have a strong correlation between speeches and changes in lending. However, since there are so few data points they were not statistically analyzed individually.
Returning to Table 4.6, the results are not very surprising in that they show the\ndecline in reconstruction at the end of the 1940s as discussed in the previous chapter.

During most of the current time period, the Bank president primarily discussed
infrastructure lending as a means of addressing economic underdevelopment. In fact, the
<table>
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<th>Year</th>
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Table 4.6: Presidential emphasis by lending strategy
Figure 4.5: Presidential emphasis by lending strategy, with dependent variable
Regression Statistics

- R: 0.654
- R Square: 0.427
- Adjusted R Square: 0.397
- Beta: 0.654
- Standard Error: 1.507
- Observations: 21
- Significance: 0.001

Figure 4.6: Influence of presidential speeches on human needs lending
infrastructure strategy was so dominant during this period that it represented over fifty percent or more of all the development strategies discussed for fifteen of the twenty years being examined. In fact, this strategy hovered for several years in the 70-80% category. This is not necessarily surprising considering this is the period of infrastructure development according to the dependent variable.

Furthermore, the change in the dependent variable takes place during the year 1967-1968. However, change in the dominant strategies of the presidential speeches does not occur until a year later. The 1968 presidential address reveals a distinct shift towards human needs and is the first presidential address made by Robert McNamara. This certainly signals the shift towards human needs, but comes a year too late to indicate that the leader is the "cause" of the change.

It is especially important to look at McNamara's statements in conjunction with the Bank's policy shift to more of a "human needs" approach because literature in the field all give credit to McNamara for changing the direction of the Bank (Finnemore, 1996; Rich, 1994). McNamara's first address heralds other shifts in the Bank's lending that will be discussed in greater detail in the next chapter. However, as a precursor, he recognizes the developmental progress already achieved, but believes that the gap between the rich and poor states of the world is increasing. "Such a situation cries out for a greater and more urgent effort by the richer countries to assist economic growth in these poorer countries" (Bank, 1981, p. 4). This greater effort includes a doubling of lending on the part of the Bank, with a tripling of lending to Latin America and Africa, the poorest regions of the world. He continues by stating that "we believe we see a way ahead for increasing Bank investment in education" and this investment will be at "all
levels" of education (Bank, 1981, p. 10). This is a shift from previous education lending which was extremely limited, tentative, and only for the highest levels and technical training. Additionally, he makes the first comments concerning population growth and economic development: "...because the World Bank is concerned above all with economic development, and the rapid growth of population is one of the greatest barriers to the economic growth and social well-being of our member states" (McNamara, 1981, p. 12). He then presents some tentative means by which the Bank can help its members "lift this burden from [their] backs." Finally, McNamara envisions the World Bank and other development agencies as "a productive machine which could abolish poverty from the face of the earth" (McNamara, 1981, pp. 14-15). These are all strong statements and cornerstones of human needs development. Unfortunately, the Bank had already made the transition to this type of developmental strategy, so we will have to go back to previous presidents to evaluate what their influence could have been.

John McCloy can be ruled out as a causal agent of change in this instance since his last year in office was 1948 and change did not occur for another 20 years. This can hardly be represented as having a very important impact on organizational direction, though in a more indirect way it is plausible that his expression of autonomy set a precedent for others. Other than infrastructure, McCloy's speeches do show some indicators of structural adjustment, not a significant strategy of the Bank until the 1980s. This is not to suggest that McCloy was involved with this third period of change to structural adjustment lending, merely that these were not new concerns in the 1980s. Instead, presidents since nearly the beginnings of the institution discussed structural adjustment and its related topics.
As stated earlier, the tenure of Eugene Black is epitomized in the literature and in the content analysis results by his emphasis on infrastructure development: “the bulk of our investment operations have been in the field of public utilities, especially of electric power, and we are constantly encountering the importance of power” (Bank, 1953, p. 7).

The real jump in human needs lending takes place five years after he leaves office, so again the timing is not right to give Black credit for this change. On the other hand, he was responsible for making the first mention of human needs lending by a Bank president. This transpired in his 1950 presidential address when human needs lending was by far the dominant strategy. Black’s strategies in 1950 offer an example of the importance of keeping track of events in the external environment. The year 1950 witnessed the commencement of the Korean War. Though Black greatly emphasized the necessity of human needs activities, it was all couched in terms of confronting communism.

What is now happening in Korea is not a struggle for a few thousand square miles of land. It is part of a struggle for the hearts and minds of hundreds of millions of people throughout the world. Perhaps the most powerful single force shaping the course of history in our time is the awakening consciousness of the underprivileged masses of the people that the conditions of poverty, ill-health and ignorance in which they live are not preordained and their deep conviction that they have a right to the opportunity to earn a better living for themselves and a better future for their children (Bank, 1950, p. 9).

Mentioning individuals, children, poverty and health are all firsts for a Bank president and are representative of a human needs approach. At this time a discussion of development revolved around macro concepts such as the growth of an economy or the construction of large projects, i.e. dams, roads and rail lines. All are devoid of the human
aspect. The 1950 presidential address breaks into new terminology and fields of developmental importance. However, it is a one-time event, and the topic of the individual human condition is almost completely dropped from presidential speeches until Woods takes over the presidency in 1963. In the years following 1950, the rare reference to human needs is presented in the context of abating the flow of communism. Regardless of the connection to communism, Black must be given credit for at least introducing the idea that the human condition is also vital to economic development.

Later in Black's career there were some changes in his speeches and in the structure of the organization that may have had long term effects. These consisted of references to the importance of education and the creation of new departments within the Bank that were involved in the educational process. A first change was the creation in 1956 of Economic Development Institute (EDI). The purpose of this department within the Bank is to provide advanced economic and developmental skills to foreign nationals. Though not formally an education loan (education being part of human needs), EDI provided the Bank with experience in the educational realm for half a decade before they granted any educational loans (the EDI is discussed in more detail in the section on organizational change). Finally, in 1960 the presidential address recognizes the importance of education.

In some of these countries [Africa] we know now that the first roadblocks on the path to development are the lack of the most basic services of government, particularly adequate education... The human resources available to be brought to bear on these situations are pitifully meager. All development agencies, national, regional and international, will have to stretch to the limit of their resources—and their ingenuity—to meet the demand. In the Bank, we hope, and expect, to be able to do our share (Bank, 1960, p. 10).
The above quote is the first time that the Bank discusses human needs as an issue that they must and will address. This presidential address was presented by W.A.B. Iliff, the vice president of the World Bank, who was filling in for a seriously ill Eugene Black in 1960. One may assume that Black would have overseen the writing of the speech delivered by Iliff. Yet, Black’s last two speeches as president in the following years did not have the same emphasis on human needs.

When the next president takes office there is a marked changed in the strategies that are being presented. The number of references to human needs rises considerably and stays at 30-40% of all references. This means that human needs is either the dominant strategy or very close to the dominant strategy throughout the tenure of Woods. His speeches take up some of the issues introduced by Iliff in 1960, but Woods takes Iliff’s definition of the situation further with more specifics. He makes an argument for the importance of education in the process of economic development, stating that education is “of central importance in the whole development process.” Woods goes on to note that the IDA has already made a few educational loans and states: “I believe it would now be appropriate for the Bank, too, to lend for school facilities of high economic priority” (Bank, 1963, p. 12).

By 1965, Woods displays the increasing importance he is placing on human needs strategies by stating, “We meet in a cause which is always urgent: the cause of raising living standards—which for over half the population of the member countries of the World Bank are intolerably low” (Bank, 1965, p. 8). This declaration is tremendously significant since this is the first sentence of the presidential address. Typically, the first
several paragraphs consist of standard “thank yous” to individuals and states, and recounting the Bank’s financial status. The placement and force of this sentence signal a real change in how vital human needs strategies are deemed by Woods. From this point on, these strategies steadily rise in importance (in the presidential addresses).

During Woods’s time in office it is also interesting to note the high level of emphasis put on structural adjustments. As with Black, the primary focus is on the type of government and waste within government.

It is urgent for many of them to cut down some of the biggest items of waste—excessive military expenditures, prestige projects, inefficient administration, overstaffing of railways and other public enterprises, and subsidies to public services that could and should be self-supporting (Bank, 1965, p. 9).

The other aspect of structural adjustment that Woods references is the growing size of LDC debt. “Turning now to the ‘debt problem,’ it is common knowledge that the external obligations of the developing countries have risen considerably over the past several years” (Bank, 1963, p. 10). All of these are aspects of structural adjustment programs that will be implemented in the 1980s. In the 1950s and 1960s, the presidents of the Bank were concerned about these problems, but never mention the Bank actually addressing these issues. Action will have to wait another two decades. The one exception to this is the creation of the IDA, discussed below. It was expressly designed to help the least fortunate states and to help alleviate the “debt problem” through its long lending period and low interest rates.

The content analysis illustrates a significant increase in human needs lending references from the previous president. There is some fluctuation, but generally it remains relatively high at around 40%. There is certainly a connection with his ascension
to the presidency and the change to human needs lending. The lending outcomes rise
during Woods’s tenure but not to the 10% level designated as change.

In conclusion, after careful analysis of presidential speeches during this time
frame there is evidence of a change in development strategies being promoted. Human
needs become the dominant strategy in the leader’s problem representation in Robert
McNamara’s first year (88% of all strategies he mentions). However, change in the
dependent variable (lending levels) had already occurred a year before. It is interesting to
see the rise in emphasis on human needs lending that takes place the moment George
Woods takes office. The change is not as dramatic as that experienced under McNamara,
but potentially more important. Woods’s tenure is often obscured and forgotten in Bank
articles, probably because his short tour of duty is squeezed between the two longest
serving presidents in bank history. Many who write about the Bank do not consider
Woods an overly influential president. However, the evidence here seems to point to him
having some influence in changing the Bank’s policies to support human needs lending.

At the very least, he laid the foundation upon which McNamara built.

4.4.4 Organizational change

Hypothesis 5: When there is a change in the organizational structure, a change in
lending strategies will follow.

The purpose of this section is to explore the potential impact changes in the
organizational structure of the institution may have on the change in developmental
strategies. Again, timing is integral in evaluating the causal power of the proposed
independent variable on policy changes. Organizational questions asked cover three
specific areas. First, were there any actual bureaucratic changes in the institution? In
other words, were new departments created, or funding levels increased or decreased for particular departments? If so, the potential for these changes to impact the lending of the Bank need to be appraised. Structures that opening channels for external actors to influence the Bank are especially important to consider. The second question asked is whether or not there have been any changes in the formal policies and procedures of the Bank. Again, these are evaluated as to their potential impact on policy change in the institution. Finally, the third bureaucratic question revolves around any changes in the makeup of the Executive Board. The Board of Executive Directors has already been looked at in regards to the power variable. Here, the important items are changes in the number and makeup of the Board. In other words, is there more or less representation from LDCs or particular regions of the world? First, any changes in departments are explored.

Change in bureaucratic structure. The creation of additional “parts” of the Bank was change seen in this period. This section discusses how these may have influenced Bank strategies.

Creation of the Economic Development Institute

The EDI is not an individual institute or organization like the International Finance Corporation or the International Development Institute. Instead the EDI is a department entirely within and funded by the Bank (with initial assistance from the Ford and Rockefeller Foundations). The institute was created as a “staff college for senior officials” with the objective to “help the less developed countries to improve the management of their economic affairs by affording to administrators an opportunity to broaden their knowledge of economic development” (Bank, 1955, p. 6). The institute
started with a sparse class of only 16 individuals drawn from various member states and coming from “important” positions in their governments. The Bank envisioned the institute as fertilizing an exchange of ideas on development issues.

Our ambition is for these officials to return to their posts with new appreciations of what kinds of policies and programming, what kinds of practical action, are likely to make the best contribution to the economic development of their countries. We hope, too, that the Bank itself will benefit from the interchange of ideas and experience that will take place between the Bank staff and the participants in the Institute (Bank, 1955, p. 6).

Clearly, one important reason for the creation of the EDI was the lack of sound economic proposals reaching the Bank. This is a complaint heard frequently during the Black years, that the Bank wanted to lend to LDCs but project proposals and economic studies were not sufficiently thorough; if they were done at all. In fact, as far back as 1950 the Bank was holding special “seminars” and training institutes” within country to assist in economic planning and devising sound projects (Bank, 1951, pp. 7-15). EDI has continued to grow over the years and in the 1960s diversified its course offerings and expanded the languages of instruction to include French and Spanish.

Individually, the EDI could not have changed the Bank’s lending policies towards a human needs approach. But the creation of this division in the Bank bureaucracy both pointed to the perceived importance of education and provided the Bank with valuable knowledge about the education process. The EDI produced its own publications regarding the importance of development planning and these were opportunities to discuss the role of education in the development process. So though it did not cause the change, the EDI helped provide some of the intellectual tools necessary for the change. It also provided a forum and a focal point for a discussion on education.
Creation of the International Finance Corporation

The IFC came into operational existence in 1956. It was created to assist in development financing of private projects; there would not be government guarantees on the loans. This is an affiliated organization of the IBRD, sharing the same president and staff.

The idea for the institution dates back to 1948 when the U.S. began consideration on granting large increases to the lending authority of the Export-Import Bank. This was opposed by the US executive director at the Bank, Eugene Black, who argued it would crowd out the World Bank from development lending (Asher, 1973, pp. 345-359). IFC took several more years to come into creation due to concerns from the private investment community and some member states over lending public monies to private industries. Unfortunately, as a result of numerous financial and legal restrictions placed on this new organization, it was extremely limited in its activities during the 1950s and 1960s. The Articles of Agreement of the IFC placed its activities on a difficult middle ground. It was to “further economic development by encouraging the growth of productive private enterprise in member countries, particularly less developed areas...in cases where sufficient private capital is not available” (Corporation, 1956, Article III, section 3 vi). As Mason and Asher observed, this put the IFC in the difficult position of lending to private projects which could not attract private capital, but yet held the prospect of being productive projects (Asher, 1973, p. 351). Additionally, the IFC was initially only funded with $100 million instead of the $500 million originally envisioned. There was not a sense that this amount would be supplemented, so the original loans were limited to $2 million. Consequently, the IFC was highly restricted and underfunded.
Not surprisingly due to his background in investment banking, Woods wanted to increase the flow of funds to private industrial development in the LDCs. The Bank had a limited mandate in this area so he helped expand the financing of the IFC by making direct transfers from the Bank to the IFC. He also transferred the Bank’s entire industrial development staff over to the IFC (Kraske, 1996, pp. 131-132).

Regardless of these changes and the importance Woods perceived in the IFC, it did not influence the Bank in its change to human needs lending. The IFC lends to private industrial projects. Only in an extremely distant manner does private industry have any connection to human needs. Instead the IFC’s lending is more directly related to an infrastructure approach to development. Especially during this period, the loans the IFC made were to heavy industry and the necessary infrastructure to support this industry. For instance, the largest area of lending by the IFC was for construction materials, primarily for infrastructure (roads, ports, railroads), other leading areas were steel production and mining.

Creation of the International Development Agency

The IDA was first proposed in 1951, based on similar ideas coming out of the World Bank and a US presidential commission headed by Nelson Rockefeller, and ECOSOC. All three groups’ concepts were similar in that their aim was to provide low cost loans to the poorest states. It was realized early on that these states were incapable of attracting development loans due to their limited prospects of repayment. However, it was also recognized that these were the states that most needed economic assistance (Oliver, 1995, p. 45). The ECOSOC proposal was pushed by developing states and did not have the backing of EDCs who would be primarily responsible for financing the new
venture. They were concerned both over the necessity to establish this new entity and to entrust it to the UN as the ECOSOC proposal suggested (Hadwen, 1960). Eugene Black opposed such an institution. He spoke against its creation as unnecessary and potentially problematic for LDCs in major policy addresses including his “Annual Report to the Board of Governors,” an address to an ECOSOC meeting and before the General Assembly.

For the World Bank this became a non-issue. However, the idea in the greater world of development did not wither away; in fact many LDCs continued to push for low interest long-term loans. Finally, in 1958, Black’s Annual Report included positive comments about additional lending windows for some states (Bank, 1958, pp. 14-15). The Bank’s Annual Report from 1958 also mentions for the first time the idea for the creation of the IDA and states that a similar proposal originated in the US (Bank, 1958, p. 6). This was quickly followed by the creation of SUNFED in 1959 by the UN; with Black as one of the three members of the board. Finally in 1960, the Bank created the IDA, its “soft lending” window.

The IDA is part of the World Bank Group and shares many of the same staff, executives, and offices of the IBRD. However, the IDA has different lending criteria, a different voting structure, and potentially most importantly a different means for raising monies. Consequently, the IDA has to be considered a separate organization from the Bank and its activities are only examined in terms of their impact on changes in Bank lending practices. Yet, there are three important roles the IDA can play in regards to the changing lending criteria of the Bank. First, the IDA and the Bank sometimes lend simultaneously to the same project. Second, it has been suggested that the creation of the
IDA brings increased scrutiny of Bank lending from legislatures around the world (Webb, 1997). This occurs because the IDA receives funds primarily from governments (the rest comes from IBRD profits). Since IDA loans are for such long periods of time, usually fifty years, and interest rates are so low they only cover operating costs, the institution has to go to the lending governments every seven years to replenish their lending resources. Legislatures are thus forced to consider the policies of the IDA and often times this spills over into discussions of the entire Bank Group. So the creation of the IDA may have provided the Bank with more economic flexibility, but it also brought their activities to the floor of legislatures, at least every seven years.

The third way in which the IDA may affect Bank lending practices is as an experimental agency. In examining the lending practices of the Bank, this researcher has observed that new policy often appears in the IDA first and then migrate over to Bank lending after a few years. It is not unreasonable that the Bank uses the IDA to float "trial balloons." Also, since there is such immense overlap in the two agencies it is not surprising that the transfer of ideas and learning between them takes place. In only its second year of existence the IDA made several loans to China and India for the purposes of supplying fresh drinking water, a human needs project. By this time the IDA was seen as "financing a somewhat wider range of projects than the Bank, particularly in the field of social investment" (Bank, 1962, p. 5). The following year the IDA expanded its human needs lending with a grant of $5 million to Tunisia for school construction. This is accompanied by joint studies on future educational lending with UNESCO. In contrast to statements made just a few years earlier, the Bank is now "convinced that the economic progress of the less developed countries will depend largely upon their success
in enlarging the skills and widening the outlook of their peoples, which in turn will depend upon providing effective and adequate systems of education" (Bank, 1963, p. 9)

Lending of this sort is in areas in which the Bank is not involved at the time. This is not to suggest that the IDA leads the Bank in devising developmental strategies, but merely that institutional learning and sharing is taking place between these two related organizations. Consequently, though the IDA is not examined in this project, as part of the case studies its lending activities were followed in reference to the activities of the Bank.

Change in operational procedures. The Bank’s reliance on Wall Street to underwrite its lending influenced the type of lending with which the institution could become involved. Part of this reason was the non-domestic content aspect of Bank loans (discussed below) and the other entailed the current understanding by investors in Bank bonds of large-scale infrastructure projects, ones with a visible and directly applicable productive purpose. Lending to human needs areas was hindered by the lack of support from the investment community; or at least the perceived lack of support by the Bank. This could undermine their bond rating and make future attempts to raise funds exceedingly difficult.

Belief [in the Bank] was encouraged when funds were assigned to the purchase of large, discrete items of capital equipment from abroad, and it was reinforced when a project appeared to be self-liquidating, that is, when it would directly produce the revenues required to pay back a loan. By contrast the “use” or final destination of monies lent to farmers for working capital, or to a ministry of education to purchase locally produced school supplies, was easier to question (Webb, 1997 p. 122).

Such a belief system hindered the Bank from moving into the human needs area.

A less structured system of evaluating loans gained primacy as the Bank became
an accepted issuer of bonds. Additionally, Bank surveys of member states in the 1950s kept emphasizing the need to restructure agricultural sectors and how beneficial the improvements to education were (Bank, 1955; Bank, 1956).

For this project, another important policy change that took place during this time concerned the categories of loans. Initially, the Bank could give loans to assist recipient states in meeting their demands for imported goods, both physical and technical, to meet their needs for foreign capital. In 1964, as a result of a growing surplus of capital in the Bank, this stipulation was altered so Bank loans could be used to cover in-country expenses. This may not seem significant, but when considering the types of projects that are undertaken in infrastructure and human needs projects, it becomes important.

Infrastructure lending focused on large development projects that entailed imported machinery and technicians to build hydroelectric dams, railroads, ports, etc. In other words, these projects depended on a large quantity of goods being imported from abroad. Consequently, the early Bank stipulations were not a concern. However, human needs projects often had less imported inputs and more domestic content. These included the hiring of teachers, working on agricultural extension, teaching nutrition classes, and setting up family planning clinics. In these projects what the LDCs required primarily was the financial resources to be able to support these programs. Non-domestic inputs were often limited to some teacher trainers, or providing seminars and then letting the local inhabitants go out and spread the word. Therefore, the 1963 change in lending restrictions, which allowed the Bank for the first time to cover the domestic costs of projects, may have enabled the Bank to get involved in this type of development strategy. This, along with the creation of the EDI and the recognition by Bank presidents, helped
to change the policies of the Bank such that by 1967 human needs lending was an accepted part of the development tools the Bank was employing to achieve its goals of bringing greater wealth and stability to the global community.

Change in membership. Under the presidency of Woods there was a great influx of newly independent African states. All had their own set of desires for projects from the Bank. Previously, any loan going to a colony had to be agreed upon by the colonial power. The membership in the Bank rose by over 50% in the first two years of Woods presidency. These newly independent states had their own opinions about what was necessary for development to take place. Woods acknowledges the different needs of these new states in his presidential addresses as he discusses the need to increase funding in the agricultural sector. In particular, targets are funding in agriculture that educates the poorest farmers on new techniques and products and providing an increased and more stable product that could help alleviate the food shortages. This would also include not only quantity of food, but also quality in terms of nutritional value. In evaluating the influence the ideas of these new members had on change, one can argue that they made the other executive directors aware of different needs. However, it is not clear why farmers in southern Europe and other lending areas outside of Africa would not have wanted these needs met too. Because these African states did not have much power among the executive directors, and compared to the findings in the sections above about procedural and bureaucratic structure changes, it seems that the change in membership is much more indirectly connected to change than those other factors.
4.5 Conclusion

This chapter has examined the potential factors contributing to the World Bank’s change in its lending strategies from one focusing entirely on infrastructure development to a more diversified approach that includes human needs lending. Each of the proposed variables of change was examined to see if they provided any insights into this period of change for the Bank. Table 4.6 provides an overview of each variable and the findings from this chapter.

The variables that stand out as having the strongest relationship were leaders and changes in organizational structure. Other hypotheses were inconclusive, or the expectations were not fulfilled. In terms of leadership, the representation of the development problem by George Woods coincided with the institution moving in a new direction. He established the foundation upon which Robert McNamara built in the following decade (see next chapter).

US preferences are difficult to categorize in this chapter because they changed but there is not evidence of the US promoting these changes in the World Bank. Instead, most of these changes to human needs lending are observed in the bilateral aid actions of the US. This takes place in an international context of the Cold War with rising numbers of newly independent and relatively underdeveloped states. Additionally, there is a flurry of activity from other international organizations that were established in the 1950s and 1960s and were more responsive to the human needs of these newly independent states. Consequently, the changes in US preferences were in line with, if not leading, this change to human needs lending. However, none of these actions were forced on the Bank, even though this fact does help us understand this changing context in which the Bank
functions. Many criticize the institution for being an isolated development organization, but they could hardly miss all of this action and changing environment. To insure that the IBRD was aware of these changes, the funding structure of the IDA created an institution that was constantly forced to return to its funding states to request replenishments of its capital. This focused increased attention on the IBRD by member legislatures and forced the Bank to hear from these previously distant voices. So the US preferences are not evaluated here to be a cause of change, but they, included with the rest of the international context, certainly assisted in making the change acceptable to Bank economists and backers of Bank bonds.

Woods received assistance in the change to human needs lending from a variety of organizational changes that at the very least enabled the new policies to be implemented, if not outright contributing to the new view on development. The Economic Development Institute was the Bank's initial step into the world of funding education. Though promoting the merits of infrastructure development in the early years, the institute required the Bank to think about education and provided a means for members of LDC states to express opinions and interact with Bank staff. Additionally, the early 1960s also witnessed the admission of numerous new members, predominantly from Africa. These new members had needs which varied from those of the older LDC members. The IDA was created in 1960 to help support the economic development of the poorest states in the world. This was a policy area in which the Bank had not been very active due to its desire to placate the fears of its bondholders about the viability of the projects in its lending resume. Finally, changes in the regulations of Bank lending allowed the organization to expand to include human needs lending. In particular, this is
a reference to the 1963 decision to allow Bank loans to subsidize domestic content of projects, not just imported content.

Consequently, there is no "smoking gun" in terms of an independent variable that can be credited with changing the Bank's policies. However, this does show the limitations of some independent variables, such as the influence of the leading power within the institution. Additionally, the changes highlight the incremental nature of organizational change, at least in terms of the World Bank during this particular period. Additionally, change in the Bank is evidence of how small changes—for instance, policy statements, new departments, new members, or lending rules—can contribute to larger changes that may or may not have been foreseen by the implementers. To gain a further understanding of how these variables have interacted and affected this institution requires an in-depth look into the next case of change, from human needs lending to structural adjustment lending.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Expectation</th>
<th>Empirical Patterns of Ind. Variable</th>
<th>Evaluation of Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power in institution</td>
<td>Change in institution is a reflection in the change in distribution of power</td>
<td>US remains leading power, but degree of power declines (33.5% to 24.7% of the vote)</td>
<td>Does not explain change. A decline in US power but it remains the dominant state</td>
</tr>
<tr>
<td>Preferences of most powerful state</td>
<td>Preferences of the most powerful state are same as new lending preferences of institution</td>
<td>Preferences of the US change. Most changes not related to lending strategies or to Bank activities specifically</td>
<td>Preference changes of the US are incorporated into the new lending strategies of the Bank but no evidence of US pushing these on the institution</td>
</tr>
<tr>
<td>Leader changes</td>
<td>New leader brings in new ideas and changes organizational lending</td>
<td>Several changes of leadership</td>
<td>Leadership changes affect lending of the Bank, especially Woods and McNamara</td>
</tr>
<tr>
<td>Leader changes Problem representation</td>
<td>Leader changes preferences during tenure and these reflect new lending practices</td>
<td>Some change in preferences seen in problem representations of leaders</td>
<td>Leader does not change preferences, but Woods and McNamara bring new preferences in with them</td>
</tr>
<tr>
<td>Organizational structure</td>
<td>Changes in organization affect changes in lending practices</td>
<td>Change in organization, especially in educational areas</td>
<td>Structure changes to enable new lending strategies. EDI brings in educational mindset and IDA forces consideration of projects with less observable “rate of return”</td>
</tr>
</tbody>
</table>
CHAPTER 5

FROM HUMAN NEEDS TO STRUCTURAL ADJUSTMENT LENDING:
THE THIRD PERIOD OF CHANGE

5.1 Introduction

This chapter covers the Bank's lending from the late 1960s to the early 1980s; during which the Bank changed from emphasizing human needs lending to adding structural adjustment lending to its resume. As shown in the previous chapter, the human needs lending strategy encompassed loans that are intended to help the lower 40% of the population and/or to assist the population in meeting its basic "human needs." These needs include education, health, nutrition and access to food, water, shelter, and employment. This chapter will document how, by the early 1980s, the policies of the Bank changed to adopt a new strategy of structural adjustment lending.

Structural adjustment lending (SAL) is meant to assist a state in transforming its economic performance by taking what is sometimes seen as drastic measures to bring about a system that is more transparent and more favorable to the free market. According to the Bank, structural adjustment lending is defined as:

Non-project lending to support programs of policy and institutional change necessary to modify the structure of an economy so that it can maintain both its growth rate and the viability of its balance of payments in the medium term (Bank, 1982, p. 1).
The objective was to help states meet balance of payment problems as their economic system was being restructured. Loans would help recipients:

- Stabilize the macroeconomic environment, and promote economic growth and poverty alleviation;
- Promote the openness of the economy;
- Improve transparency in the incentive system;
- Improve efficiency in resource allocation;
- Improve scope of private sector development; and
- Strengthen institutions and policy analysis capacity (Jayarajah and Branson, 1995, p. 108).

In uncovering the motivators for this change from human needs lending to structural adjustment lending, the variables investigated in previous chapters will be examined (distributional power shifts within the institution, the most powerful state’s preferences, leadership, and organizational changes). Finally, the context of the times in terms of development strategies and important international events that may impact the policies of the Bank will be considered in the same way context was taken into account in the other cases.

In brief, some significant features mark this period. In terms of leadership, the institution is incredibly stable. President Robert McNamara took over the reins of the organization in 1968 and maintained his position until 1981 when A. W. Clausen replaced him. With regards to the US, there is a continuation of the decline in voting power that has been observed in the previous two chapters. However, there is a countervailing trend of the US government, at least Congress, paying more attention to the organization than in the past. Contextually, the Cold War is still both cold and warlike, yet there are important changes globally, not the least of which is the growth in number of new LDCs and the
international economic fallout of the two oil crises. The concluding chapter will return to the potential role of contextual variables as compared across cases. While the research design in this study systematically compares the explanatory power of extant theories, it is recognized that contextual factors may also be important. The latter are examined more inductively, and it is expected that several new hypotheses will be generated about the relationship of the major variables to the international environment (for example, important global changes such as polarity and economic crises).

Finally, it is important to remember that this change in policy does not mean that the new strategies will be the dominant strategy of the institution. Instead the shift is better conceptualized as a change in its thinking on how best to achieve its goal of assisting the economic growth of the global economy, in turn achieving this by assisting the economic performance of LDCs. In other words the new lending strategy may not overtake, in pure dollar value, that of older strategies. In fact, ever since the Bank changed from the reconstruction of Europe after WWII to the development of LDCs, infrastructure lending has received the lion's share of financial support. However, this does not diminish the importance of the changing policies of the Bank. New strategies are indicative of learning or adaptation, but more importantly for political science, of someone or something exercising control, authority or power upon the institution to alter its strategies for achieving its goals. An understanding of this process helps us understand how an international organization like the Bank functions in a changing global environment.
5.2 Global context

The 1970s were marked by a growing tension between the North and the South over development policy. In part this was a result of the rising number of LDCs and their growing influence in various international organizations, in particular the General Assembly of the United Nations where voting is determined by the one state/one vote formula. This decade was labeled the Second Development Decade by the General Assembly. In terms of new development organizations, the 1970s witnessed the creation of the United Nations Volunteer Program (UNVP) in 1970 to assist in providing technical assistance to developing countries. UNVP was placed under the supervision of the United Nations Development Program (UNDP). In 1974, the General Assembly adopted the New International Economic Order (NIEO). Part of the NIEO’s program called for an increase in multilateral aid, less focus on GNP as a measure of success and untying aid. Bank lending coincidentally increased considerably in 1974; it had been rising steadily since McNamara became president, but 1974 marks the beginning of even greater annual increases in total lending. Between 1973 and 1974 total Bank lending rose by over 55%.¹ Previous years were marked by lending increases ranging from 20% in 1970 to just 3% in 1973. In terms of sector lending, it is difficult to draw categorize 1974. In fact, the early years of the decade are marked by an almost yearly fluctuation between corresponding rising and falling of the percentage allocated to infrastructure and human needs lending. The NIEO called for radical restructuring of the international economic order. The declaration called for trade reforms, monetary reforms, industrialization, economic

¹ Part of this increase is undoubtedly a result of the high rates of inflation in the 1970s, but also reflects part of McNamara’s plan to use more of the Bank’s resources.
sovereignty, and specific targets for levels of economic aid of 0.7 per cent of each industrialized country’s GDP (Todaro, 1985, pp. 560-563). This was the most specific and drastic set of demands yet from the LDCs. The demands of the NIEO were also reflective of the growth of the dependency school development studies, which placed the blame for the lack of progress by the developing nations on the economically developed states and the international economic system.

Dependency theory was born in the developing states, in particular Latin America (Cardoso and Faletto, 1979; Frank, 1966). This theory basically stated that the persistent underdevelopment of the nations of the South was a result of the international economic order. Dependency theory had its heyday in the late 1960s and 1970s, this era was marked in the Bank by the presidency of McNamara and the call for human needs lending which increased in absolute and percentage terms throughout the 1970s (see previous chapter). According to this theory, the current economic order was designed by the industrialized nations of the North when they were colonial empires. It was designed in such a manner that the LDCs provided cheap resources, unskilled labor, and some markets for the manufactured goods built in the North. Raul Prebisch, an economist from Chile, showed how the manufactured goods from the North would always be worth more than the primary products from the South. As a result of this asymmetric system the countries of the South would be perpetually stuck in a stage of underdevelopment and actually become exporters of wealth to the industrialized nations. These theories were supported by empirical evidence that showed a growth in the economies of the South, but growth that

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1 In international relations literature, World Systems theory (Chase-Dunn, 1986; Galtung, 1980) built on this dependency approach.
was far outstripped by what was experienced by the EDCs. The income disparities between these two sets of nations had grown wider in the previous two decades rather than more narrow.

Due to this evidence and the popular theories, most in the LDCs believed that drastic measures were necessary. Dependency theory looked somewhat determinative with the only way out of this cycle of underdevelopment being the restructuring of the entire global economic system. The NIEO was an attempt by the LDCs to put forth a program that would accomplish, or at least begin, this process.

The era of the NIEO was also when the World Bank started to bring in non-governmental organizations (NGOs) into the decision making and implementation stages of economic development policy. NGOs have always had a place in the UN organization, being present at the initial formation of the institution (Willetts, 1996, p. 7). There are specific criteria that clarify which NGOs will be recognized by the UN and what they are able to do in the organization (Willetts, 1996, p. 8). This process of NGO activity gained tremendous impetus at the Conference on the Human Environment in 1972, where NGOs played an important role. Though maybe only coincidental, NGO activity in the UN increased at the same time that development policies pushed for greater local empowerment in development projects. This was a new advance of the 1970s and has been increasingly accepted and applied to economic development. The official Bank involvement with NGOs dates to 1973 (a detailed description of NGO/Bank activities can be found in the section on organizational structure). The assessment of Bank-NGO involvement is somewhat questionable since it is compiled by the Bank, which did not
keep complete records until the 1980s. NGO activities are recorded by country or regional staff with no firm criteria. Additionally, all reports of Bank/NGO activity are based on how projects are designed, not on the actual implementation of projects (Nelson, 1995, pp. 67-69). In other words the Bank only records NGO activity in a project after conceptualization of the project and acceptance of the loan. The organization does not go back after the loans have been initiated and follow up how NGOs “actually” interacted during the implementation phase. This is important since it is generally acknowledged that between loan approval and final disbursement numerous changes can and often do transpire. Finally, a significant feature of this period was the oil price rises implemented by OPEC. These brought forth a period of stagnation in the international economy which generally resulted in constriction of economies in the LDCs. For LDCs a weakening of the economies of the North was disastrous since it resulted in falling commodity prices, which limited their export earnings and ability to finance their debt (Rapley, 1996, pp. 36-38). Additionally, assistance from the EDCs had been declining and energy prices rising throughout the 1970s. Much of the previous decades’ work in expanding agricultural production in LDCs relied upon high imputes of chemical fertilizers. High oil prices severely limited LDCs ability to afford these imputes. These were international phenomena that the Bank could not ignore and required a response; especially since the majority of members of the institution were now LDCs.

5.3 Dependent variable

As detailed in previous chapters, the dependent variable is lending by the bank in five categories, measured by content analysis of the loans. In brief, these five categories
(reconstruction, infrastructure, human needs, structural adjustment, and sustainable development) are actual changes the Bank has undergone and also accepted as the major episodes of policy change by scholars of the Bank. The current study is the first to systematically measure these changes, however. Results of this analysis are presented below in Tables 5.1 (Bank lending to five areas in millions of dollars), 5.2 (Bank lending to five areas as percentage of total) and Figure 5.1, 5.2. Data is presented as a percentage since this research project is interested in changes in the dependent variable among the various categories. The absolute dollar value fluctuates on a yearly basis and is not as valid an indicator.

As the data below shows, the human needs period ends in 1982-1983, when the Bank adds the new development strategy of structural adjustment lending. As is evident from the dependent variable data, this form of lending achieved the 10% break point in the early 1980s but was first implemented as a policy in 1980 with two loans to Bolivia and Turkey. The data show that, as with previous periods of change, the Bank does not jump into new lending strategies but incrementally creeps towards a new approach.

We also see this incrementalism if we focus on the major types of lending just before (reconstruction) and just after (sustainable development) the human needs and SAL eras. Lending levels for both reconstruction and sustainable development are extremely small, at their height representing only 4.22% and 1.17% of the Bank's lending respectively. What makes these loans interesting, irrespective of their size, resides in the fact that analysts of the Bank consider the institution to have left the field of reconstruction in the late 1940s and not to have entered the sustainable development arena
<table>
<thead>
<tr>
<th>Year</th>
<th>Reconstruction</th>
<th>Infrastructure</th>
<th>Human Needs</th>
<th>SAL</th>
<th>Sustainable Dev.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>0</td>
<td>791.65</td>
<td>87.9</td>
<td>0</td>
<td>0</td>
<td>879.55</td>
</tr>
<tr>
<td>1969</td>
<td>0</td>
<td>1193.9</td>
<td>205.35</td>
<td>0</td>
<td>0</td>
<td>1399.25</td>
</tr>
<tr>
<td>1970</td>
<td>0</td>
<td>1537.45</td>
<td>142.9</td>
<td>0</td>
<td>0</td>
<td>1680.35</td>
</tr>
<tr>
<td>1971</td>
<td>80</td>
<td>1417.2</td>
<td>399.2</td>
<td>0</td>
<td>0</td>
<td>1896.4</td>
</tr>
<tr>
<td>1972</td>
<td>26.3</td>
<td>1743.25</td>
<td>219.8</td>
<td>0</td>
<td>0</td>
<td>1989.35</td>
</tr>
<tr>
<td>1973</td>
<td>0</td>
<td>1449.15</td>
<td>601.8</td>
<td>0</td>
<td>0</td>
<td>2050.95</td>
</tr>
<tr>
<td>1974</td>
<td>0</td>
<td>2494.5</td>
<td>679.6</td>
<td>0</td>
<td>1</td>
<td>3175.1</td>
</tr>
<tr>
<td>1975</td>
<td>0</td>
<td>3563.9</td>
<td>643.2</td>
<td>30</td>
<td>27.25</td>
<td>4264.35</td>
</tr>
<tr>
<td>1976</td>
<td>0</td>
<td>3620.6</td>
<td>1284.45</td>
<td>0</td>
<td>58</td>
<td>4963.05</td>
</tr>
<tr>
<td>1977</td>
<td>0</td>
<td>4444.5</td>
<td>1164.8</td>
<td>0</td>
<td>0</td>
<td>5609.3</td>
</tr>
<tr>
<td>1978</td>
<td>50</td>
<td>4616.9</td>
<td>1430.8</td>
<td>0</td>
<td>0</td>
<td>6097.7</td>
</tr>
<tr>
<td>1979</td>
<td>0</td>
<td>5143.35</td>
<td>1838.55</td>
<td>0</td>
<td>7.1</td>
<td>6989</td>
</tr>
<tr>
<td>1980</td>
<td>0</td>
<td>4997</td>
<td>2309.2</td>
<td>250</td>
<td>64</td>
<td>7620.2</td>
</tr>
<tr>
<td>1981</td>
<td>30</td>
<td>5497.25</td>
<td>2549.85</td>
<td>606.5</td>
<td>30</td>
<td>8813.6</td>
</tr>
<tr>
<td>1982</td>
<td>0</td>
<td>6538.4</td>
<td>2966.6</td>
<td>1018.8</td>
<td>76</td>
<td>10329.8</td>
</tr>
<tr>
<td>1983</td>
<td>0</td>
<td>7177.2</td>
<td>2591</td>
<td>1311.9</td>
<td>78.2</td>
<td>11158.3</td>
</tr>
</tbody>
</table>

Table 5.1: World Bank lending by priority in millions of dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>Reconstruction</th>
<th>Infrastructure</th>
<th>Human Needs</th>
<th>SAL</th>
<th>Sustainable Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>0.00</td>
<td>90.01</td>
<td>9.99</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1969</td>
<td>0.00</td>
<td>85.32</td>
<td>14.68</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1970</td>
<td>0.00</td>
<td>91.50</td>
<td>8.50</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1971</td>
<td>4.22</td>
<td>74.73</td>
<td>21.05</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1972</td>
<td>1.32</td>
<td>87.63</td>
<td>11.05</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1973</td>
<td>0.00</td>
<td>70.66</td>
<td>29.34</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1974</td>
<td>0.00</td>
<td>78.58</td>
<td>21.40</td>
<td>0.00</td>
<td>0.03</td>
</tr>
<tr>
<td>1975</td>
<td>0.00</td>
<td>83.57</td>
<td>15.08</td>
<td>0.70</td>
<td>0.64</td>
</tr>
<tr>
<td>1976</td>
<td>0.00</td>
<td>72.95</td>
<td>25.88</td>
<td>0.00</td>
<td>1.17</td>
</tr>
<tr>
<td>1977</td>
<td>0.00</td>
<td>79.23</td>
<td>20.77</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1978</td>
<td>0.82</td>
<td>75.72</td>
<td>23.46</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1979</td>
<td>0.00</td>
<td>73.59</td>
<td>26.31</td>
<td>0.00</td>
<td>0.10</td>
</tr>
<tr>
<td>1980</td>
<td>0.00</td>
<td>65.58</td>
<td>30.30</td>
<td>3.28</td>
<td>0.84</td>
</tr>
<tr>
<td>1981</td>
<td>0.34</td>
<td>62.37</td>
<td>30.07</td>
<td>6.88</td>
<td>0.34</td>
</tr>
<tr>
<td>1982</td>
<td>0.00</td>
<td>63.30</td>
<td>26.11</td>
<td>9.86</td>
<td>0.74</td>
</tr>
<tr>
<td>1983</td>
<td>0.00</td>
<td>64.32</td>
<td>23.22</td>
<td>11.76</td>
<td>0.70</td>
</tr>
</tbody>
</table>

Table 5.2: World Bank lending by priority as a percentage of total
Figure 5.1: World Bank lending by priority in millions of dollars
Figure 5.2: World Bank lending by priority as a percentage of total
until the late 1980s. After its first couple of years of lending to help rebuild European state’s economies from the devastation of WWII, the Bank became involved in LDC development. However, it turns out that it still used reconstruction after war as a justifiable reason to lend. And like the previous loans to European states for reconstruction, these newer loans are granted at the program, not project level. In other words, monies are not specified for a particular project but for any areas of the economy that were damaged by war. Reconstruction loans were granted to Nigeria, Lebanon, and Nicaragua respectively. In regards to sustainable development, it turns out that the Bank was making the connection between a clean environment and economic growth well before experts generally credit the Bank, and in most cases accuse it of only changing after extensive external pressures.3

The analysis in this chapter begins in 1968-1969, when lending for basic human needs surpassed 10% of overall Bank lending.4 The transition that is being explored is from human needs lending to the addition of structural adjustment lending. To fully explore the possible causal factors that influenced this change it is important to begin this research where the last time period (chapter) left off. The data above and in the previous chapter show that human needs has become an accepted strategy of the Bank and continues a fairly strong upward trend in the size of the Bank’s lending it represents. By

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3 See Figure 5.2 with lending for sustainable development going back as far as 1975-1976. The total amount of these loans did not amount to much, but it shows that the Bank was not oblivious to the environment until NGOs brought it to its attention as many analyses claim.

4 This 10% value is used as a break point to designate when the Bank has adopted a new lending strategy to attain its goals of reconstruction and development. The designation is discussed in full in Chapter 2.
the early 1980s human needs lending represents nearly one third of all Bank lending: the peak year of 1980 where the Bank made 30.3% of its loans to projects aimed at basic human needs.

At the same time it is important to point out that though human needs represents much of the rhetoric of the Bank during this period, and the that this lending category never surpasses infrastructure lending as the primary focus of the Bank; at least in terms of level of lending. Additionally, President McNamara is remembered and written about as the individual most responsible for bringing human needs lending into the Bank’s repertoire. The data however, show that McNamara was in fact responsible for the Bank’s first structural adjustment loans. This type of lending does not begin until 1980, but grows quickly as a new development strategy. The major increase in SAL by the Bank coincides with the transition from McNamara to Clausen.

One aspect of Bank lending which was uncovered by this systematic analysis of Bank loans, and is not discussed in Bank research, is the fact that a structural adjustment loan was made to Kenya in 1975. This is half a decade before most analysts consider SAL to have become a practice of international institutions. This loan just appears under a previous category of a “non-project” loan. These are usually loans provided for a state or region to use for a particular sector (highways for example) but not a particular project (a particular highway). However, this loan to Kenya is specifically for covering the costs of essential imports of food and fuel while the restructuring of the economy take place. In particular “while new policies relating to agricultural prices and investments…are taking
effect” (Bank, 1975, p. 22). This highlights the importance of reading the loan statements and not accepting the Bank's own categorization.

Next, this chapter will briefly review the independent variables and their expectations and then evaluate their influence on changing the Bank's policies to support structural adjustment lending.

5.4 Independent variables

Table 5.3 reviews the seven hypotheses that are tested in this case. Each has particular expectations in their view of change in an international organization. These are stated in the table below and the specific hypothesis will accompany each independent variable in the following text.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Expectation</th>
<th>Empirical Patterns of Ind. Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power in Institution</td>
<td>Change in distribution of power within the institution</td>
<td>Decline in overall US power, but remains the strongest state</td>
</tr>
<tr>
<td>Preferences of Most Powerful State</td>
<td>Preferences of the US in terms of expectations on the Bank change</td>
<td>Change in US preferences in 1981</td>
</tr>
<tr>
<td>Leader changes</td>
<td>New leader brings in new ideas and changes organizational lending</td>
<td>Period dominated by one leader. Change in leadership two years before change in lending.</td>
</tr>
<tr>
<td>Leader changes problem representation</td>
<td>Leader changes preferences towards Bank lending during tenure</td>
<td>PR of leader unchanged until new leader and his PR does correlate with mission change</td>
</tr>
<tr>
<td>Organizational structure</td>
<td>Changes in organization affect changes in lending practices</td>
<td>4 major changes in organization; 3 reinforce human needs and 1 creates opportunity for new preferences but does not dictate change</td>
</tr>
</tbody>
</table>

Table 5.3: Summary of hypotheses and empirical findings, 1968-1982

5.4.1 Power

*Hypothesis 1: When there is a change in the distribution of power within the Bank, then the institution will change to reflect the new distribution of power.*

Of particular interest in this study is any change in the leading power of the Bank.

Depending upon its timing, such a change could be an important indicator for changes in Bank policies. Table 5.4 below shows the changes in Bank voting during this period.
This information is displayed graphically in Figure 5.3. The figures presented in the table represent the percentage of overall voting each state possesses.

<table>
<thead>
<tr>
<th>Years</th>
<th>China</th>
<th>France</th>
<th>Germany</th>
<th>India</th>
<th>Japan</th>
<th>UK</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>3.02</td>
<td>4.20</td>
<td>5.09</td>
<td>3.22</td>
<td>3.11</td>
<td>10.25</td>
<td>24.89</td>
</tr>
<tr>
<td>1969</td>
<td>3.00</td>
<td>4.17</td>
<td>5.06</td>
<td>3.20</td>
<td>3.09</td>
<td>10.18</td>
<td>24.72</td>
</tr>
<tr>
<td>1970</td>
<td>2.98</td>
<td>4.14</td>
<td>5.02</td>
<td>3.17</td>
<td>3.07</td>
<td>10.10</td>
<td>24.53</td>
</tr>
<tr>
<td>1971</td>
<td>2.90</td>
<td>4.02</td>
<td>5.19</td>
<td>3.46</td>
<td>3.92</td>
<td>9.81</td>
<td>23.81</td>
</tr>
<tr>
<td>1972</td>
<td>2.83</td>
<td>4.75</td>
<td>5.07</td>
<td>3.37</td>
<td>3.82</td>
<td>9.57</td>
<td>23.24</td>
</tr>
<tr>
<td>1973</td>
<td>2.74</td>
<td>4.62</td>
<td>4.92</td>
<td>3.28</td>
<td>3.71</td>
<td>9.29</td>
<td>23.00</td>
</tr>
<tr>
<td>1974</td>
<td>2.74</td>
<td>4.60</td>
<td>4.91</td>
<td>3.27</td>
<td>3.70</td>
<td>9.27</td>
<td>22.94</td>
</tr>
<tr>
<td>1975</td>
<td>2.70</td>
<td>4.55</td>
<td>4.85</td>
<td>3.23</td>
<td>3.65</td>
<td>9.15</td>
<td>22.66</td>
</tr>
<tr>
<td>1976</td>
<td>2.70</td>
<td>4.54</td>
<td>4.83</td>
<td>3.22</td>
<td>3.64</td>
<td>9.13</td>
<td>22.60</td>
</tr>
<tr>
<td>1977</td>
<td>2.69</td>
<td>4.53</td>
<td>4.83</td>
<td>3.21</td>
<td>3.64</td>
<td>9.11</td>
<td>22.55</td>
</tr>
<tr>
<td>1978</td>
<td>2.59</td>
<td>4.35</td>
<td>4.64</td>
<td>3.09</td>
<td>3.50</td>
<td>8.76</td>
<td>22.74</td>
</tr>
<tr>
<td>1979</td>
<td>2.40</td>
<td>4.03</td>
<td>5.52</td>
<td>3.58</td>
<td>4.26</td>
<td>8.12</td>
<td>21.48</td>
</tr>
<tr>
<td>1980</td>
<td>2.31</td>
<td>5.31</td>
<td>5.32</td>
<td>3.45</td>
<td>5.30</td>
<td>7.82</td>
<td>21.11</td>
</tr>
<tr>
<td>1981</td>
<td>3.47</td>
<td>5.05</td>
<td>5.06</td>
<td>3.28</td>
<td>5.04</td>
<td>7.44</td>
<td>20.84</td>
</tr>
<tr>
<td>1982</td>
<td>2.84</td>
<td>4.14</td>
<td>4.15</td>
<td>5.31</td>
<td>8.00</td>
<td>6.09</td>
<td>20.61</td>
</tr>
<tr>
<td>1983</td>
<td>4.53</td>
<td>4.55</td>
<td>6.61</td>
<td>4.37</td>
<td>6.58</td>
<td>5.05</td>
<td>19.73</td>
</tr>
</tbody>
</table>

Table 5.4: Voting power as a percentage of total

The above results contain several intriguing characteristics. The most obvious feature of the voting power is the dominant position of the US within the organization. This is reminiscent of the previous two time periods. In this instance the US maintains a majority roughly two and a half times the next largest power. Also imitating earlier periods is the constant decline of US power throughout the period. In 1968, the US represented 24.89 percent of the voting power within the Bank, and by 1983 this had declined to 19.73. While this is a substantial decline, it is mitigated by the general decline
Figure 5.3: Voting power as a percentage of total
of most other states' voting powers. Consequently, the relative power of the US to its closest rivals is unchanged. Accounting for much of the general decline in the leading state's power is the admittance of new states into the institution. All new states entering the organization are allotted at least minimal voting power, in the range of .12-.13 percent of a vote. Consequently, the decline of US power is not representative of a shift in who is the most powerful state, but instead shows a general diffusion of power within the organization. Additionally, the UK represents the second leading power throughout most of this period and its percentage of voting power constantly declines (also mirroring events in the previous two chapters).

It is necessary to pay particular attention to the US since it is not only the leading power, but has maintained veto power throughout the history of the Bank. As the power of the US declines there has been a representative decline in the percentage of the vote necessary to make substantive changes to the organization. For instance, through the 1960s and 1970s Bank policy required 80 percent of votes to pass certain policy changes. This "special majority" was changed to 85 percent when the US share of votes fell below 20 percent in 1986. One of the changes that reflects this special majority is the redistribution of voting shares among member states. A positive US vote is a prerequisite for any shifts in the distribution of power within the Bank. The US has used this to its advantage at times in extracting concessions from states—concessions not always related to the activities of the Bank. For instance Japan had been pushing for years to raise its share of voting power within the Bank and when the US finally acquiesced it was with the
condition that the Japanese would make certain changes to open up their domestic economy (Rapkin, Elston and Strand, 1997, pp. 176-177).

To see if there is any significant statistical relationship, a regression model was estimated in first differences. The dependent variable is Bank structural adjustment lending (as a percentage of the total Bank lending), and the independent variable is US power (% of total voting power). As displayed in Figure 5.4, the model has an adjusted R² of .493 and a significance value of .001. This is a moderately significant relationship. However, it is important to keep in mind the constant decline in US voting power and the constant rise in structural adjustment lending throughout this period. This is a negative relationship. Since US power is always decreasing and SAL loans are perpetually increasing there is a natural correlation between the two variables that is not necessarily causal in nature. To help compensate for this problem the model was determined after calculating the first difference. In fact it is somewhat counterintuitive to say the US was responsible for the changes in Bank policy at the same time that the US voting power within the Bank was declining. Under these circumstances it is important to examine other powerful actors in the institution and US preferences vis-a-vis structural adjustment.

To get closer to understanding the US influence on Bank policy change, of particular concern is the position of the US towards structural lending. In fact, actors within the US government had been pushing for SAL loans (or similar tools) for several years. In general this was to limit the central planning of development by borrowing states and to promote a move towards free market economies. This will be discussed further in the next section, which focuses on US preferences towards the Bank.
Figure 5.4: Influence of US voting power on SAL
The expectations of power-based theories and change are that institutional change is the result of the leading power exercising its influence on the institution. Consequently, as the leading power’s formal influence erodes and is disseminated throughout the institution it should have less effect on policy change. However, as is shown in Table 5.4 the opposite is in fact true. In other words, as the power of the US declined in the institution it affected change towards structural adjustment lending. This is contrary to the expectations for hypothesis 1, and illuminates the importance of carefully studying institutions and not superimposing causal logic onto their actions.

Other powerful states

As suggested in previous chapters, not only the leading state but also the five most powerful states within the institution are important. This results from the Articles of Agreement of the Bank which stipulate that the five most powerful states within the organization are given special powers on the Board of Executive Directors. The Board consists of the individuals responsible for the day-to-day operations of the IBRD. Its own representative who votes their shares represents each of these states on the board. Voting weights are supposedly based on a strict system of analysis. The IMF “employs a complex set of five formulas” to determine state’s quotas and their corresponding voting shares (Strand, Rapkin and Wood, 1997, p. 3). In theory, the Bank’s quotas and voting shares are taken from this process. In reality the Bank’s and the IMF’s voting shares differ for numerous reasons which the Bank maintains make it different from the Fund. Some of these include limitation of capital increases compared to the Fund, and some variables in the IMF’s calculations are considered “not relevant to the Bank, while some variables that
are important to the Bank may not be given weights adequate from the Bank’s viewpoint” (Resource Mobilization Department, 1995). Additionally, over the years some members have exercised their right not to increase their shares. In general, the size of one’s voting power is supposed to be roughly equal to the size of a state’s economy in the world. However, as a result of “politics” within this process, the connection between the two is not always so mechanical.

All other states are represented by an executive director that is responsible for voting the shares (and consequently promoting the policies) of a group of states. In 1968, there were twenty executive directors (up from twelve when the Bank was established), five representing the five most powerful states in the organization, and fifteen representing the remaining 102 members. Consequently, it is important to see if there are any changes in the distribution of power within the leading five members. The top five slots shifted among seven states, so data on the voting power of the leading seven states is presented in the above table and chart.

In the previous two periods of change (Chapters 3 and 4) there was very little alteration in the distribution of power within the institution, with the exception of the overall decline of all leading states mentioned above. The only substantial change occurred in 1959-60 when China (Taiwan) dropped out of the top five and was replaced by Germany. In the current period there is much more pronounced movement among the leading five states, which occurs predominantly during the latter half of this episode.

At the start of the period the US was the leading power followed by the UK, Germany, France and India respectively. The first major alteration in this power alignment
occurred in 1971. The four top positions remained unchanged, but India was replaced in the top five by Japan. This change is much too early to affect the change in lending by the Bank to include structural adjustment loans. The first of these loans were not granted until 1980. Another interesting feature of Japan's rise in voting power is that it started its membership with the Bank in 1952-53 as a borrower, and in the late 1950s to early 60s was one of the largest institutional borrowers. Though one of the few states to move from borrower to lender, it still does not account for a change to structural adjustment lending.

Change in voting power occurred next in 1979 when Japan and France exchanged positions four and five. Additionally, this year is marked by a rise in the voting power of not only Japan, but also Germany. As mentioned earlier, this is rare because most large powers experience a general decline in voting power over the years partially in response to accommodating voting of new members. Immediately after its rise to the fourth most powerful state, Japan again exchanged positions with France in 1980. Clearly, this coincides with the timing of the new lending policies of the Bank. However, there is no evidence that Japan was pushing for structural adjustment lending. Additionally, even if it was trying to promote this policy within the institution its minimal rise in voting shares, an increase of less than one percent would not seem substantial enough to force change upon the organization.

Next, the years 1982 and 1983 witness significant upheavals in the power distribution within the Bank. During 1982, Britain's voting share declines to third place. This is the first time in the history of the organization that the UK drops out of the second spot. Other significant changes in voting power this year are the leap of Japan to second
place, the return of India to the top five with a voting power of 5.31% placing it fourth, the decline of Germany to 5\textsuperscript{th} place with 4.15% of the votes and France slipping out of the top five to 6\textsuperscript{th} with 4.14%. This is the first time that France has not held one of the top five positions within the institution.

Due to all of these changes in the states with individual votes, a multiple regression model was estimated in first differences. The dependent variable was again percentage of lending to SAL, and the independent variables were each state’s percentage of the total vote. The results appear below.

<table>
<thead>
<tr>
<th></th>
<th>Beta</th>
<th>Pearson Correlation</th>
<th>Sig. (1-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-.018</td>
<td>.297</td>
<td>.142</td>
</tr>
<tr>
<td>France</td>
<td>-.093</td>
<td>.520</td>
<td>.023</td>
</tr>
<tr>
<td>Germany</td>
<td>-.050</td>
<td>.098</td>
<td>.364</td>
</tr>
<tr>
<td>India</td>
<td>-2.267</td>
<td>.526</td>
<td>.022</td>
</tr>
<tr>
<td>Japan</td>
<td>3.374</td>
<td>.771</td>
<td>.001</td>
</tr>
<tr>
<td>UK</td>
<td>-.119</td>
<td>-.719</td>
<td>.001</td>
</tr>
<tr>
<td>US</td>
<td>.704</td>
<td>-.728</td>
<td>.001</td>
</tr>
<tr>
<td>Adjusted R\textsuperscript{2}</td>
<td></td>
<td>.850</td>
<td>.002</td>
</tr>
</tbody>
</table>

\textbf{Table 5.5: Effects voting power on lending}

With an adjusted $R^2$ of .850, this model is a good fit. All of these relationships are significant except for China and Germany, which suggests that distributional changes within the power of the five leading states in the Bank significantly affected the change to adopting structural adjustment lending. This is certainly plausible, but other factors such as changes in the international system could be pushing the Bank towards these policies.
Though Britain and the US have high significance levels they are both negative relationships; as their power declines the Bank changes policies. So their affect should be minimized as time proceeds. Other states gain more power but they do not come close to providing a majority within the institution. Therefore, it is important to look at the preferences of each of the five most powerful states that has a high statistical relationship with SAL in order to evaluate if this relationship is merely coincidence or if there is evidence these states were pushing for this new policy.

Japan is the most likely candidate, excluding the US, for influencing this change in Bank policies, considering their strong statistical relationship between voting power and structural adjustment loans. However, despite the strong statistical relationship between the rise of Japanese power within the Bank and the transition to structural adjustment lending there is minimal evidence that this was a policy pushed by Japan. There is no evidence that Japan supported SAL as a development strategy or for that matter any particular development strategy. It was not using its position of power within the Bank to push for particular development visions. Instead Japan’s increasing power in the Bank and higher levels of development assistance was seen more as a confirmation of Japan’s position in the international economy (Gyohten, 1997, pp. 293-294). In fact starting in 1977, the Diet passed resolutions that Japan’s “de facto economic power” be reflected in its position in the international financial institutions. This continued until Japan became the second leading shareholder in the Bank (Gyohten, 1997, p. 294).

Japan had been increasing its development lending assistance, both bilateral and multilateral, throughout the 1970s. In 1977 and 1978 the government made public
announcements of dramatic increases in its development assistance. However, as former
Japanese Vice Minister for International Affairs explains, these increases in development
aid were not directed towards any particular development strategy. The main goal was to
secure a stronger more prestigious position in the international economic community and
to take some of the pressure off of Japan for running such high trade surpluses which
started to occur annually in the early 1970s (Gyohten, 1997, p. 293). In fact, Japan’s
economic assistance was viewed as having a “lack of a coherent philosophy” until the
1990s (Gyohten, 1997, p. 293). Additionally, Japanese aid has been based on Bank
policies, not vice versa. Japan’s aid agencies had a dearth of development experience and
professionals and consequently its “aid agencies have assimilated the Bank’s procedures
and organizational structure” (Gyohten, 1997, p. 294). This lack of expertise in the
development field is further reflected in the small number of Japanese that work for the
Bank. Relative to its financial contributions to the institution, Japan is underrepresented in
the staff. This makes it even more difficult for Japan to integrate its philosophies on
development into that of the Bank’s.

India is an unlikely candidates since they are recipients of loans from the
organization. India is one of the largest beneficiaries of Bank loans. Structural adjustment
lending just presents one more obstacle to surmount in the loan process, and limits a
recipient state’s ability to make decisions about how its economy will be structured. As a
result of these requirements many LDCs resisted accepting structural adjustment loans
from the Bank. Indeed, India resisted for nearly a decade because of the perceived
interference into its domestic policy decisions (Kapur, 1997 #90, p. 518). Consequently, any borrowing state is highly unlikely to push for a change to SAL.

Potentially more important is that even if voting is a significant factor in institutional change it does not explain the direction of change. Understanding why the Bank changed to structural adjustment lending at a particular period is critical to understanding the institution. Correlations in voting power do not help answer this question.

Consequently, this shows that though there is strong correlation between change in voting power and change in lending practices of the institution, there may be other factors conflating the results. It is important to look at these other factors, in particular preferences of the leading states, to see if they provide a greater understanding of the policy changes of the institution. Again this illuminates a weakness of theories that point to single causal variables and which rely on underspecified causal mechanisms.

Institutional power is representative of this type of variable. Even with high correlational values and significance levels it is difficult to determine the true effect on institutional change. The next section examines these preferences of the US.

5.4.2 Preferences

*Hypothesis 2: When the preferences of the most powerful state change, then the lending practices of the Bank will change*

As the most powerful actor within the World Bank, the US will be the primary focus in this section. In fact because of its dominance within the organization, most individuals who study the Bank assume that the US is the actor affecting change *a priori*
and that finding evidence to support or dispute their views can be accomplished by looking just at the US preferences. Even if this were an accurate assumption, another challenging issue is that "preferences" are very difficult, yet crucial, causal variables to specify. The result is the common approach of asserting post hoc that the United States did in fact push the change in policy on the international organization. For this project, this researcher has investigated a number of sources within the US in order to see what kinds of proposed changes in policy may have preceded changes in the Bank. If there are no connections between the expression of (changes in) policy preferences, the channels through which these preferences are supposed to be transmitted to the Bank, and (changes in) the policies of the Bank, then we should evaluate the hypothesis above as invalid (because the effects would in fact be spurious).

One factor that is helpful in determining preferences in this particular project is that the preferences are focused on one institution, which has a formalized channel of communications with the US government and a specified oversight committee, the National Advisory Council on International Monetary and Financial Policies (NAC). A US executive director is responsible for the day-to-day policy making and presents the US position annually at the Board of Governors meetings. Both provide yearly expressions of US preferences. There are a few factors complicating this process of constructing US preferences over time, namely the multiple channels that are available for policy making in the US government. In regards to the Bank, this became endemic from 1973 with Congress's passage of "new directions" for US aid programs. Since 1973, Congress has played an important role in the definition of US policy in the Bank, providing an opening
for other groups to influence policy by pressuring Congress (such as nongovernmental organizations acting as traditional interest groups) (Gwin, 1994; Hansen, 1976; Ruttan, 1996; Sanford, 1982).

For most of the first three decades of the World Bank's existence, the US government did not directly act to change the policies of the Bank. This is not to say that the US did not try to influence Bank policies, but that these policies were more or less in line with US thinking. At the very least attempts at organizational change took into account the preferences of the US. In fact in 1970, President Nixon gave support to an increased use of multilateral lending agencies including the Bank. He stated:

I propose that the foundation for our development assistance programs be a new partnership among nations in pursuit of a truly international development effort based upon a strengthened leadership role for multilateral development institutions. To further this objective the U.S. should channel an increasing share of its development assistance through the multilateral institutions as rapidly as practicable. Our remaining bilateral assistance should be provided largely within a framework established by the international institutions. (Nixon, 1970, p.6)

First, it is important to highlight that there is no firm policy direction presented by the President, instead just general institutional support. As will be further clarified later in this section, this (a lack of firm policy direction) is typical of US policies towards the Bank. Second, contrary to his statement, there was not a great transition away from US bilateral aid and a following of the multilateral institutions’ lead. Actually, since this speech the percentage of US aid flowing through multilateral institutions has tended to remain relatively steady. This may have been the result of a variety of factors that have led
to a more contentious, yet some may say healthier, relationship between the US and the Bank starting in the early 1970s.

Indeed, the harmony between Bank and US policies began to fade away in the early 1970s. With the increasing size of the lending capacity of the Bank under McNamara and the constant demands for replenishment of IDA funds, the World Bank appeared more often on Washington’s radar. Because of IDA’s no interest loans (often granted for 35 to 40 years with a 10 year grace period on repayment of principle and a small service charge that was usually less than one percent), it is constantly running low on resources. These resources are only for states that cannot meet the financial obligations necessary to secure loans from the IBRD. Subsequently, every few years they have to request increased funding from member states. Even though these funds are not for the Bank, the close relationship between the two organizations means that IDA replenishment requests often lead to discussion of the World Bank Group as a whole. This has led to an era of heightened scrutiny and criticism of Bank policies by the US government and public (Gwin, 1994, pp. 211-212).

The early 1970s were marked by several events illustrating the growing discontent in the US over Bank practices. In 1971, the US cast its first negative vote in the Bank’s history. Opposition was voiced about a loan to Guyana, not because the American government differed from the Bank on development strategy but because US businesses were voicing concern and pressuring the government to protest Guyanese expropriation of US businesses (Gwin, 1994, p. 215). The US was unable to prevent the Bank from granting this loan, and in 1971 and 1972 the Bank did make loans to Guyana to improve
its port and for highway construction. This is generally how the US tried to utilize its influence in the Bank during these years; to extract particular concessions and changes, but not to alter or influence development policies. In fact, even a Government Accounting Office (GAO) report noted that discussions within the US government concerning the Bank tended to focus on technical issues and not broad-based policy issues (States, 1973, p. 30). In summary, the failure to block a loan let alone change the policies of the Bank are highlighted by this episode.

Other examples exist from the early 1970s where the United States expressed preferences in opposition to states that nationalized industry. The negative vote for a Guyanese loan was followed in 1972 with a negative vote on an Iraqi education loan. However, the US went out of its way to reiterate that it was not opposed to the loan for technical reasons, the "U.S. position was in accordance with announced policy of withholding support from loans in multilateral development banks when a country expropriates a significant U.S. interest without making reasonable provision for prompt, adequate and effective compensation" (Policies, 1972, p. 74). Casting negative votes in this manner was now required by the first Gonzalez amendment passed by Congress in 1972 to oppose World Bank loans to states expropriated U.S. private investments (Sanford, 1982, pp. 205-206). The US also abstained from voting on a loan to Tunisia because of preferential trading privileges the state received from the European Economic Community. Once again these all show the exercise of US power, but are not focused on defining a particular development strategy. The IBRD ultimately approved all of these loans. This policy of casting negative votes or abstaining on oppositional grounds to

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nationalization of industry continues, and seems to be the main reason for the US to cast negative votes. Exceptions in which we see the US express preferences towards development strategies promoted by the Bank are discussed below. Unfortunately, US decision-making channels are not as clear-cut as designed and this may impede its ability to have its preferences incorporated into Bank practices.

A significant impediment to the exercise of US power was recognized by a government review of the World Bank in 1973. This report clearly identifies the authority structures for implementing US policy towards the Bank, which is the basic decision making structure outlined in previous chapters. The US executive director is the “point person” within the Bank for the US. The executive director takes his direction from the Secretary of Treasury. Ultimate authority over the US position in the Bank is made by the National Advisory Council (NAC). To maintain consistency in policy, there is a formal NAC review of every Bank loan. The NAC then advises the US executive director on how to vote and general positions to be taken at Bank meetings (Policies, 1972, p. 55). In theory this is a solid structure to maintain a consistent policy within the organization.

However, the GAO report goes on to note that though the formal decision making structure existed, guidelines were delinquent. It states that:

Although the formal NAC review was established to determine the U.S. position on proposed loans, it was unstructured and uneven and was performed without firm guidelines or criteria against which to assess the soundness of proposed projects. We found that none of the NAC member agencies had formal guidelines for their review and evaluation of loan documents (States, 1973, pp. 27-28).
There was an attempt to address this shortcoming in loan evaluations by the US government. The criteria established were to be applied systematically, but turned out to be exceedingly vague. Additionally, for the purposes of this paper they did not list particular preferences of the US in terms of preferred development strategies. The criteria developed were:

1. Priority of the project in the development process [as determined by the host state]
2. Technical feasibility of the project,
3. Capacity of the local institutions to implement the project,
4. Soundness of the project's financial plan, and
5. Economic benefits to be derived from the project (Policies, 1973, p. 57).

The economic benefits section did include indicators of human needs, (i.e. classroom space, health, safe water and housing) but does not prioritize or clarify how these different variables are to be evaluated (Policies, 1973, pp. 58-61). Again, though, the issue is that there is no specification of lending preferences in general and certainly not any movement towards structural adjustment loans. In fact this all points to a general lack of defined preferences for the US, at least in terms of development strategies. There are a few exceptions to the examples above that show that either (1) the US expresses preferences to the Bank but not about development strategies or (2) the US exercises power by bringing Bank policy into line with its expressed preferences. The first instance in which the US uses its vote in a manner related to the development strategies is in 1973. The US executive director abstained from voting on an agricultural loan to Brazil on the grounds that it was beneficial to wealthy ranchers (Policies, 1973, pp. 68-69). Human needs lending emphasizes agricultural lending but to the poorer farmers, so one may interpret this action as the US trying to push the bank toward human needs. Other examples of the
US exercising power centered on the debates for the fourth IDA replenishment. In this case, the US held the Bank hostage over this replenishment to lower its percentage of IDA funding, creation of an independent auditing office for the Bank, and compensation for US property nationalized in Peru. Again these may be important features of US foreign policy—and this time the US was successful—but not in the area that is the focus for this variable (understanding changes in development policies).

Turning to the second half of the 1970s, Congress remained active in attacking US-World Bank practices in terms of how they dovetail with US foreign policy, but still not its strategies. Most of these efforts focused on supporting US agriculture producers and limiting loans to regimes not considered allies of the US (Gwin, 1994, pp. 221-228). The one area that the US Congress voiced its preferences on development policy was to pressure the “Bank to increase the share of its assistance going to the poor and expand its emphasis on projects designed to meet basic human needs” (Gwin, 1994, p. 223).

By 1973, US policy began to advocate the human needs approach which had already been implemented by the Bank. The 1973 Foreign Assistance Act, among other changes not related to this particular research, called for US aid to focus on areas of rural development, food production, education, health, and population growth. As detailed in the previous chapter, this description is in essence the basic human needs strategy (Ruttan, 1996, pp. 102-103). This following of Bank practices by the US is further evidenced in the fact that Nixon’s calls for increased levels of aid to be channeled through multilateral development agencies and the necessity of human needs lending were based on the
Pearson report of 1969. This report was published by the World Bank and focused on human needs lending (Ruttan, 1996, p. 105).

The above show a combination of a general lack of US direction mixed at times with support for human needs lending which was already occurring within the Bank. The importance of reaffirmation of these policies in their continuation is recognized, but since this project is looking to understand causes of change within an organization, these are not as important as if they led the Bank to implementing new strategies. Having said this however, much of this changed in 1974 with the realization of the implications of OPEC policies. There was a recognition among US policy makers that this would have drastic effects on non-petroleum producing LDCs. Some of the proposals that were presented were to expand global energy supplies through either new discoveries or alternative energy sources (Policies, 1974, pp. 3-17). This was accompanied by increased lending by the Bank in the traditional infrastructure sector for projects that would assist LDCs to reduce their reliance on imported oil as a source of energy. Additionally, there was talk of making some international loans dependent on changing economic policies in states. In essence, the latter is structural adjustment lending. Still, these structural adjustment discussions focused exclusively on the IMF (Policies, 1974, pp. 11-14).

An increase in LDC economic efficiency was a stated goal of the US in multilateral development banks in 1975. To accomplish this task, the US emphasized “efforts to expand and strengthen the role of market forces” in recipient states of the Bank. Additionally, the US has placed greater emphasis on raising food production and “the income of LDC rural populations” (Policies, 1975, p. 29). Here is an early mention of
emphasizing free market economies but it is not tied to loans, and rural development is also being promoted. Consequently, there is a slight movement towards SAL, but also an emphasis on human needs.

Finally, at the 1976 Board of Governors Meeting, US Treasury Secretary William Simon proposed policies that would, if implemented, would take the institution into the realm of structural adjustment lending. He stated that the present international aid system could be improved with the adoption of certain guidelines.

We should be guided by the following principles:
—Development by definition is a long-term process...Foreign aid can help, but such aid can only complement and supplement those policies developing countries adopt, which in the end will be decisive.
—The role of the private sector is critical. There is no substitute for a vigorous private sector mobilizing the resources and energies of the people of the developing countries.
—A market-oriented system is not perfect, but it is better that any alternative system...
—A basic focus must be on increasing savings and making the institutional and policy improvements which will enable the financial markets to channel those savings into activities that enhance the opportunities for people to live better lives (Simon, 1976, p. 190).

These statements are a clear indication of a desire to incorporate aspects of structural adjustment in the lending practices of the Bank by the Ford administration. However, the lending patterns of the Bank do not change to reflect this focus on SAL (see Figure 5.2). The only real change in Bank lending is slight increase in infrastructure lending and a slight decrease in human needs lending. It seems the Ford administration was either unable or unwilling to move the institution in a new direction. This is probably a reflection of the fact that this SAL position did not represent the majority of US opinions. Certainly Congress at this time was still firmly focused on human needs lending as reflected in
previous statements. Immediately following Ford the Carter administration quickly showed its support for multilateral development aid and that this should focus on alleviating the poor and meeting basic human needs (McGuire and Ruttan, 1990, p. 137).

The [Carter] "administration has ascribed highest priority to helping meet the basic human needs of the poor. This emphasis is consistent with the legislative guidance for the program set forth in the 1973, and subsequent, amendments to the Foreign Assistance Act" (Policies, 1977, p. 7).

US policies towards multilateral development agencies changed dramatically with the accession of the Reagan administration. A retrenchment to bilateral lending was desired with a general reduction in aid, both bilateral and multilateral. Director of the Office of Management and Budget, David Stockman stated that:

The organs of international aid and so-called Third World Development...were infested with socialist error. The international aid bureaucracy was turning Third World countries into quagmires of self-imposed inefficiency and burying them beneath mountainous external debts they would never be able to pay (Stockman, 1986, p. 119).

Though not specifically connecting new loans to economic restructuring, this statement contains several of the features that underlie structural adjustment lending; high debt, inefficient systems, non-market-oriented economies. Further support for market-oriented policies were provided by a Treasury Department Review of US policies in MDBs.

Treasury recommended that aid should be designed to promote greater adherence to the free market which is an indication of SAL. More importantly the Treasury review called for tying loans to policy changes in recipient states which would foster the free
market and the private sector (Treasury, 1982). Further emphasis on these principles was
provided in President Reagan’s 1983 speech to the World Bank.

The societies that achieved the most spectacular, broad-based economic progress in the shortest period of time have not been the biggest in size, nor the richest in resources and certainly not the most rigidly controlled. What has united them all was their belief in the magic of the marketplace. Millions of individuals making their own decisions in the marketplace will always allocate resources better than any centralized government planning process (Reagan, 1983, p. 2).

All of this evidence presents a confused yet changing policy on the part of the US. In general it can be stated that US policies towards the Bank did not focus primarily on development policies, but instead were intended to promote US interests in terms of broader foreign policy goals. Throughout most of this period when the US did address development policy, there was an attempt to show a preference for human needs lending. This lasted from the Nixon administration through to the Carter administration. Change in US preferences for aid in general and development strategies in particular shifted dramatically with the Reagan presidency. He supported a move away from development assistance and multilateral development aid. What aid would be provided should be intentioned to foster the growth of the free market. In fact, loans should be conditional on states changing their economic, if not political structures, to allow for this growth in the free market.

The ascendancy of the Reagan philosophy in the early 1980s coincides with the early structural adjustment loans by the Bank. Important however, is the fact that the Bank had already completed a few structural adjustment loans. The US cannot be given credit for implementing this new development strategy because of the timing. However,
after the initial loans for structural adjustment that were not matched/preceded by a shift in US policy, there is strong evidence that US preferences concerning the Bank lending strategies did change and that these changes were mirrored in the relatively large increases in Bank lending to the area of structural adjustment.

In conclusion, then, the preferences variable seems to have some explanatory power. The US does not seem to be an innovator of structural adjustment lending by the Bank, however, they pushed for this type of development strategy to be given greater influence in the Bank’s development tool kit. It is important to note that earlier the US either did not seem to pay attention to what the Bank was doing, or it only used its power to influence the institution for issue specific reasons, and not concerning overall development strategies. In the early years of this temporal domain, there was little if any US government attention on the Bank. Then, in the early 1970s, Congress became interested and supported its current human needs policies. This was further reinforced by the stance of the Carter administration. It was not until the Reagan administration came into office that the US started to press for SALs. This policy shift was supported by numerous voices from the US including the President and the Secretary of Treasury. Additionally, McNamara left office and the Bank had a new president who, not surprisingly, supported the development policies of the administration.

Consequently, the US may be capable of influencing the direction of the Bank but it has to be willing to pay attention to and focus on the organization. Additionally, there needs to be a concerted voice from the US government. With a divided government it is easy to send a variety of signals. Thirdly, it had to be a benefit for the administration that
McNamara decided to resign and they could put “their man” in office. Finally, the international context cannot be discounted. With the two oil shocks of the 1970s slowing down the developed economies of the world and crimping the growth of LDCs, the ballooning of LDC debt, and the decrease in official development assistance there was a real desire/need to try something new within the international development community. Though difficult to measure, this changing context had to assist the Reagan administration in convincing those in the US government and the World Bank to try implementing structural adjustment lending. Thus, once again we see that the single variable explanation is inadequate. The role of leadership in this case of change will be explored next.

5.4.3 Leadership

This section explores the ability of the leader to change the practices of the institution. There are basically two ways that this can take place. First, there is a change in leadership within the organization and that new leader brings in a new problem representation. Second, a leader who has been in office can change his/her representation of the problem and then change the institution to match this new vision. Both of these possibilities are explored in this next section looking at the timing of leadership change relative to lending changes, a leader’s view of development, and finally a content analysis which tracks leader’s representations of the problem over time.

Change in the president

Hypothesis 3: When there is a change in the president of the Bank, then there will be a change in the lending practices (consistent with the leader’s prior experiences).
During this episode the leadership of the Bank was dominated by Robert McNamara. There was only one change in the leadership, from McNamara to Alden Clausen in 1981. However, due to the fact that this occurred just before the change in the Bank to promoting SAL this variable could hold significant explanatory power. In order to evaluate the weight of this variable, it is necessary to explore the two leaders.

McNamara

Robert McNamara is considered by many within the Bank to be the person who introduced and promoted the concept of basic human needs. McNamara took over the leadership of the Bank on April 1, 1968. Many have speculated that he had become disenchanted with the war effort and in 1966 gave a speech in which he equated development and security (Kraske, 1996, p. 160). He was the first president to not have a banking background, though he held strong business credentials having taught business at Harvard and served as president of Ford Motor Company. This non-banking background is significant in the policies and practices he employed while at the institution. In particular, McNamara did not see the necessity of constantly worrying about the organization's credit rating, instead he thought the institution should lend to help meet developing state's needs (Mason and Asher, 1973, pp. 100-101). His distaste for lending only to economically sound projects is shown with the following statement promoting development in social sectors. “Our objective is not to search for good investments in sick economies. Our objective is to try to understand what makes economies sick in the first place, and to take those remedial steps that will encourage recuperation and health”
(McNamara, 1969, p. 73). This was a dramatic change from earlier presidents who took a cautious approach to lending and always had an eye on Wall Street\(^6\). This view of seeing the institution as an agency of development and not necessarily a bank probably helped provide some of the impetus for raising the lending of the Bank so dramatically. Lending doubled in his first two years, nearly tripled a few years later, and by the time he left office had increased by almost a 600% increase in annual lending. Lending increases of this magnitude are more impressive considering that in McNamara’s first five years the Bank lent more than in the previous 22 years. Of course as organizational literature points out, there is often an incentive to make one’s own organization the most powerful in a particular issue area since there is a constant struggle for resources, recognition and influence (Wilson, 1989; Zisk, 1993), and this may also have been taking place but falls under the rubric of organizational variables, discussed below.

McNamara’s initiatives can be traced back to his experience in the field. He was seen as one who did not follow the SOP of the Bank and would not be constrained by institutional inertia. In terms of the Bank this meant that he was willing to change policy direction, and start lending in new sectors or states. Instead he went out into the field and sought the advice of respected leaders of developing states and just average citizens of these states. Many of his ideas on development came from these experiences (Kraske, 1996, pp. 169-170).

\(^5\) This was extremely evident in my interviews with Bank staff. McNamara held an almost mythical place as an individual that came in and changed the institution. Not all past presidents were regarded this highly.

\(^6\) This caution by previous presidents has been discussed in Chapter 4. Essentially, there was a concern for making sure that the IBRD was seen as an economically responsible bank and that its bonds received the highest rating.
His view on development was not one that would be conducive to SAL and its importance on the free market and efficiency. Instead it was driven by a realization of the growing disparities within developing societies. He increasingly saw the public sector as playing an important role in diminishing these differences. “Strictures against lending to public sector banking institutions or enterprises, which hitherto had been a standard feature in the Bank’s outlook and policy, were relaxed. What mattered was not who owned enterprises but how efficiently they were run” (Kraske, 1996, p. 177). Little research was conducted during his tenure into the role of private capital or ownership.

McNamara came in and increased the lending for projects related to human needs that had already been implemented by his predecessor. Additionally, he added lending to population control as part of the Bank’s human needs package. This became a major focus of his tenure at the Bank. Later, in his attempt to assist the poorest of society he moved the Bank into funding for urban development.

Clausen

In contrast to McNamara, Alden Clausen resembled more the old school of Bank presidents. His background was firmly based in banking having led BankAmerica for much of the 1970s. Expanding this bank’s foreign loans, especially in developing states, was his forte. He was not a Washington or Wall Street insider like all previous presidents. However, he had over a decade of experience leading a large multinational bank’s efforts to make loans in developing states. He was aware of the unique economic climate of these states. He was elected president in the final months of the Carter Presidency, but
with an eye on the future Reagan administration. In other words, they made sure that the
next president of the Bank was an acceptable individual to the Republican Party.

Clausen had been approached for the position by McNamara, and supported the
policies of his predecessor. He believed in the necessity of increasing development aid and
also supported population issues as a major concern of the development community.
Consequently, Clausen was not seen as someone who wanted to take the Bank in a new
direction and initially did not want to (Kraske, 1996, pp. 215-216). The rising global
economic slowdown of the early 1980s and the dramatic impact this had on LDCs
however challenged this policy consistency.

With limited capital a turn to efficiency was necessitated. This highlighted one of
the major differences between McNamara and Clausen: their perspective on private
ownership. As mentioned above, for McNamara ownership did not matter, the focus was
merely on delivering the goods. However, for Clausen private ownership was seen as a
means to increase efficiency (Kraske, 1996, p. 223). Another way to overcome the lack
of development capital was to co-finance projects with private banks. Co-financing had
declined under the previous presidency, but was an activity Clausen had engaged in as a
private banker. Additionally, this brought the private sector into the economic mix of
developing states.

The explanatory power of this variable is mixed. Certainly, Bank lending to SAL
increased substantially after the ascendancy of Clausen to president of the organization.
He was a believer in private ownership and the free market which were important
philosophical differences from McNamara. He pushed for SAL for the Bank and also for
all entities involved in the development process. However, it is important to keep in mind that he came into the Bank a strong advocate of the policies of his predecessor. He was a believer in education lending and population control, and saw the Bank as a development agency. So, even though he oversaw the growth of SAL as a powerful development strategy of the institution, this was brought about more by external circumstances. It is impossible to prove that Clausen would have acted differently under other external circumstances, but considering his early views on the Bank and McNamara's policies, it seems practical to assume that a smoother external environment would not have led to the changes in Bank policies he promoted. The global recession and rising energy costs had crippled many LDCs. Consequently, a change in the president had an expected change in the strategies of the institution, but these changes were more likely strongly influenced by the external environment. Yet, Clausen's background and lack of McNamara's comparative vested interest in human needs supports the contention that he would be more amenable to SAL than McNamara.

An important next step is to look more specifically at how these two presidents perceived the problems facing LDC and the role of the Bank in alleviating them. The next section will examine the leaders' views on development strategies and its changes over time.

Change in a president's representation

Hypothesis 4: When the president changes his representation of how the organization can best meet its goals, then the lending activities will change to reflect this new representation.
This section will examine how McNamara and Clausen viewed the role of the World Bank in the overall development process. Each leader's perspective on development will be measured on an annual basis. This will allow for analysis and comparison both across years and to the particular lending of the Bank. In order to be able to systematically observe and analyze these perspectives the presidents' speeches were analyzed using the same content analysis scheme employed on the loans of the Bank. This breaks development strategies into the five categories being explored in this research project. Table 5.6 shows the results of this content analysis and the year the president changed. These results are also presented in Figure 5.5. The key shows which lines match with the strategies for each leader; also, there are lines for the dependent variable, SAL. This was included to give a look at how the changes match.
Table 5.6: Presidential emphasis by lending strategy

<table>
<thead>
<tr>
<th>Year</th>
<th>Reconstruction</th>
<th>Infrastructure</th>
<th>Human needs</th>
<th>SAL</th>
<th>Sustainable Dev.</th>
<th>President</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>0</td>
<td>9</td>
<td>88</td>
<td>3</td>
<td>0</td>
<td>Woods</td>
</tr>
<tr>
<td>1969</td>
<td>0</td>
<td>26.6</td>
<td>62</td>
<td>11.4</td>
<td>0</td>
<td>McNamara</td>
</tr>
<tr>
<td>1970</td>
<td>0</td>
<td>8.5</td>
<td>85.1</td>
<td>6.4</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>0</td>
<td>18.3</td>
<td>71.6</td>
<td>10.1</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>0</td>
<td>15.9</td>
<td>77.8</td>
<td>6.3</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>0</td>
<td>7.4</td>
<td>88.9</td>
<td>3.7</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>0</td>
<td>10.9</td>
<td>76.1</td>
<td>13</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>0</td>
<td>8.7</td>
<td>82.5</td>
<td>8.8</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>0</td>
<td>15.4</td>
<td>69.2</td>
<td>15.4</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1977</td>
<td>0</td>
<td>25</td>
<td>65.9</td>
<td>9.1</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1978</td>
<td>0</td>
<td>27</td>
<td>64.9</td>
<td>8.1</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>0</td>
<td>27.1</td>
<td>65.4</td>
<td>7.5</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>0</td>
<td>17.1</td>
<td>51.5</td>
<td>31.4</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>0</td>
<td>36.8</td>
<td>26.3</td>
<td>36.9</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>0</td>
<td>31.5</td>
<td>48.1</td>
<td>20.4</td>
<td>0</td>
<td>Clausen</td>
</tr>
<tr>
<td>1983</td>
<td>0</td>
<td>8.8</td>
<td>14.7</td>
<td>76.5</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

It is clear from the table that there was a much greater emphasis placed on SAL strategy at the end of the McNamara era and the beginning to Clausen's presidency. This is supportive of the timing of the changes in lending by the Bank for structural adjustment. A regression of this data in first differences (Figure 5.6) shows an adjusted $R^2$ of .334, which is fairly high and significant at .014. This would lead us to believe that the president of the Bank had significant input into the changing policies. For a better understanding of how each of these presidents viewed the role of the Bank, I will examine the content analysis results more thoroughly below keeping in mind various contextual factors that may contribute to a change in policies.
Figure 5.5: Presidential emphasis by lending strategy, with dependent variable
**Regression Statistics**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>0.618</td>
</tr>
<tr>
<td>R Square</td>
<td>0.382</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.334</td>
</tr>
<tr>
<td>Beta</td>
<td>0.618</td>
</tr>
<tr>
<td>Standard Error</td>
<td>1.153</td>
</tr>
<tr>
<td>Observations</td>
<td>15</td>
</tr>
<tr>
<td>Significance</td>
<td>0.014</td>
</tr>
</tbody>
</table>

*Figure 5.6: Influence of presidential speeches on SAL*
For McNamara population was a centerpiece of human needs specifically and development more broadly. When he first takes office he mentions the importance of three sectors for lending. McNamara credits Woods with instigating the initial loans to education and rural agriculture, and then he dramatically increases lending to them. He also constantly makes the connection of agriculture to feeding the people and providing nutrition, where the earlier focus by the Bank was on large agribusiness to produce largely for the export market. McNamara then added a third aspect of human needs lending which came to be one of the central issues of his presidency; population control (McNamara, 1968). He emphasized population control again the following year...

...for the simple reason that the greatest single obstacle to the economic and social advancement of the majority of peoples in the underdeveloped world is rampant population growth. The enhancement of human dignity, and the consequent capacity to lead a fuller, freer, more thoroughly human life, is the ultimate objective of development. Economic progress is a means to that end, but no achievable rate of economic growth will be sufficient to cope with an unlimited proliferation of people on our limited planet (McNamara, 1969, p. 75).

To bring further emphasis to the importance of population control and development, he quotes from the Pearson Commission.7 “No other phenomenon casts a darker shadow over the prospects for international development than the staggering growth of population” (Pearson Commission in McNamara, 1970). However, McNamara is aware of the political, ethnic, cultural overtones discussions of preventing population growth can take on. He adamantly dismisses these and talks about the negative affects on

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7 The Pearson Commission was an independent research commission established to analyze the global development scene. It was led by former Canadian Prime Minister Lester Pearson, and published its findings in 1970.
development and providing a modicum of a decent standard of living to the world's people.

We do not want fewer children born into the world because—to quote the more extreme critics of population policy—we do not like their color, of fear their future enmity, or suspect that they will in some unspecified way encroach upon the high consumption standards of already industrialized lands. This is not, as is sometimes claimed, an exercise in concealed genocide perpetrated by the already rich on the aspiring poor. It has one source and one only—the belief that without a slowing down and control of the population explosion, the lives awaiting millions upon millions of the planet's future inhabitants will be stinted, miserable, and tragic (McNamara, 1970).

These are all components of human development and are aspects of what McNamara saw as making the Bank less of a bank and more of a development institution. He envisioned a "broadening of the concept of development beyond the simple limits of economic growth...we believe economic progress remains precarious and sterile without corresponding social improvement" (McNamara, 1970, p. 113). McNamara is fully supportive of human needs development and has included new areas for the Bank to lend which will help promote this process.

A few years later the world experiences the first of the oil shocks of the 1970s; at the same time the US Congress begins to make statements about the lending policy of the Bank (see previous section on US preferences). There is no evidence that these events affect the view of McNamara on the development process. His focus remains firmly set on human needs, especially rural development of the poorest farmers, population control, and poverty alleviation.

We plan to place far greater emphasis on policies and projects which will begin to attack the problems of absolute poverty...far greater emphasis on assistance designed to increase the productivity of that approximately 40%
of the population of our developing member countries who have neither been able to contribute significantly to national economic growth, not to share equitably in economic progress (McNamara, 1973).

He further refutes previous policies of the Bank and those who are only concerned with gross measures of national growth. Using GNP as an indicator he believes misrepresents what is occurring in developing states. He believes that “...GNP is essentially an index of the welfare of these upper income groups” (McNamara, 1973). This is also inline with the underlying philosophy of human needs development that other strategies of development focus only on the elite and are measured by broad national indicators. Instead human needs development is trying to address the economic difficulties of the poorest segments of society. Only by addressing these people will true development occur. This philosophy leads to promotion of small-scale projects that directly affect the poor. “In my view, there is no viable alternative to increasing the productivity of small-scale agriculture if any significant advance is to be made in solving the problems of absolute poverty in the rural areas” (McNamara, 1973).

His lending strategies do not hint at structural adjustment lending. The only times he discusses some of the issue of debt burden and declining growth rates that led to structural adjustment strategies was when he discusses official development assistance (ODA) and barriers to trade. The problems in both instances are caused, in his view, by the developed states with their lack of interest in development. Emblematic of this limited interest are the declining amount of aid given and barriers on LDC imports. In other words, any capital shortages in the LDCs are the result of EDC policies, not mismanagement of recipient economies; which is at the very least, an implicit feature of
structural adjustment lending. In fact, McNamara calls for policies that are almost completely antithetical to SAL. His quest to eliminate poverty leads him to promote government intervention to provide extensive services, housing, and jobs for the poor (McNamara, 1973), (McNamara, 1975; McNamara, 1974). This heavy government burden is not a sign of SAL, which often tries to pare the government in the name of balanced budgets.

The following year in the height of the economic crisis caused by the oil shock McNamara sticks to his policies. He promotes poverty alleviation, population control, and rural development with a focus on the small farmers and landless poor of the countryside. He does not envision LDC debt problems and weakening economies as an internal structural problem, but generally a problem attributable to a lack of capital flowing from the EDC.

Towards the end of his presidency, the content analysis shows that McNamara is still strongly supporting human needs lending, even though he oversees the first few structural adjustment loans granted by the Bank. He still does not believe this is the best strategy of the Bank, and only a necessary evil caused by declining capital flows. In fact, he openly supports several economic features that are anathema to structural adjustment. He describes how the EDCs are damaging economic growth in the LDCs through their protectionist practices, and that such policies must end. "...[P]rotectionist barriers erected by the developed nations against the manufactured exports of the developing countries continue to grow... Even a partial resume of the new restrictive measures illustrates the severity of the problem" (McNamara, 1978, p. 485). He then goes on to list
a half dozen cases of these restrictive trade practices. Next he states that “protectionist measures are, of course, common in developing countries as well. For those societies still at an early stage of industrialization, they are often justified” (McNamara, 1978). He again pushes for his same development strategies and an increase in development aid. None of this is supportive of SAL type loans. A final statement that clearly does not fit SAL discusses the levels of LDC debt in a positive manner. Following the recession of the early 1970s developing states:

...had to rely on heavy borrowing abroad to maintain their development momentum. The international development institutions, and the commercial banks, responded to that need, and debt obligations rose swiftly. This was, on the whole, a very positive phenomenon, and assisted the recovery process in the developed as well as the developing nations. But as the debt grew, there began to be some anxiety that prudent levels might be exceeded (McNamara, 1978, p. 511).

He goes on to state that the Bank has followed this phenomenon closely and does not foresee a problem. Again, he falls back on his belief that the only problem is in the limited amounts of ODA. In fact, he discusses how developing states need to increase their services to the poor. He even states that “low-income public housing is too expensive for the poor” (McNamara, 1979), and follows this up with a discussion of the additional services the state can provide to make the housing more affordable. Efforts to spend more state monies are certainly not in line with structural adjustments.

His first mentions of structural adjustments are made in 1979 and are in just a few brief paragraphs. The focus is on the declining economic prospects of the developing
states and that they must structurally adjust to increase their exports and decrease the imports of oil. Again though he urges higher rates of assistance. “I urged the international community to consider sympathetically additional assistance to developing countries that undertake the necessary structural adjustments” (McNamara, 1979, p. 603). In other words, compared to how the Bank later perceived SAL, McNamara’s vision was much less severe. It relied heavily on aid from developed states and was focused primarily on the energy sector. “In all too many countries, governments have kept domestic prices of petroleum products artificially low compared to world prices, with the result that there has been little incentive for consumers to conserve, or for producers to invest” (McNamara, 1980, p. 622).

Regardless of all of these changes in the international economy, McNamara always saw human needs lending as the primary concern of the Bank and development in general. He continues to believe that population growth is the greatest concern facing the earth “short of nuclear war itself” (McNamara, 1979, p. 571). In his conception poverty alleviation needs to remain at center stage. “I want to reemphasize an underlying issue, which is in danger today of being obscured by the anxiety over the global adjustment problem. And that is the most fundamental development issue of all: the drive against poverty” (McNamara, 1980, p. 628). He is a true believer in the necessity of the human needs approach to development. Because of the severe economic problems occurring in the international system he was willing to acknowledge the necessity of some action. In this regards he is an innovator, at least in terms of the Bank. However, he cannot be credited with adding a new development strategy. As stated in chapter two, for a new
development strategy to be considered a change in Bank policies it must absorb over 10% of the annual lending. For structural adjustment loans, this does not take place until McNamara’s successor is in office. Additionally, SAL is not a change that McNamara promoted. Instead it was a grudging admission on his part that the international environment had interfered with his attempts to alleviate global poverty and raise the standard of living for the poorest segments of the poorest societies.

Clausen

Alden Clausen became president of the World Bank in 1981, just 90 days before his first speech to the Board of Governors of the Bank. Expectations under these circumstances may reasonably be that he would imitate his predecessor who had served the institution for 13 years. However, he came out with a speech that was distinct and openly pushing the Bank in a new direction: support for structural adjustment lending as a centerpiece of development. Additionally, this was not the “soft” SAL of McNamara, restructuring the energy sector and pushing for exports while blaming these conditions on the lack of aid and the global economic downturn. Clausen’s vision of structural adjustment was much more pervasive.

For Clausen structural adjustments were necessary for developing states to continue the development process. This is a much more inclusive vision of structural adjustment than McNamara had as Clausen states:

Structural adjustment for these countries to the realities of the global economy means in practice more appropriate policy responses, more effective price incentives, improved market signals, increased export activity, and overall better use of both material and human resources. The world economic situation today allows little tolerance for inefficiencies whether these derive from mismanagement in public enterprises, an inadequate utilization of private talent, or misguided
subsidies that benefit the rich in the guise of helping the poor (1981, in Clausen, 1986, p. 8).

Better pricing is not just limited to the energy sector but the entire economy. And this includes economic transparency, limiting state subsidies and better employing the population. These are deemed necessary economic changes, not only in these tough economic times of the early 1980s, but to achieve sustainable development under any circumstances. It is clear, of course, that sustained growth in the developing countries inevitably depends on their own sound domestic policies, and that no external economic environment—however improved—can substitute for the basic internal requirements for growth: more efficient use of their own resources; more carefully selected investment programs; better management of public enterprises (1982, in Clausen, 1986, pp. 104-105).

This new, stronger definition and more emphasized effort on structural adjustment lending seem to be central to how Clausen views the development process. This focus on promoting SAL is supported in the content analysis of his speeches where this new development strategy takes a noticeable leap in prevalence compared to McNamara. This is not to say that he was completely unsympathetic to aspects of human needs that his predecessor had accentuated. He also supported these programs, in particular education, and alleviation of hunger and rural development.

The analysis of Clausen’s problem representation reveals an interesting linkage among the development strategies. What is noticeable about the different approaches is that for Clausen he supported these human needs features because they would improve the balance of payment problems of the developing states. Rural development would lead to higher agricultural yields, which would alleviate hunger, but also help expand exports. Education would provide a more skilled working class that could help attract foreign private capital (1981 and 1982 in Clausen, 1986). A noticeable omission is discussion of
the role of the government in providing services to the poor such as housing, transportation, clean water, hospitals, etc... To McNamara this was essential for development and "human dignity;" and could only be undertaken by the central government, even if they had to borrow. For a budget balancer, these types of policies were not even considered.

In conclusion, it appears that the preferences of the presidents of the Bank did have an impact on the lending strategies employed by the institution. A distinct difference exists in the lending practices of the Bank before and after the McNamara presidency. After examining Clausen's representation of the problem of development it seems probable that he came into office as a true believer in the free market, balanced budgets and the need for structural changes to the LDC economies. He came in and at the very least helped smooth the transition to structural adjustment loans. As stated earlier there were other factors that may have impacted these changes.

First, the external environment seems to have played a significant role in forcing McNamara to introduce SAL to the tool kit of the Bank; no matter how reluctantly. This external environment was already in place when Clausen came to the Bank so it is difficult to measure its impact on his development vision. However, there is little to suggest the policies he implemented did not reflect his general view of economics and mirrored his banking background. The preferences of the US also changed at this time and could have influenced Clausen's views. However, this seems unlikely for two reasons. First, Clausen was nominated and elected president of the World Bank by the Carter administration, not by Reagan. Second, there was constant tension between Clausen and the Reagan
administration. They both may have supported SAL but Reagan's dislike for international institutions differed significantly from Clausen's perspective (Kraske, 1996). Consequently, it seems that McNamara introduced SAL after being forced by international economic factors, but Clausen promoted this lending strategy to a significant part of the Bank's policies and did this as a result of his own convictions about development. Thus, the tracing of the linkages between the context and this leader's problem representation suggests that he was not influenced by outside actors.

5.4.4 Organizational Change

Hypothesis 5: When there is a change in the organizational structure, a change in lending strategies will follow.

The focus of this section is on any changes in the design of the organization. Questions should include: Were departments added or terminated? Did funding levels for parts of the organization change? Were lending rules changed? The basic premise is that alterations in the complexion of the organization can affect the policies that it promotes. A key component is thus the timing of change; Did the organizational change occur before or after institutional lending strategies were altered?

From 1968 to 1983 the Bank underwent numerous organizational changes, from reorganizing departments to adding new state members. While there were these numerous organizational changes taking place during this time period, this section will report research revealing that most of them were directed at reinforcing the Bank's commitment to human needs lending, and not related to structural adjustment lending. These changes were implemented mostly under McNamara in order to assist him in implementing his
human needs projects. There was negligible evidence that the organizational changes influenced a change to structural adjustment lending.

**Change in bureaucratic structure.** The most dramatic organizational change for the Bank took place in 1973. McNamara had been studying the organizational makeup of the institution for several years prior to 1973 and finally decided to implement his ideas and those of outside consultants. This was the first major restructuring in the Bank since the early 1950s. The old structure was based on departments consisting of country experts and of departments in which the project experts resided. McNamara created regional departments, which contained the project and country experts. The result was that regional departments had access to all necessary staff. While this was more logical and efficient (the main motivation behind the changes), there is no evidence that these condensed departments had any impact on change to SAL.

Over the years other departments were also added to the institution, for example the Population Projects Department in 1970, a Rural Development Department in 1972 and an Urban Projects Department in 1973 (Bank, 1973, pp. 65-67). Each of these new departments were set up to further McNamara’s support for human needs projects, population control, assisting small farmers and raising nutritional levels, and assisting the urban poor get jobs and access to public services. Surprisingly, he saw some new human needs methods as interfering with others; for instance when the Bank first started to consider making loans to promote public health. When considering a health services loan he stated that: “he was reluctant to consider financing of health care unless it was very strictly related to population control, because usually health facilities contributed to the
decline of the death rate, and thereby to the population explosion” (Webb, 1997, p. 250).

As discussed, this was not his permanent stance and the Bank did move into health and nutrition lending under McNamara.

Other organizational changes are less easy to evaluate in regards to their impact on SAL. For instance, the Operations Evaluation Unit (later changing its name to the Operations Evaluation Department) was created in 1970. This was the first attempt by the Bank to follow up on the performance of their loans. Whether or not this influenced a change to SAL is difficult to evaluate. In some regards it depends on the development perspective of the evaluator[s]. For instance one of the first evaluations was conducted on Bank loans to Colombia and the report came out firmly in favor of the necessity of human needs lending, going so far as to state that “if development is measured by reduction of poverty, Colombia has developed marginally if at all” (Report on Colombia, 1971 cited in Richard Webb, 246, the WB, its first half century).

Organizational interactions

Another set of changes that occurred was the interaction of the World Bank with other IGOs. Generally, the Bank has maintained a fairly independent stance in its activities, even though it is technically a specialized agency of the United Nations. Each interactive relationship with another IGO is specially designed and clearly articulated. In 1971 the Bank helped establish and became a founding member of CGIAR (Consultative Group on International Agricultural Research) with the FAO (Food and Agriculture Organization) and UNDP (United Nations Development Program). This was followed up with the establishment of a cooperative program with WHO. Previously (early 1960s) the
Bank had set up similar cooperative programs with UNESCO and the FAO. Programs of this sort entail the sharing of expertise and staff, while the Bank contributes most of the funding. This has allowed the Bank get new lending programs off the ground quickly by tapping into the experience and expertise of these international organizations. Consequently, they benefit from being able to tap into the relatively vast financial resources of the Bank. Additionally, the Bank established a less formal working relationship with UNFPA (United Nations Fund for Population Activities) in 1973. The expected affects on change from these new links is that the Bank would move toward greater emphasis on the same strategies of these other organizations. Indeed, the Bank did have similar emphasis, but all of these are related to various aspects of human needs lending, not SAL. So again the organizational changes are strengthening the old lending practices and certainly not promoting a transition to structural adjustment. In fact, most of these agencies are either opposed or at the very least tepid towards SAL since it detracts resources from their programs.

One significantly new organizational change that took place in the 1970s was the incorporation of NGOs in the Bank’s activities. Interestingly, the exact date of the commencement of this relationship is unclear. It was not until the mid 1980s when Bank staff decided to investigate their relationship with NGOs. At the time, many in the Bank did not even know that NGOs and the Bank worked together on projects. The realization was that NGOs had been involved with the Bank since the 1970s, and that the relationship was primarily at the implementation phase (Nelson, 1995, p. 177). This was

\[\text{\textsuperscript{8}}\text{ Much of this section is based on interviews with Bank staff, in particular members of the NGO unit and individuals who conducted the initial research on Bank/NGO interactions.} \]
probably a result of the tremendous increases in overall Bank lending and an
understandable need for assistance in dispersing the funds. A formalized role for NGOs in
the organization was not created until 1984 when there was a growing realization of their
importance, power, and previous activity in helping the Bank meet its development goals.
Still, NGOs did not play a role in the Bank’s transition to SAL. In fact Nelson specifically
highlights the fact that NGOs are primarily associated with issues of “poverty alleviation,
popular participation, small-farmer agriculture, and environmentally sustainable
development” (Nelson, 1995, p. 5). These are not aspects of structural adjustment and
actually often run contrary to adjustment lending, with the belief by NGOs (similar to the
other international organizations discussed above) that this type of lending sacrifices their
preferred goals. Consequently, NGOs are not an important player in this episode of
change. In future change, NGOs may play a greater role and thus it is still important to
note the interaction of the Bank-NGO relationship.

Change in operational procedures. A major debate within the Bank since its
inception centered on an interpretation of the Articles of Agreement concerning what type
of loans the Bank could grant. As presented in Chapter 3, this argument revolved around
the definition of a “project.” Article III, section 4 (vii) states that “loans made or
guaranteed by the Bank shall, except in special circumstances, be for the purpose of
specific projects of reconstruction or development.” Interpretations over what was a
“project” and what constituted “special circumstances” have been with the Bank since its
first loans. All of the European reconstruction loans would fit under the heading of
program loans, not projects. Of course the dramatic situation of post WWII Europe easily
provided the special circumstances. The Bank provided a few other program loans in the fifties and sixties, mostly to European states (Mason and Asher, 1973, pp. 260-275). The justification\(^9\) for what became known in Bank parlance as “non-project” loans was a disturbing shortage of foreign exchange by the borrowing state, thus qualifying as a special circumstance.

Nineteen seventy-one witnessed the first major evaluation by the Executive Directors of lending criteria since the early days of the Bank. This was in response to a reconstruction loan provided to Nigeria and a loan to Peru to help cover the costs of the damage wrought by an earthquake. The reasoning behind this decision was that program lending provides the institution with greater flexibility in addressing these state wide catastrophes (Bank, 1971, p. 6). By the mid-1970s non-project lending had expanded to assist some states with balance of payment problems caused by the oil crisis. In particular, the loans were used to finance vital imports while the state returned to a more stable economic position. In the late 1970s the Executive Directors decided over several years that assisting states in their attempts to rebuild or restructure important sectors of their economy was an acceptable use of Bank funds and qualified as a “special circumstance.”

Consequently, this change in the lending criteria of the Bank, though not intended for structural adjustment loans, enabled future presidents to provide SALs. It is important to remember that SALs are loans to help the state adjust its entire economy (i.e. remove state subsidies) or SECALs which are related but focus on one sector of the economy (i.e.

\(^9\) If a justification was even sought. Mason and Asher (1973) believe that the aspects of these loans which qualified them as program loans in the 1950s were not discussed. Instead the debate was avoided by
introducing market pricing into the agricultural sector. Both types of loans are not
project specific, so changes had to be made to the lending criteria of the Bank before it
could institute this type of lending strategy. Lending criteria were made in the 1970s
(mostly to add flexibility into the institution so it could help states recover from natural
disasters) but this allowed leaders to expand the lending tools of the institution when the
need arose to help states structurally adjust their economies. Thus, this is one way in
which organizational structure change set the stage for mission change even though the
mission change was not a planned outcome of the change in lending criteria.

Change in membership. Bank membership continued its rapid growth in the 1970s
adding 37 new members in a decade and a half. This was not quite the dramatic growth
witnessed in the 1960s, but was still a substantial addition to the membership. The new
states were primarily LDCs from Africa, Asia and the Caribbean. One additional
membership change was the transition of the representation from China. In 1980, Taiwan
relinquished its representation and the Peoples Republic of China took the China seat.

Regardless of all these changes in membership there is no evidence that the new
members had any influence over the Bank's lending strategies. First, most of these states
are LDCs and the policies behind structural adjustment are typically not appreciated by
these states since it limits their freedom of action. Recipients are forced to pay off debts
and limit government expenditures and restructure parts of their economies. It is difficult
to envision these states asking for such restrictions on loans, especially since many of these
new members are some of the poorest states in the world; (i.e. Bangladesh, Sao Tome,
Bhutan, etc...). Zimbabwe, another new member came to call these types of loans (in this case referred to as SAP [structural adjustment program]) as standing for "suffering for African people" (O'Heaney, 1994, p. 92). Second, the power of these states is extremely limited within the institution. The vast majority possessed less than .1% of the vote in the Bank. Hungary was the new member with the largest voting share at .44%. Only two other states were above .1%. This results in little if any power for these new members. The one exception is the change in representation for China. Again however, (as mentioned in the section on voting power) it is hard to imagine the Chinese pushing for structural adjustment lending. SAL limits a recipient state's ability to borrow and how the loans are employed. Additionally, SAL calls for an opening of the economic system and China has proved reticent to do this and allow much international influence in their economic system.

What is evident is that there were numerous changes in the membership of the World Bank during this decade and a half; from new states to transitions in who represents a particular state. Regardless of these changes there is little evidence that they would have pushed for a change to SAL. In deed, the majority of these new members are some of the poorest states in the world and need access to capital, the fewer strings the better. Instead of pushing for a change in the lending practices, these new members—if they voiced an opinion—would probably have demanded a continuation of human needs lending.

To summarize, bureaucratic restructuring, new interactions with other IGOs, and changes in membership wither had no effect or reinforced the Bank's human needs aims. The one change that does appear to be significant is in the lending criteria. Changes in this
factor opened up the possibility that new strategies might be addressed though did not guarantee that new strategies would be addressed or what those new strategies might be.

5.5 Conclusion

This chapter has highlighted the Banks transition to adopting structural adjustment loans as a means to achieving its development goal. The period begins with the World Bank having recently begun its human needs lending. This is the hallmark policy of Robert McNamara, president of the organization for the majority of this section. He continually emphasizes the need for human needs lending and is supported by other important actors, for instance the US, in the early 1970s. Unfortunately, for McNamara and supporters of his vision, the world economic scene does not cooperate. Specifically, the two oil crises of the 1970s have dramatic impacts on LDC economies; either directly by raising the cost of vital imports such as oil, or indirectly by contributing to the decline of global trade and growth of the industrialized states which dries up the markets for LDC exports. By the 1980s this environment raises the need for adjustment lending, but the question remains who promoted this in the Bank, and why the change came about in the early 1980s and not after the dramatic effects of the first oil crisis? Each section above attempts to answer these questions in terms of the five theoretical perspectives.

The transition of power variable lacks explanatory power for two reasons. First, the US is always the strongest power in the organization, thus there is not the anticipated change in power coinciding, or preceding, with a change in organizational policies. Secondly, though the power of the US declines during this period, it declines annually. In other words there is no point where there is a shift in US power and then a shift in Bank
policies. The degrading of the US position is a constant. The research showed that other powerful states within the organization either did not desire SAL as a lending strategy, or followed the Bank's development policies thus making themselves incapable of pushing the institution in a new direction.

Regarding the preferences of the strongest state, the second theoretical perspective, there is a clear indication that the new structural adjustment lending was fully supported by the US under the Reagan administration. However, the Bank had already been lending in this area for a few years, though not at a significant level. Additionally, the new Bank president, Alden Clausen, had been selected under the Carter administration, which had traditionally supported human needs lending. Consequently, the US preferences changed and they supported changes in the institution, but they were not an innovator of these policies; they provided more substantiation for these new directions than actually moving the institution to reflect US preferences. Again, the sequencing is an important element in evaluating the variables.

Changes in the leadership of the IBRD seem to have the strongest explanatory power of all the variables. Shortly after Clausen becomes president the Bank begins to dramatically increase its SAL part of its portfolio. SAL was introduced by his predecessor, Robert McNamara, but never represented a significant portion of institutional lending. Clausen increased this dramatically almost immediately after taking office. The content analysis shows that SAL and its associated move to a more free market system was significant to his vision of development. Of all the variables, the leadership seems to have the greatest explanatory power. It is important however, to keep in mind that these
policies were supported, if not pushed by the new US administration. Additionally, this is not as dramatic a representation of presidential power as is portrayed in the previous change from infrastructure to human needs lending. In that instance there was not the extreme external environment that existed during the change to structural adjustment lending. So though the president influenced change there was a strong impetus for some new action by the Bank as a result of the failing economies of the LDCs and there was agreement within the US administration. Of course what “new action” by the Bank was not dictated by the external environment.

Finally, organizational change does not explain the addition of SAL, but does enable the president to institute this type of loan. The acceptance by the Executive Directors in the early 1970s of program lending to provide the Bank with greater flexibility ultimately functions as enabling legislation allowing the Bank president to push for structural adjustment loans. This chapter shows that the change is explained by a combination of environmental and organizational “enabling” factors with the leadership’s motivation to take advantage of these opportunities to push through his vision of “development” and the “best” way to achieve it.
Variable | Expectation | Empirical Patterns of Ind. Variable | Findings
---|---|---|---
Power in Institution | Change in distribution of power within the institution | Decline in overall US power, but remains the strongest state | Changes in power correlate with changes in lending, but this tells nothing about the kind of change (have to know preferences)
Preferences of Most Powerful State | Preferences of the US in terms of expectations on the Bank change | Change in US preferences in 1981 | Helped influence change, though not innovator of new policies
Leader changes | New leader brings in new ideas and changes organizational lending | Period dominated by one leader. Change in leadership two years before change in lending. | Strong relationship
Leader changes problem representation | Leader changes preferences towards Bank lending during tenure | Problem representation changes | Strong relationship
Organizational structure | Changes in organization affect changes in lending practices | Some changes in lending policies | Does not explain change, but enables change to occur

Table 5.7: Independent variables and their explanatory power
CHAPTER 6

STRUCTURAL ADJUSTMENT LENDING TO SUSTAINABLE DEVELOPMENT:
THE FOURTH PERIOD OF CHANGE

6.1 Introduction

Structural adjustment lending (SAL) became a strategy employed by the World Bank in the late 1970s and within a few years SAL represented a substantial portion of the Bank's total lending. This chapter focuses on the period from 1983 to 1994 in which the Bank was first concerned with structural adjustment lending and eventually changed to add sustainable development into its lending repertoire.

A unique feature of this episode of change is that there is still tremendous debate within both the academic and the public domain over whether or not the Bank has even changed to accept sustainable development concepts into its lending programs (Adams, 1992; Rich, 1994). A contention of this author is that one of the main reasons for this debate is that there have never been systematic studies conducted on Bank lending; most of the polemic articles discussing the Bank and sustainable development rely on single cases or anecdotal evidence. Consequently, the first section of this chapter—the presentation of empirical evidence concerning lending strategies—is especially significant compared to the other chapters. This chapter will be a first systematic look at not only why the Bank adopted sustainable development practices, but
also to what extent if any they have incorporated this new development strategy into their 
lending regimen. The longitudinal examination of all the Bank’s loans on an annual 
basis to compare sustainable development lending to the other categories will help to 
uncover any actual patterns in the Bank’s lending.

Sustainable development is one of the most discussed yet underdefined terms in 
development. In fact, one of the seminal works in the field of sustainable development 
written by the Brundtland Commission (named after its Chairman), describes it as 
development that meets:

The needs of the present without compromising the ability of 
future generations to meet their own needs. The concept of 
sustainable development does imply limits—not absolute limits but 
limitations imposed by the present state of technology and social 
organization on environmental resources and by the ability of the 
biosphere to absorb the effects of human activities (Development, 
1991, p.8).

Clearly this description is a bit vague in its recipe for success in achieving its goals. 
Others have even stated that sustainable development is “not something to be defined, but 
to be declared. It is an ethical guiding principle” (de Vries in Reid, 1995, p. xvi). The 
Brundtland Commission goes on to state “critical objectives” that have to be met to 
achieve sustainable development. These include:

- reviving growth;
- changing the quality of growth;
- meeting essential needs for jobs, food, energy, water, and sanitation;
- ensuring a sustainable level of population;
- conserving and enhancing the resource base;
- reorienting technology and managing risk; and
- merging environment and economics in decision making (Development, 1991, 
p.49).
An attempt is made to be more specific, but again these are rather vague and broad concepts. However, it can be seen that this includes features of the earliest developmental approaches: growth, energy, and aspects of human needs; such as population, jobs, food, water, and sanitation. A unique feature of this concept is its attempt to be rather holistic in its approach to development. Unfortunately, this makes it rather difficult to delineate from earlier developmental strategies explored in this project. Consequently, for this analysis sustainable development will focus primarily on those features that are new to the development agenda. These primarily concern protection of the environment, conservation of resources, and protection of local cultures. For the latter, the Bank began to address the issue of the massive population dislocations caused by its earlier projects. For example, in the quest for energy dams were constructed that flooded entire valleys and displaced thousands of people. The Narmada river project in India became the most famous. Initial estimates called for the resettlement of 70,000 people and the flooding of 370 square kilometers. Resettlement numbers continued to rise until they reached 120,000 by which time the loan was cancelled (Shihata, 1994, ch. 1). As it turned out, the Indian government did not have a well conceived plan for resettlement and citizens were notified of the flooding only when surveyors came through their villages marking the high water mark (Wade, 1997, pp. 687-709). Consequently, to make this category of the dependent variable exclusive of other lending strategies the coding rules (defined in Chapter 2) delimit sustainable development to the environment.

In summary, institutional lending is classified according to the five categories explored in previous chapters and described in detail in chapter two. As in the previous time periods, the agents of change investigated here are the same: power and preferences
of the leading state, role of the institution's leader, and changes in the organizational structure. Each of these potential agents of change is looked at systematically in regards to their role in changing the lending practices of the Bank. Before discussing the dependent and independent variables in more detail, it is important to look briefly at events that were taking place during this phase since the global context in which the Bank makes policy is always changing.

6.2 Global context

The 1980s were designated the Third Development Decade by the United Nations. This decade witnessed the adoption of a New International Development Strategy by the General Assembly which repeated the NIEO's call for 0.7 per cent of the GDP of developed countries to be transferred to the developing countries in the form of development aid. The General Assembly also adopted the Substantial New Program of Action which called for 0.15 per cent of the GDP of developed nations to be granted to the least developed countries and that loans to these countries be changed to grants. These policies are reminiscent of the earlier development decades and reflect a failure of these earlier periods to meet the demands of the LDCs by the EDCs.

This decade also witnessed a substantial increase in the debt ratios of many developing states. The consequences of this problem for the developing countries and agencies is important. With the growth of debt to levels that could not be sustained by many of the LDCs, the IMF and the World Bank became heavily involved in debt restructuring and balance of payments loans. Increasing amounts of potential development resources were used to meet balance-of-payment deadlines.
As a result of this crisis, the IMF became heavily involved in the economies of several LDCs. Before the IMF would support balance-of-payment loans, the agency would request some guarantees from the borrowing state of restructuring its economy. Part of the austerity programs included raising exports to assist in paying down the debt. Unsustainable export earning strategies were often the result of this practice. These strategies were unsustainable because they usually entailed some form of extractive industry whose output was increased beyond the ability to naturally regenerate in the case of agricultural, forestry, or fisheries products, or at levels that would deplete the resource reserves for future generations in the case of mineral exports (Thomas and Belt, 1998, pp. 429-436).

Though the debt problem hampered economic development and slowed or decreased economic growth rates in many LDCs, the 1980s witnessed several positive outcomes. First, by the end of the decade the debt situation was so critical that it precipitated a major debt rescheduling by financial institutions of the North and the restructuring of LDC economies. This helped pave the way for a more positive and less conflictual 1990s (Spero and Hart, 1997).

However on a different front, in 1983 the UN established the previously mentioned World Commission on Environment and Development. This commission was chaired by Gro Brundtland and its findings consequently became known as the “Brundtland report.” This commission was given the task of examining issues of the environment and development, and then proposing recommendations for alleviating these problems. The commission published its findings in 1987. This report is considered the
first formal description of sustainable development (Reid, 1995). This new approach combined the idea of environmental protection with economic development.

The Brundtland report seemed to signal a more unified outlook on economic development for the 1990s. Following tradition, the General Assembly declared the Fourth Development Decade in 1990. This decade called for many of the features that were in the Brundtland report (Riggs and Plano, 1994, p. 282). There was also the newfound consensus among countries of the North and South on certain economic systems that encouraged development such as a free market (Governance, 1995). “If we were to characterize the past decade, the most remarkable thing was the generation of a global consensus that market forces and economic efficiency were the best way to achieve the kind of growth which is the best antidote to poverty” (Conable in Frieden and Lake, 1995, p. 434). This “Washington consensus” was given a bust by the collapse of the Soviet Union and the “victory” of the free market model. Whether or not the LDCs were agreeing to this out of conviction or merely because this stance was required to receive aid, especially after the debt crisis of the 1980s, is another question beyond the scope of this project.

Unfortunately for all the actors involved in economic development, the end of the Cold War and the increasing agreement on approaches to development have not resulted in increased levels of official aid. In fact, the levels of Official Development Aid are at their lowest point since levels were reported (Governance, 1995, p. 190). This is partially a result of donor fatigue and tight fiscal policies in the traditional donor countries. On the bright side, private capital flows have increased dramatically.
Still, while the 1990s did not produce an overwhelming number of success stories, with the momentum of the Brundtland report, the UN had a major success in the United Nations Conference on Environment and Development in 1992. Though many of the issues undertaken in this conference were environmental in nature, they are also closely tied to economic development. Thus, new life was breathed into development efforts. This conference resulted in the codification of many of the principles outlined by the Brundtland report and established the Commission on Sustainable Development, a permanent commission to continue research and monitoring in this area. Sustainable Development Networks were also devised at the Rio conference. These are information networks whose creation is assisted by the United Nations. They are intended to increase communications within and between developing countries concerning issues of sustainable economic development. Evaluation of these networks is difficult at this early stage but by 1993 there were 25 countries with pilot programs functioning (SDNP brochure). This context of what was happening in the broader UN system undoubtedly had indirect effects on the Bank's policies, just as it has in earlier periods. It should be apparent that this changing global environment does not explain the Bank's shift in the 1990s, however. As noted, the United Nations Conference on the Human Environment was in 1972 and the Brundtland Commission in 1982 but the shift we are looking at is 20 and 10 years later, respectively.

6.3 Dependent variable

Since this chapter aims to look at effects on the growth of sustainable development lending, the time horizon dates from the previous shift (1983, the introduction of structural adjustment lending) to 1994 when sustainable development
became an accepted practice of the institution as defined by my 10% threshold of lending. Again, the break point for when a new development strategy becomes an accepted policy of the Bank is when it represents 10% or more of the institution’s lending. Sustainable development reached this level in 1994 when slightly more than 10% of the Bank’s loans were focused on this relatively new area. Tables 6.1 and 6.2 show the lending in millions of dollars and by percentage of total lending, respectively; Figures 6.1 and 6.2 graphically display this information. The change to sustainable development represents the last phase of change being examined in this dissertation. Nineteen ninety-four was also the last year Lewis Preston served as president before he died. Thus there is also a solid break in the leadership, with James Wolfensohn taking over as president in the latter half of the 1990s.

As has been apparent in previous chapters, the change to sustainable development did not occur overnight. Tables 5.1 and 5.2 showed that instead there was a slow growth in lending in this area that commenced in 1975. Though environmental loans in the 1970s were not an annual occurrence, nor did they represent a substantial portion of the Bank’s loans, they did nonetheless take place. For those involved in the debate about what, if any, environmental lending the Bank engaged in (Adams, 1992; Rich, 1994), this is of importance. It illustrates that the Bank was thinking and acting, albeit hesitantly, in the environmental realm for several decades. The predominantly polemical literature concerning the Bank and the environment typically begin the time periods of their analysis in the mid-to late 1980s. That an empirical approach uncovers this early lending demonstrates the utility of moving beyond anecdotal methods.
### Table 6.1: World Bank lending by priority in millions of dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>Reconstruction</th>
<th>Infrastructure</th>
<th>Human Needs</th>
<th>SAL</th>
<th>Sustainable Dev</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>40</td>
<td>6838.1</td>
<td>1812.65</td>
<td>2204.55</td>
<td>0</td>
<td>10895.3</td>
</tr>
<tr>
<td>1985</td>
<td>0</td>
<td>7561.7</td>
<td>2178.65</td>
<td>1549.95</td>
<td>11.3</td>
<td>11301.6</td>
</tr>
<tr>
<td>1986</td>
<td>456</td>
<td>7065.15</td>
<td>2412.35</td>
<td>3111.6</td>
<td>81.7</td>
<td>13128.8</td>
</tr>
<tr>
<td>1987</td>
<td>80</td>
<td>6204.1</td>
<td>1592.45</td>
<td>3808.25</td>
<td>368.5</td>
<td>12035.3</td>
</tr>
<tr>
<td>1988</td>
<td>207.5</td>
<td>6271.1</td>
<td>1783.4</td>
<td>6310.9</td>
<td>148.9</td>
<td>14701.8</td>
</tr>
<tr>
<td>1989</td>
<td>30</td>
<td>6708.35</td>
<td>1533.8</td>
<td>7531</td>
<td>600.25</td>
<td>16403.4</td>
</tr>
<tr>
<td>1990</td>
<td>0</td>
<td>6135.4</td>
<td>2252.4</td>
<td>6189</td>
<td>602.9</td>
<td>15179.7</td>
</tr>
<tr>
<td>1991</td>
<td>290</td>
<td>6138.7</td>
<td>3551.9</td>
<td>5926.7</td>
<td>484.9</td>
<td>16392.2</td>
</tr>
<tr>
<td>1992</td>
<td>0</td>
<td>7314.4</td>
<td>2647.2</td>
<td>4404.4</td>
<td>790</td>
<td>15156</td>
</tr>
<tr>
<td>1993</td>
<td>672.1</td>
<td>7028</td>
<td>2673.6</td>
<td>5240.8</td>
<td>1302</td>
<td>16914.5</td>
</tr>
<tr>
<td>1994</td>
<td>128</td>
<td>6820.8</td>
<td>3634.9</td>
<td>2274.2</td>
<td>1417</td>
<td>14274.9</td>
</tr>
</tbody>
</table>

### Table 6.2: World Bank lending by as a percentage of total

<table>
<thead>
<tr>
<th>Year</th>
<th>Reconstruction</th>
<th>Infrastructure</th>
<th>Human Needs</th>
<th>SAL</th>
<th>Sustainable Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>0</td>
<td>64.3</td>
<td>23.2</td>
<td>11.8</td>
<td>0.7</td>
</tr>
<tr>
<td>1984</td>
<td>0.37</td>
<td>62.76</td>
<td>16.64</td>
<td>20.23</td>
<td>0.00</td>
</tr>
<tr>
<td>1985</td>
<td>0.00</td>
<td>66.91</td>
<td>19.28</td>
<td>13.71</td>
<td>0.10</td>
</tr>
<tr>
<td>1986</td>
<td>3.47</td>
<td>53.82</td>
<td>18.38</td>
<td>23.70</td>
<td>0.62</td>
</tr>
<tr>
<td>1987</td>
<td>0.66</td>
<td>51.47</td>
<td>13.21</td>
<td>31.60</td>
<td>3.06</td>
</tr>
<tr>
<td>1988</td>
<td>1.41</td>
<td>42.66</td>
<td>11.99</td>
<td>42.93</td>
<td>1.01</td>
</tr>
<tr>
<td>1989</td>
<td>0.18</td>
<td>40.90</td>
<td>9.35</td>
<td>45.91</td>
<td>3.66</td>
</tr>
<tr>
<td>1990</td>
<td>0.00</td>
<td>40.42</td>
<td>14.84</td>
<td>40.77</td>
<td>3.97</td>
</tr>
<tr>
<td>1991</td>
<td>1.77</td>
<td>37.45</td>
<td>21.67</td>
<td>36.16</td>
<td>2.96</td>
</tr>
<tr>
<td>1992</td>
<td>0.00</td>
<td>48.26</td>
<td>17.47</td>
<td>29.06</td>
<td>5.21</td>
</tr>
<tr>
<td>1993</td>
<td>3.97</td>
<td>41.54</td>
<td>15.81</td>
<td>30.98</td>
<td>7.70</td>
</tr>
<tr>
<td>1994</td>
<td>0.90</td>
<td>47.78</td>
<td>25.46</td>
<td>15.93</td>
<td>9.93</td>
</tr>
</tbody>
</table>
Figure 6.1: World Bank lending by priority in millions of dollars
Figure 6.2: World Bank lending by priority as a percentage of total
Building from the shift to SAL documented in the previous chapter, another feature of the dependent variable shown in Tables 6.1 and 6.2 is the dramatic increase in structural adjustment lending from 1986 to 1990. This closely corresponds with the Conable presidency. Human needs lending declined slightly in this period, though most of the losses in this area occurred in the early 1980s. The big loser in the growth of sustainable development and SAL was infrastructure lending. In fact, infrastructure lending maintains its dominant position in the Bank's lending practices, but is at its lowest levels since the Bank first became involved in lending to LDCs. In 1991, SAL almost surpasses infrastructure as the dominant strategy.

Finally, another category reappears at a fairly constant rate is lending for reconstruction. Some of these loans are to aid in post war reconstruction, similar to the original mandate of the Bank back in the 1940s. These are loans to areas like Lebanon, Bosnia and Cambodia. Other loans in this category however represent a new means for justifying reconstruction loans: natural disasters. Most of the reconstruction loans in this time period have been granted to help rebuild after natural disasters. Though the reason for reconstruction may have changed they are still the broad-based loans with few strings attached that are meant to rebuild entire economies/cities after natural or man-made disasters.

To further understand the changes in the lending of the Bank during this time period the same variables as in previous chapters will be explored. Change to accepting sustainable development practices will be the primary focus in this chapter. The rest of the chapter will explore each of the proposed independent variables and evaluate their causal power in bringing about this change.
6.4 Independent variables

Below in Table 6.3 is a review of each of the variables, their expectations and the patterns found in this particular chapter (recall that each variable is fully defined and its derivation described in Chapters 1 and 2).

<table>
<thead>
<tr>
<th>Variable</th>
<th>Expectation</th>
<th>Empirical Patterns of Ind. Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power in Institution</td>
<td>Change in distribution of power within the institution</td>
<td>Decline in overall US power, but remains the strongest state</td>
</tr>
<tr>
<td>Preferences of Most Powerful State</td>
<td>Preferences of the US in terms of expectations on the Bank change</td>
<td>Promoting two policies until 1989</td>
</tr>
<tr>
<td>Leader changes</td>
<td>New leader brings in new ideas and changes organizational lending</td>
<td>Three leaders during this period, all serving one term. None stand out as a dominant leader as in previous periods</td>
</tr>
<tr>
<td>Leader changes problem representation</td>
<td>Leader changes preferences towards Bank lending during tenure</td>
<td>With exception of one year, successive leaders’ PRs emphasize sustainable development more</td>
</tr>
<tr>
<td>Organizational structure</td>
<td>Changes in organization affect changes in lending practices</td>
<td>Numerous changes in structure, members, and policies</td>
</tr>
</tbody>
</table>

Table 6.3: Summary of hypotheses and empirical findings, 1983-1994

6.4.1 Power

*Hypothesis 1: When there is a change in the distribution of power within the Bank, then the institution will change to reflect this new distribution.*

Since the Bank functions on a weighted voting system, a change in the distribution of power within the institution can signal a change in its policies.
particular interest is change in the leading power, the US. Table 6.4 charts the
distribution of power within the World Bank during this period; Figure 6.3 shows this
graphically. Power is measured by the percentage of votes each state has within the
organization. This is loosely based on the percentage of contributions each state makes
to fund the organization.

<table>
<thead>
<tr>
<th>Year</th>
<th>France</th>
<th>Germany</th>
<th>Japan</th>
<th>UK</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>4.55</td>
<td>6.61</td>
<td>6.58</td>
<td>5.05</td>
<td>19.73</td>
</tr>
<tr>
<td>1984</td>
<td>5.03</td>
<td>5.97</td>
<td>5.94</td>
<td>6.15</td>
<td>19.20</td>
</tr>
<tr>
<td>1985</td>
<td>5.51</td>
<td>5.52</td>
<td>6.56</td>
<td>5.69</td>
<td>19.70</td>
</tr>
<tr>
<td>1986</td>
<td>5.30</td>
<td>4.97</td>
<td>5.90</td>
<td>5.63</td>
<td>19.88</td>
</tr>
<tr>
<td>1987</td>
<td>5.27</td>
<td>5.49</td>
<td>5.52</td>
<td>5.27</td>
<td>19.42</td>
</tr>
<tr>
<td>1988</td>
<td>4.93</td>
<td>5.14</td>
<td>6.65</td>
<td>4.93</td>
<td>18.72</td>
</tr>
<tr>
<td>1989</td>
<td>4.76</td>
<td>7.29</td>
<td>9.43</td>
<td>6.99</td>
<td>16.33</td>
</tr>
<tr>
<td>1990</td>
<td>5.15</td>
<td>6.75</td>
<td>8.74</td>
<td>6.47</td>
<td>15.12</td>
</tr>
<tr>
<td>1991</td>
<td>5.84</td>
<td>6.09</td>
<td>7.89</td>
<td>5.84</td>
<td>17.32</td>
</tr>
<tr>
<td>1992</td>
<td>5.35</td>
<td>5.58</td>
<td>7.22</td>
<td>5.35</td>
<td>17.37</td>
</tr>
<tr>
<td>1993</td>
<td>4.92</td>
<td>5.13</td>
<td>6.64</td>
<td>4.92</td>
<td>17.18</td>
</tr>
<tr>
<td>1994</td>
<td>4.79</td>
<td>5.00</td>
<td>6.47</td>
<td>4.79</td>
<td>17.14</td>
</tr>
</tbody>
</table>

Table 6.4: Voting power as a percentage of total

As in previous chapters the US retains the dominant voting position throughout
this period. However, there is a constant decline in its overall percentage of the vote.
Again, this reflects activity in previous time periods. The US may have lost power on
individual loans, which require a simple majority, but has retained its veto power on
substantive issues, i.e. new members and any change in the distribution of voting power.
It has managed to do this by constantly changing the required to pass a substantive issue.
In 1989, the percentage needed was changed to 85% so the US always retains veto power
Figure 6.3: Voting power as a percentage of total
in this important area. Additionally, the loss in US power is generally matched by losses in voting power by the other leading states within the organization. Generally, this is a reflection of an overall diffusion of voting power within the Bank. As new members enter the institution, they are required to have at least some voting power. This voting power should loosely reflect their economic power in the world economy. During this period membership in the institution grew from 146 states to 177. What is different about many of these new members relative to previous periods is that many were from Eastern Europe and the former Soviet Republics. Consequently, they were relatively large economies compared to many of the LDCs which became members in the 1960s and the micro-states that joined in the 1970s and 1980s. This accounts for much of the decline in the voting power of the US and the other leading states.

To check the statistical relationship, a regression model was estimated in first differences. The dependent variable in the equation is the percentage lending to sustainable development; the independent variable was US voting power as a percentage of total voting power (see Figure 6.4). The adjusted $R^2$ is .01, and not significant at .318, which is not a good fit at all. Compared to the qualitative evidence discussed below, this lack of relationship is puzzling.

Since there is a decline in US power, there may be a new constellation of states that are promoting sustainable development. This partially supports the hypothesis that anticipates a complete change in who is the leading power prior to a change in lending. However, there is a general decline in US power and a subsequent shift in the lending practices of the Bank. Given this relationship, the results of this hypothesis are mixed.
Figure 6.4: Influence of US voting power on sustainable development

Regression Statistics

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>0.316</td>
</tr>
<tr>
<td>R Square</td>
<td>0.1</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.01</td>
</tr>
<tr>
<td>Beta</td>
<td>-0.316</td>
</tr>
<tr>
<td>Standard Error</td>
<td>1.599</td>
</tr>
<tr>
<td>Observations</td>
<td>12</td>
</tr>
<tr>
<td>Significance</td>
<td>0.318</td>
</tr>
</tbody>
</table>
The expectation is that as US power declines, there will be a change in the organization. Empirically, we find a change in the organization and a decline in US power. However, the US still remains the strongest, dominant state in the organization. So the question arises: For this hypothesis to be valid, does the US have to fall out of the position of most powerful, or do the minor, relative shifts in power seen in this case predict to change? If we expect the miniscule changes in power that result in a diffusion of power in the Bank to be the kind of change to predict to a lending shift, then this diffusion does occur. But the US does not lose its position of dominance. In order to make sense of these relationships, it is necessary to look more closely at US preferences, discussed in the next section.

Another factor to explore in this variable is the change in the voting power of all five leading states. Each of these states has a unique position within the Bank since they are the only states with their own executive directors. All of the other states in the organization are lumped into groups and vote as a group; there are 19 other executive directors representing and voting for the other 172 states. Each of these executive directors votes all the shares of their groups' members.\(^1\) Consequently, this dissertation focuses on the five leading powers since they have a unique position and are not aggregating their voting power or preferences. A multiple regression estimated in first differences (dv= percentage lending to sustainable development; ivs=percentage of total voting power for each state) shows that the model is a very poor fit (see Table 6.5). None

\(^1\) For instance in 1994 one group is currently represented by an Australian executive director and includes the states of Australia, Kiribati, The Republic of Korea, Marshall Islands, Mongolia, New Zealand, Papua New Guinea, Solomon Islands, Vanuatu, and Western Samoa. Combined they have a voting power of 3.05%.
of the changes in any of the states' voting power correlates well with changes in lending to sustainable development.

<table>
<thead>
<tr>
<th></th>
<th>Beta</th>
<th>Sustainable Development</th>
<th>Sig. (1-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>-.361</td>
<td>-.221</td>
<td>.245</td>
</tr>
<tr>
<td>Germany</td>
<td>.782</td>
<td>-.001</td>
<td>.499</td>
</tr>
<tr>
<td>Japan</td>
<td>-1.450</td>
<td>.100</td>
<td>.379</td>
</tr>
<tr>
<td>UK</td>
<td>.080</td>
<td>-.007</td>
<td>.491</td>
</tr>
<tr>
<td>US</td>
<td>-.514</td>
<td>-.316</td>
<td>.159</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td></td>
<td>-.362</td>
<td>.75</td>
</tr>
</tbody>
</table>

Table 6.5: Effects of voting power on lending

6.4.2 Preferences

Hypothesis 2: When the preferences of the most powerful state change, then the lending practices of the Bank will change.

As the most powerful state within the World Bank, the preferences of the US will be the focus of this section. This is also in agreement with much of the popular literature and beliefs about the Bank that have proliferated around the recent protests; that it is an institution run by the US. Constructing the preferences of the US over this time period is essential in evaluating their influence on the change to sustainable development. Preferences are an inherently difficult concept to delineate at any point in time, let alone trace over time. However, this is vital to understanding how the US is exercising its power in the institution. As noted in previous chapters, there are several issues which contribute to the difficulty of constructing the preferences of the US. First is the structure of the US government itself. Treasury has been designated as the agency that will lead
US policy in the IBRD and other MDBs (multilateral development banks). Such a decentralized government authority has many avenues through which it can influence the Bank. However, as is typical of other foreign policy areas, over time other members of government like Congress become involved in attempting to set US policy. A second problem is that the best source of information to construct the preferences of the US towards the Bank are the records of the US executive director. Unfortunately, this is where the Bank becomes an extremely opaque institution. Throughout the 1990s the Bank has been under tremendous pressure to open up its archives, many of which have been opened to the public in the last few years in an attempt to express greater transparency. However, all the records of the executive directors are sealed to the outside. Justification for this policy is that the Bank functions as a single entity and all decisions are to be seen by the outside world as unanimous. Additionally, it was the belief that opening up these records would both politicize the decision-making process and make states hesitant to divulge their economic information for fear that it may scare away other possible investors. Both of these situations make US preference creation towards the Bank difficult.

Despite these caveats, it is still critical to try to construct these preferences. As detailed above, this dissertation uses the documents of the National Advisory Council (NAC) to trace US preferences. The NAC was created after WWII with the urging of Congress as a concession for voting for the creation of the Bretton Woods institutions.

2 While researching at the Bank archives I was assured that the institution was going to open the executive directors archives. The new policy would only cover the first 20 years of the Bank but would start the process of greater transparency. Unfortunately, I was informed of this decision over a year ago and so far there has not been any progress to achieving this new policy of openness.
They provide an annual report on US activities regarding MDBs. Much of this report summarizes the MDBs yearly activities, but it also contains US policies towards the Banks and is consequently used as a guide to US preferences.¹

This time period is an interesting one for US preferences because there were often two strands of preferences being pushed: SAL and sustainable development. The first US action to push the environment and sustainable development occurred in 1983.⁴ Pressure came first from US environmental groups which convinced the House Subcommittee on International Development Institutions and Finance to conduct an investigation into the environmental impact of policies of multilateral development banks (Rich, 1994). The hearings produced numerous complaints about multilateral banks' policies that were ultimately forwarded to the Banks. The Banks responded in 1984 with over 1,000 single spaced pages defending their operations (Congress, 1985). Nineteen Eighty-four also witnessed a lack of environmental concern on the part of the US towards the Bank. Instead, the US focus was on decreasing US aid commitments and on SAL. The US wanted the Bank to push recipient states toward privatization and toward private sector loans for aid. Indeed, the US voted against one loan because it lacked "adequate conditionality" commitments by the recipient that would have promoted greater responsiveness to "market signals." The other feature of US policy was that they wanted to limit contributions to the Bank for fiscal reasons (Policies, 1984, pp. 15-16).

By 1985, the US was pushing the Baker plan and wanted the Bank to be an important player in assisting LDCs pay down their debt (Gwin, 1994 pp. 42-43). This policy is clearly in support of increased SAL loans by the Bank, and in fact the following

¹ Each MDB receives its own section within the report so there is not a conflation of preferences.
year there is an increase in structural adjustment loans by the IBRD. However, this does not answer the question of sustainable development. Public Law 99-190, was passed in 1985 by the US Congress, included several environmental recommendations that came out of the previous year’s Congressional hearings. Several of these environmental recommendations called for the US executive director to vote against a loan proposal if it did not fulfill these policies. This law called for the:

- Treasury Department to monitor environmental aspects of Bank activities,
- to facilitate constructive US involvement in assuring that sound environmental policies are implemented by multilateral agencies supported the US, and to expedite the flow of information between the Banks and the US Congress, other relevant federal agencies and the public regarding environmental considerations (Gwin, 1994 p. 50).

There was little direct change in Bank policies after the passage of this law, however. Consequently, a group of NGOs with the support of Senator Robert Kasten focused on what was known as the Polonoroeste project in Brazil. After complaining about the negative environmental consequences of the project and not receiving a satisfactory response, Senator Kasten addressed his concerns directly to the Bank President and Donald Regan, US Treasury Secretary (Gwin, 1994, pp. 50-51). The outcome of this was a cancellation of the project.

Other examples show the efforts of the US to exert pressure on loans. For example, the following year the US executive director openly criticized the Bank’s executive directors for considering a Brazilian hydroelectric project on the grounds that it

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4 The pressure on the US government to promote the environment is partially based on (Rich, 1994).
5 This was a large scale highway and rural development project in the Amazon. Concerns ranged from deforestation, soil erosion, and water degradation to forced resettlement and “induced development” on the indigenous population (Redwood, 1993,p. vii).
was environmentally damaging and injurious to the local people. The US director voted against the project, but the rest of the board approved it and the monies were lent.

The next major action took place in 1989 when the US pushed the Brady plan as a means of reducing LDC debt. Again, like the Baker plan the Bank was expected to be an active participant. The other policy pushed by the US came out of Congress. P.L. 101-240 called for the US executive director to influence the Bank to accept the requirement of environmental impact statements. These should help the Bank adopt procedures “for systematic environmental assessment of development projects...taking into consideration the guidelines and principles for Environmental Impact Assessment promulgated by the United Nations Environment Program” (Congress in Gwin, 1994, p. 51). The US followed this up with even stronger pressure by tying the ninth IDA replenishment (in 1990) to some specific environmental changes within the Bank. “Those areas, which were emphasized by the United States in negotiating the terms of the agreement, have included environmental impact assessment, environmental action plans, energy efficiency and conservation and tropical forestry” (Policies, 1990, p. 145). Additionally, the US executive director pushed for a review of the Bank’s forestry policy. This resulted in a “new policy approach that places greater emphasis on conservation of forest areas and the strengthening of institutions within borrowing countries that can help protect these resources” (Policies, 1990, p. 145). Treasury and other US government agencies took some of these environmental issues outside the Bank by financing seminars and working with the World Resources Institute to promote these ideas to the public.

John Niehaus, a senior member of Treasury addressed the Bank in May 1990 with the following:
Let me begin by summarizing the position of the United States on the broader issue of environmental reform with the World Bank and the regional development banks. Our view has been that the banks should assist borrowing member countries in addressing the full range of environmental problems that have arisen in recent years. Accordingly, we have urged the banks to take a series of very specific steps to:

- establish environmental line units;
- hire more environmentally-qualified staff;
- mitigate or eliminate the environmentally-adverse effects of lending; and
- begin to lend for environmentally-beneficial purposes (Policies, 1990, p. 149).

This was followed by a presentation in September by the Secretary of the Treasury who again brought up environmental issues. “We would like to see the Bank play a much more active role in developing new programs to help provide greater protection for tropical forests...Energy efficiency and conservation programs should have higher priority in the Bank in the year ahead” (Policies, 1990, pp. 151-152). Unfortunately, all these statements failed to convince other members to put these items on the agenda for the Bank’s spring meetings.

It is interesting to note that though the US was not completely successful in pushing the Bank towards sustainable development, many of its proposals were adopted within a year of US pressure. Additionally, Bank lending does begin a steady rise starting in 1989 when the US really started to apply concerted pressure on the Bank. The results were not dramatic and immediate, but some time lag is to be anticipated.

Nineteen eighty-nine is an important year because this is when the US started to strongly express an environmental interest and this policy was emanating from the Treasury Department, not just Congress. This may have been a key factor differentiating the effect of this variable on this versus earlier lending shifts, because Treasury is the official director of all US/Bank interactions.
In terms of this analysis, the connections between US behavior (pressure) and Bank policies appear to show the validity of the hypothesis. In fact, of all the cases of change, this one highlights the leading role of US preferences in pushing the Bank in a new direction. There was resistance from the Bank, but the US applied continuous and increasingly more specific pressure for change to sustainable development. One notable result is the probable impact on leadership problem representations. As will be shown in the next section, for the two years 1985 and 1989, where US pressure became intense, the problem representations of the leaders changed significantly to support sustainable development. Regardless, one might question the conclusion of the veracity of this hypothesis due to the amount of time it took for the US to help influence Bank lending. The campaign for change commenced in 1983 and real change was not seen until the 1990s, with lending rising above 10% only in 1994. There are at least three explanations for this delay, however.

A possible explanation for this lack of immediate response is the diffusion of US intentions and interests towards the World Bank. Though created to help explain US government actions, Graham Allison's "organizational process" model may provide insights into this lack of responsiveness to the institutionally strongest member of the organization. This model views government outputs not as the result of a unitary decision making process, but instead as "outputs of large organizations functioning according to standard patterns of behavior." In such cases "government leaders can substantially disturb, but not substantially control, the behavior of these organizations" (Allison, 1971, Chapter 3). This model can be applied to both the US government's
policy towards the World Bank and the Bank's response to these pressures\(^6\). In the late 1980s, there were at least five different congressional subcommittees holding hearings on the World Bank. These hearings covered a wide range of topics from environmental policies to poverty alleviation to how the US profits from the Bank's activities. Additionally, the Office of Management and Budget has often undertaken analysis of Bank spending and salaries. The State Department has also become involved in the US policy process towards the organization when they believe it runs contrary to general US foreign policy interests (Gwin, 1994, pp. 38-39). Thus this plethora of "voices" from the US makes it difficult to focus on one preference.

During this period there was also US pressure on the Bank to become increasingly involved in adjustment lending and resolving the debt crisis. This is reflected in the increase lending levels of the Bank to SAL starting in 1986, a year after the introduction of the Baker plan. Thus, the US preferences were not ignored, but the Bank acted on a different set of preferences than sustainable development. It is not until there is a concerted action by the US government in the late 1980s for environmental considerations that this becomes policy within the Bank.

A second explanation for the lackadaisical response by the Bank to US pressure is that other members of the institution did not believe in these changes. In particular, the vocal opposition was the LDCs, especially some of the larger ones like India and Brazil. They feared that environmental policies would be a major infringement on their sovereignty, a stance they had been holding since the 1972 United Nations Conference on

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\(^6\) The World Bank is a vast organization with some 7,000 employees currently spread around Washington and the world. There have been some well-documented cases where staff members have created their own policies in the field, even conveniently ignoring directives from the home office.
the Human Environment (Wade, 1997, pp. 672-673). Furthermore, environmental impact statements were also seen as just another hoop that LDCs had to jump through in order to qualify for a loan. In a sense, US pressure was diffused by minor resistance that only delayed yet did not squelch the realization of US priorities.

The last explanation for this delay in adopting sustainable development practices is related to the nature of this type of lending. Unlike other changes explored in previous chapters, sustainable development lending entails more than just lending to a particular type of project. This will be further explicated in the section on organizational structure, however a brief overview is appropriate here. Sustainable development as conceived in this research project is concerned primarily with the environment. This does not mean that economic growth and development that may lead to economic growth are considered antithetical to sustainable development. In fact quite the contrary, the Brundtland commission recognized the importance of maintaining economic growth in the LDCs. Part of sustainable development is a recognition, evaluation, and consideration of the environmental impact of any particular project. Thus sustainable development is not opposed to road projects, just that there environmental impact should be considered first. If there is a high environmental impact, then either the project should be cancelled or altered to lessen this impact. Consequently, sustainable development lending is not only measured by the amount of loans promoting the environment, but also on the quality of loans in meeting environmental goals. This makes this type of lending uniquely different from the other changes in Bank lending. Ultimately, then the Bank may have been
changing to meet the US change in preferences, but it is not picked up in lending levels, but in criteria for lending. As stated, this will be explored in the organizational structure section.

An important feature to point out is that the strength of this hypothesis seems to weaken the previous hypothesis focused on state power. The results identified a fairly strong relationship between a decline in US power and a shift to sustainable development. However, during this period of the lowest US power, this is also the same time that the US plays the strongest role in any of these periods of change in altering the lending mix of the institution. Previously, the US was silent on its preferences of developmental strategies, or it played more of a supportive role after transitions to new strategies had already taken place. Only in this instance is the US leading the World Bank into new territory and this while its power is declining to their lowest levels.

In conclusion, the US expressed two sets of preferences during this period, SAL and sustainable development. It was not until the pressure for sustainable development left Congress and became part of the Treasury Departments policies that the Bank responded. Ultimately, the US had influence on the Bank but it was delayed until it focused its attention. Theoretical approaches that argue the importance of powerful state’s preferences undertheorize the linkages revealed in this empirical analysis. When we really dig in to the evidence, it becomes apparent that this variable cannot help us understand the timing of change unless organizational issues are considered as well. In sum, this hypothesis is valid by underspecified. The next section will examine the role of leadership in this process of change.
6.4.3 Leadership

This variable assumes that leaders play an important role in policy formation and directing the institution. In particular, there are two different ways in which leadership can be an agent of change. First, if there is a change in who actually is the leader of the institution, this can result in new policies being implemented that reflect the new individual's vision of the organization. Second, change can occur if a leader changes his problem representation of the situation and implements a commensurate change in the institution. Each of these options will be investigated below to better evaluate their potential causal power in shifting the Bank towards sustainable development lending. Additionally, the interaction of these two leadership variables will also be explored, since a full understanding of the ramifications of a change in leadership requires an understanding of the leader's problem representation. Finally, as has been stated in previous chapters, "leadership" here means the president of the World Bank.

Change in the president

Hypothesis 3: When there is a change in the president of the Bank, then there will be a change in the lending practices (consistent with the leader's prior experiences).

Unlike the previous two periods, in this final episode there is not a dominant leader of the Bank that defined his position and that of the institution. In the 1950s and early 1960s the Bank was led by Eugene Black and to this day he is considered the purveyor of LDC development with an emphasis on infrastructure. The late 1960s to 1980 are considered the "McNamara era" and are defined by a transition to human needs
A similarity of Black and McNamara was their long years of service as presidents of the institution, each serving roughly thirteen years. This current episode of change is not so marked by a single leader. In fact there are three different presidents, each serving the minimum five-year term. The Bank had not witnessed such high levels of leadership transition since its first few years of operations. Those leaders spanning the final episode are Alden Clausen, Barber Conable, and Lewis Preston. The backgrounds of these leaders and their priorities for the Bank are summarized briefly to see if the leadership changes preceded changes in Bank mission.

**Alden Clausen**

As discussed in the previous chapter Clausen was similar to past presidents of the Bank in that he came from a banking background. In working up through BankAmerica he had been responsible for growing their overseas business, in particular in LDCs. This certainly gave him experience with the types of markets he would be handling at the Bank. Unlike his predecessors he did not have any government or World Bank experience; he was completely a private industry person (Kraske, 1996, pp. 213-221).

His selection as president of the Bank occurred under the Carter administration, but as stated in Chapter five, with the forethought of picking someone that would be acceptable to the incoming Reagan administration.

His background in the private sector fostered a solid belief in the importance of private ownership. He “saw a clear link between efficiency and ownership and believed

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7 Even though it has previously been shown that change to human needs lending was already occurring and that human needs lending never represented the dominant strategy of the World Bank. Still he is considered both by the academic community and those still in the Bank when he served, to be the individual that placed the stamp of human needs lending on the Bank.
that improved performance demanded that preference be given to the private sector” (Kraske, 1996, p. 223). In 1982 he discussed his knowledge of and commitment to the private sector saying that he knew it “worked.” He went on to state that the best way to deal with insufficient resources is to allow the operation of the private sector, with its market signals and price incentives, and since LDCs had by definition a scarcity of resources this was the best strategy for them. This also included raising the level of exports to pay down the debt (Clausen at The Brookings Institute, 1982 in Kraske, 1996, pp. 223-224).

Clausen was a clear proponent of the free market, but one area where he waffled on this belief was the energy sector. Since oil prices had increased so dramatically in the previous decade he believed that increased energy production, especially at the local level, was vital for LDCs. In his haste to assist in this area he dropped his concern for private ownership and promoted whomever (the state or the private sector) was willing to increase production in LDCs. This brought him into direct conflict with the Reagan administration who believed in the long term US policy of increasing global energy supplies, but firmly believed this was only in the realm of the private sector (Kraske, 1996, pp. 226-227).

All of the above point to an individual whose experiences are in compliance with the philosophy behind structural adjustment lending. There is nothing in Clausen’s background or events during his years in office that even vaguely resemble an interest in the sustainable development or the environment. He was deeply set in his belief in the free market, and was obviously consumed with the debt crisis of the 1980s. On the other hand, he did believe that the Bank played an important role in resolving the debt crisis.
Unfortunately, during his tenure his ideas about debt relief were strongly opposed by the Reagan administration. In fact, his last budget was rejected by the Board of Directors as being too large and not addressing the perceived bloated bureaucracy of the Bank. He saw little hope of being reelected by the US or the Directors so left the institution at the end of his five years. As Table 6.2 shows the lending for sustainable development during his tenure is between 0-.62%. He clearly did not have an influence on the organization's adaptation of sustainable development practices which began in these years.

**Barber Conable**

Conable replaced Clausen in the summer of 1986 after heavy persuasion from James Baker for Conable to come out of retirement and lead the organization. His previous service had been as a Republican member of Congress from New York. Conable was a compromise candidate, the only one that people could agree on; in fact he felt unprepared and claimed that he knew little about the Bank (Conable, 1991). There was a fear that if the US did not produce a candidate that the Europeans would produce their own. Conable was asked by Secretary of Treasury James Baker if Baker could use his name merely representing the “type” of candidate they would like to put in the position. Ultimately this turned out to be his position (Kapur, Lewis and Webb, 1997, pp. 1198-1199). He was the first career politician to serve as president, and also the first to not have Wall Street or major corporate experience. In fact he was not even experienced in running a large organization and stated that the largest organization he had ever led was his own Congressional staff (Kraske, 1996, pp. 249-250).

He was a believer in McNamara’s Bank and its fight against poverty. Consequently, he was not enchanted with the turn towards structural adjustment lending.
Unfortunately, he had a difficult time getting his first budget past the major shareholders, in particular the US, who complained about inefficiencies in the Bank and a bloated bureaucracy. This led Conable to hire a consulting firm to analyze the policies and practices of the Bank. The reorganization that resulted slimmed down the Bank: 400 employees were laid off, and there was an effort to create a more decentralized organizational structure. Unfortunately, the way this was handled greatly disrupted the operations of the Bank and was a shock to the culture of loyalty and job security. In effect all employees were laid off and had to re-apply for their jobs or other positions within the organization. This bad feelings among the staff that this process caused are still evident today within the Bank.  

From the stand point of this analysis, a significant aspect concerning Conable’s past was his political background in the US. He was accustomed to listening to constituents and at least considering their opinions. By the mid-1980s, the Bank was under increasing pressure from groups who opposed SAL because of the negative consequences on the poor and because of the institution’s perceived dismal environmental record (Kraske, 1996, pp. 266-267). Of all the previous Bank presidents, Conable was probably the most willing to hear these voices of discontent and to at least consider acting to assuage them. Referring to these environmental pressures he even stated that “we will be under continuing and growing pressure from shareholders and

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8 During my interviews at the World Bank, numerous staff members made reference to the 1987 reorganization and the troubles and tension it caused. Many of these comments were made when discussing unrelated matters, a fact that highlights the extent to which the resentment still resides. Employees of the Bank often express a desire to work for the Bank because they believe in the organization and its mission. Some of this belief structure was destroyed and many left for more lucrative positions in private industry. Bank managers told me how difficult it is to attract and/or retain good employees now because of the enticement of the private sector.
NGOs. We must anticipate the demands that will be made of us, and channel our energies in relevant ways” (Conable, 1989, April 13).

Conable’s view of the US role supports the evidence about the US shown in previous time periods. Conable was frustrated with the US government and its policies in regards to the Bank. As the evidence also suggests, he believed that the US did not have an interest in the Bank or its activities and this frustration was part of his decision to not seek a second term as president (Kapur, Lewis and Webb, 1997, p. 1202).

At first glance Conable may seem to be the right person to instigate change in the Bank to accepting the environment as a concern and focusing on more sustainable development practices. Unfortunately, the lending of the Bank only partially coincides with this supposition. Table 6.2 shows a marked increase in sustainable lending by the Bank after Conable takes office. However, the same factors that may have contributed to a lag in Bank lending relative to US preferences may have been in effect here. There is a rise from .62% during the last year of Clausen’s presidency to 3.06%. Sustainable development lending hovers around this 3% mark throughout Conable’s presidential term. This does not achieve the 10% level of change, but is a significant increase from previous years. He had an effect on the institution’s lending, but his ideas were not enough to immediately change the institutional output. As will be shown in the organizational section of this chapter, Conable also oversaw numerous changes to the structure and operational procedures of the institution that ultimately made sustainable development lending inevitable.
Lewis Preston

Of all the Bank’s leaders in this period, Preston, who took over the presidency in 1991, had the least potential for bringing about the change to greater sustainable development lending. In terms of managing a large bureaucracy and dealing with issues of development, in particular the area of debt, Preston was clearly experienced to handle the task. He came from managing JP Morgan and piloting them through the rocky debt crisis of the 1980s. Unfortunately for him and the Bank his term was marred by personal tragedy and he is considered to have never really established himself in a position of leadership (Kapur, Lewis and Webb, 1997, p. 1203). One event that he did help instigate, though its effects on policy change cannot be determined, was a major review of the Bank’s portfolio. This report has become known as the “Wapenhans report” after the chairman of the review, Willi Wapenhans. The report will be discussed in further detail in the section on organizational structure, but what is important is that it was/is highly regarded for its criticism of the Bank and that it included opinions from recipients.

Again, as with Clausen and Conable, there is little in Preston’s background that would lead one to suspect that he would be involved in sustainable development lending. In fact with all his personal tragedies and limited time in office it is difficult to imagine him having the will and wielding the influence to implement a new lending strategy. Still, if he was an important player, a notion that finds little support in histories of the Bank, he would have been most likely to push SAL and not sustainable development. His was a view of an banker who believed in the free market and had spent the previous

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9 During his first year at the Bank his son died. Shortly after this he had heart surgery, and ultimately died in 1995 before completing his fourth year in office.
decade making sure the private bank he led would be able to recognize a return on their LDC loans.

Summary

The Conable years at the Bank are interesting in that of the three presidents during this period Barber Conable seems to be the most likely to be sympathetic to sustainable development lending. He is the only one without a Banking background and experience in dealing with the debt problem and structural adjustment. Such an outsider may have a different perspective and bring change to the institution. However, this does not seem to be the case, at least in the area of sustainable development because the significant shifts in sustainable development lending occur under a different leader.

The Bank does begin to lend to sustainable development at a higher and more consistent rate. However, the difference in lending levels is still relatively minor if compared to the previous Clausen administration and to the levels it reached in 1992-94. The real change in lending during the Conable years is the dramatic increase in SAL lending. Conable is known to have been a proponent of McNamara and his focus on poverty alleviation and not a believer in Clausen’s move to structural adjustment lending. Conable even brought McNamara back into the Bank, if only temporarily, to assist in the 1987 reorganization. Additionally, he was a politician firmly aware of his constituency and was an observer of the growing discontent with Bank practices by environmental groups. It seems that, though he was open to sustainable development, this factor alone is not “enough” to account for a shift to sustainable development, which the empirical analysis shows does not occur until 1994.
In conclusion, Clausen and Preston were Bankers with a firm belief in the free market and long experience battling LDC debt problems and repayment. They had little in their background that would lead them towards embracing sustainable development policies. Conable had some belief in activities other than SAL but apparently did not, or could not push these to significant levels. However, he did have a significant impact on the organizational procedures of the institution, as will be seen below, and these ultimately played a significant role in change. A look at the problem representation of the leaders provides more systematic evidence to compare the leaders ideas with the timeline of changes.

Change in a president's representation

_Hypothesis 4: When the president changes his representation of how the organization can best meet its goals, then the lending activities will change to reflect this new representation._

In this section the preferences of the three presidents, Clausen, Conable and Preston, are systematically measured according to the five categories of the dependent variable. Measurement is conducted through a content analysis of the presidents' policy addresses. This allows for observation on each leader's views towards development and the role of the Bank. Additionally, change in the leader's representation of the problem and comparison of individual's different problem representation is possible. Finally, this allows for analysis between the leader's vision and the actual lending of the institution to see if there is any correlation between the two. Next each of the presidents' representations of the development problem will be explicated. But first, the results of

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10 A full explanation of the coding scheme and the lending categories can be found in Chapter Two.
the content analysis are presented in Table 6.6 below; change in the presidents is noted.

Figure 6.5 shows the movement of the preferences with the movement of the lending.

<table>
<thead>
<tr>
<th>Year</th>
<th>Reconstruction</th>
<th>Infrastructure</th>
<th>Human Needs</th>
<th>SAL</th>
<th>Sustainable Dev.</th>
<th>President</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>0</td>
<td>8.8</td>
<td>14.7</td>
<td>76.5</td>
<td>0</td>
<td>Clausen</td>
</tr>
<tr>
<td>1984</td>
<td>0</td>
<td>17.5</td>
<td>29.8</td>
<td>50.9</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>0</td>
<td>7.3</td>
<td>37.8</td>
<td>43.9</td>
<td>11</td>
<td>Conable</td>
</tr>
<tr>
<td>1986</td>
<td>0</td>
<td>8.8</td>
<td>41.2</td>
<td>26.5</td>
<td>23.5</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>0</td>
<td>4.5</td>
<td>36.4</td>
<td>47</td>
<td>12.1</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>0</td>
<td>6.6</td>
<td>50</td>
<td>27.6</td>
<td>15.8</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>0</td>
<td>3.2</td>
<td>28.6</td>
<td>20.6</td>
<td>47.6</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>2.9</td>
<td>7.3</td>
<td>54.4</td>
<td>22</td>
<td>13.2</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>0</td>
<td>3.4</td>
<td>27.6</td>
<td>48.3</td>
<td>20.7</td>
<td>Preston</td>
</tr>
<tr>
<td>1992</td>
<td>0</td>
<td>0</td>
<td>10.3</td>
<td>65.5</td>
<td>24.2</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>0</td>
<td>5.3</td>
<td>21</td>
<td>52.6</td>
<td>21.1</td>
<td></td>
</tr>
</tbody>
</table>

Table 6.6: Presidential emphasis by lending strategy

There are three significant increases in sustainable development strategies. The first occurs in 1985, Clausens' last year in office, and is correlated with the high degree of pressure from the US and NGOs for change in the Bank. Second, there is a noticeable jump in the emphasis on both sustainable development and human needs in 1986, the first year Conable was president. This fits with his belief in the McNamara years and at least openness to considering new strategies. Sustainable development lending reached a highpoint in 1989 when it represented 47.6% of the strategies mentioned by the president. This highlights this year as potentially significant which is further supported by operational changes discussed in the next section. Again, there is a strong relationship between this year and the heightened pressure by the US for change. Finally Table 6.6
Figure 6.5: Presidential emphasis by lending strategy, with dependent variable
highlights the change in emphasis when a new president took office. In 1991 Lewis Preston became the Bank president and there is a corresponding rise in the perceived importance in structural adjustment lending when Preston takes office. This again would be anticipated from the above description of his experiences and background.

A regression analysis in first differences was conducted on these figures to gauge their impact on the lending of the Bank; Figure 6.6 shows the results (dv=lending to sustainable development; iv=strategies for sustainable development in presidents’ problem representations). The adjusted $R^2$ of this model is .187, with a significance of .157. The results show a weak relationship between presidential speeches and sustainable development lending. The equation above takes all three leaders together because it is conducted over the entire time period for this lending change. It is also important to look closely at each individual president’s problem representation to determine if elements of their individual PRs preceded change in Bank lending.

**Alden Clausen**

This leader’s speeches reflect the banking background and firm beliefs in the free market system that he developed throughout his years as a private banker. Two features stand out in Clausen’s discussion of the development problem: a need for adjustment lending and for the international community to back this development effort.

Throughout his term in office, Clausen was constantly trying to invigorate the international community to raise levels of development aid, which he saw as the only solution. This was particularly true since during the first term of the Reagan administration there was a real desire to cut back US commitments to multilateral
Figure 6.6: Influence of presidential speeches on sustainable development lending

Regression Statistics

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>0.551</td>
</tr>
<tr>
<td>R Square</td>
<td>0.304</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.187</td>
</tr>
<tr>
<td>Beta</td>
<td>0.551</td>
</tr>
<tr>
<td>Standard Error</td>
<td>1.391</td>
</tr>
<tr>
<td>Observations</td>
<td>12</td>
</tr>
<tr>
<td>Significance</td>
<td>0.157</td>
</tr>
</tbody>
</table>

Percentage of speech as sustainable development

Sustainable development lending (% of total)

-2.0 -1.5 -1.0 -0.5 0.0 0.5 1.0 1.5 2.0

-3 -2 -1 0 1 2 3
organizations in general, and the Bank was not immune. Clausen constantly promoted the idea that:

> the obstacles to a decent, dignified standard of living for hundreds of millions of people in the Third World lie not so much in the halls of modern technology, as in the hesitations of those with the political power to make it possible...the political will can be summoned up to secure progress for the hundreds of millions of impoverished people, with the aid of our institutions...What is lacking is a firm commitment on the part of the international community to act while the window of opportunity is open to us (Clausen, 1983, pp. 194-195).

Clausen had a clear conception of what to do with these resources: support adjustment programs.

We feel a strong obligation to continue to urge our borrowing members to carry out the broad economic reforms...needed to promote growth. But in the current crisis, neither the extent nor speed with which revised programs are being implemented in sub-Saharan Africa can reverse the trend of declining per capita incomes (Clausen, 1983, pp. 207-208).

Structural adjustment lending was being pushed by the Bank and a component of this process included increasing exports to assist developing states earn capital. “The best way for developing countries to revive their economies now—and the only way for indebted countries finally to overcome their financial difficulties—is to expand exports” (Clausen, 1983, p. 198). This became one of the focal points for environmental NGOs in their criticism of the Bank. Many viewed a push to export as supporting environmental degradation to earn capital (Payer, 1982).

Clausen continues to press for adjustment in the following years claiming: “adjustment for all nations...will be the order of the day in the period ahead...Our lending is aimed at longer-term structural changes such as appropriate pricing in the agricultural and energy sectors and eliminating biases in the incentive system against
exports” (Clausen, 1984, p. 335). At the same time he did begin to mention environmental concerns but references to this approach were extremely vague and only in passing: “We have been particularly mindful of, and concerned about, the environmental issues of development” (Clausen, 1984, p. 328). Clearly this is a nod to the rising pressure on the institution to improve its environmental record, yet there is no defined plan. Further, such references were a very small percentage of the strategies coded in the speech sample from 1982-1984 (see Table 6.6). In his final year (1985), the percentage of references to sustainable development does rise to 11%. By then he was beginning to be more specific, discussing only briefly the problems of desertification, soil degradation, water supply, and deforestation. Even then, he implied that the solutions to these problems were beyond the scope of the Bank’s activities (Clausen, 1985).

Barber Conable

As stated above, Conable came to the Bank with little experience and not necessarily an overwhelmingly willing attitude. However, he did secure the confidence of the Board of Governors who elected him president. He begins his first speech by emphasizing that adjustment lending, though important, must be balanced with project lending. He goes on to stress aspects of development that sound like Robert McNamara:

We will take account of long-term issues in our development activities—the need to stress population concerns, the need to protect the environment as we promote economic advance, and the need to ensure that women are fully integrated in, contribute to, and benefit from development programs (Conable, 1991, p. 3).

He brings environmental issues into the debate, but also reiterates the importance of human needs and not just SAL. He goes on to even lightly criticize those who promote more SAL with more stringent strings attached by stating “Adjustment lending and
investment financing are not mutually exclusive. They need each other. What good can
agricultural reforms do if inadequate irrigation leaves farmland parched...?” (Conable,
1991, p. 5). Conable here is trying to take a more balanced approach, especially after the
Clausen years where there was heavy reliance on SAL and also a decrease in overall
ODA.

What Conable does for sustainable development is make some of the important
links between earlier development issues and the environment. He points out that “it is
clear that population pressures are one source of heavy environmental damage” and later
after citing Francis Bacon11 states that we must “keep development in harmony with
natural forces and resources” (Conable, 1991, pp. 7-8). Yet, his main focus is human
needs and poverty alleviation and viewing the Bank as possessing “an arsenal of
powerful weapons in the struggle against poverty” (Conable, 1991, p. 9).

The following year however, Conable places the “debt problem” at the forefront
of his speech.

Developing countries need to sustain demanding reforms to resume
growth and make their development strategies effective...And we will
vigorously promote the market-oriented policies and reforms that best
mobilize private capital flows and encourage the creative energies of

Clearly this is a statement expressing support for SAL and its associated key words of
private capital and efficient growth. This shows his support for SAL and belief that it is
an important tool to assist developing states to raise their economies. “There is no

11 This citation of writers/philosophers is one of the trademarks of Conable and makes reading his speeches
enjoyable. Indeed, while serving as a member of Congress and travelling through his district he once asked
the crowd if they would rather hear him recite poetry than fill them in on the latest events on Capitol Hill.
Much to his disappointment they chose to hear about events in Washington (Kraske, 1996, p. 232).
alternative to adjustment and the correction of past policy mistakes” (Conable, 1991, p. 33). This is reflective of most of his presidency. He takes a fairly balanced approach between human needs and structural adjustment lending. The year that stands out from the rest is 1989 when there is a significant jump in his statements on the environment.

As is shown in the sections on US preferences and NGOs, the previous year the Bank had come under increasing pressure to change its environmental record. Conable highlights the importance of the environment in large sections of his annual address in 1989.

As we think about development priorities, we must dare to be visionaries...If will be impossible to improve the quality of life in developing and industrial countries alike, unless we do much more to conserve our global environment. We must deal with population problems, with energy needs, and with sustainable agriculture...we must protect the environmental quality of life in the fullest sense (Conable, 1991, p. 94).

Unfortunately as is evident from the lending of the Bank (see Tables 6.1 and 6.2) there is little increase in its sustainable development lending, which lingers around 3% from 1989-1991. This reflects one of the criticisms of many outsiders viewing the Bank at this time; that there is much environmental rhetoric and limited action (Adams, 1992; Rich, 1994). There is a very slight up-tick in sustainable development lending from Clausen’s years, but nothing as significant as the mid-1990s, and certainly nothing reflecting the “visionary” words of the president. Again, it is important to look at all the variables and changes that occurred within the organization while Conable was president may later add more weight to the role he played in change.
Preston’s speeches reflect a change back to SAL from the more balanced approach of Conable. He opens with an acknowledgment to Conable’s emphasis on human needs and the environment and then jumps into SAL. Adjustment lending is divided into two groups of recipient states; the former Eastern bloc states and the LDCs. He believes that “experience shows that adjustment programs and good faith negotiations with creditors, both public and private, can help relieve the pressure of debt and restore access to capital markets” (Preston, 1991, p. 4). He is not opposed to human needs lending, but emphasizes time and again the importance of structural adjustment and the free market. “Markets should be relied on for the production and distribution of most goods and services. Striking a more market-friendly balance ensures more efficient use of both private and public resources” (Preston, 1991, p. 6).

Adjustment and the free market will expand investment opportunities and promote economic growth according to Preston. “Vigorous implementation of adjustment programs, including reform in major sectors, will expand opportunities for investment lending” (Preston, 1991, p. 9). Likewise the environment will also benefit. “Reducing subsidies—on energy, water and logging—helps to promote growth and preserve natural resources. Open trade and investment policies boost prosperity and can encourage the transfer of cleaner technologies” (Preston, 1992, pp. 13-14).

His final presidential address is about half the length of the previous ones and has limited information on the strategies of the Bank. He is obviously recovering from his illness and had little energy/time for grand designs. Preston even opens the speech with an acknowledgement to his sick leave (Preston, 1993, p. 3). Consequently, there is little
to learn from this speech and it is not surprising that it does not lead to changes in the development strategies of the Bank.

In conclusion, the presidents of the Bank play some role in instigating change in the Bank. Clausen and Preston focus more on structural adjustment lending, but Conable is a supporter of sustainable development in words if not deeds. The only one who provides significant verbal support for the environment is Conable, yet there is little change in the institution's lending following his speeches except the first year going from Clausen to Conable (.62%-3.06%). Preston provides some support, but his is of a mixed variety. He would say the environment is important, but the best way to achieve a cleaner environment is to go through structural adjustment. Consequently, in this period of change leadership is considered necessary but not sufficient in affecting change in the institution.

6.4.4 Organizational change

Hypothesis 5: When there is a change in the organizational structure, a change in lending strategies will follow.

Organizational outputs can be the result of alterations in the structure of the organization. This is the main contention of the propositions being tested in this section. Under investigation are any changes in the structure, lending criteria, or operational mandates that may influence the institution to adopt sustainable development policies. Additionally, new members can influence the output of the institution by bringing in new ideas and/or a new set of problems. During the period covered by this chapter, the World Bank underwent numerous changes from a major organizational restructuring in 1987 to issuing operational procedures concerning sustainable development and working with
NGOs to new members. Each will be investigated in detail to help understand how it affected the IBRD’s lending. The first one examined is the reorganization of 1987.

Change in bureaucratic structure. The major aspect of Bank restructuring during this period took place in 1987 under Barber Conable. Part of the reason for this process was to shrink the size of the bureaucracy and provide more autonomy to the various departments. “In this climate, it is envisaged that there will be greater delegation of authority” and this should allow the Bank to be more flexible and “to adjust to the changed priorities of the developing countries” (Bank, 1987, p. 24). To further this responsiveness to states and in recognition of the disparity in issues facing recipients, the Bank also consolidated its regional groupings from six to four, but then created country departments with functions previously distributed over other departments. Though these changes are not directly related to sustainable development, they did bring in a degree of flexibility and allowed different country departments to experiment with lending. Thus it is argued here that the changes provided enabling structures for integrating sustainable development into the Bank repertoire.

More directly related to implementing environmental policies was the creation of the environmental department. This department is to help set the environmental agenda for the Bank and conduct environmental research. This was not the first environmental department in the Bank. In 1971, Robert McNamara created the Office of Environmental Affairs. The office however remained very small and was marginalized in the policy process. Only at the final stages of a project cycle was their office sometimes brought in, thus a project would not be cancelled and often not even altered. Additionally, the staff was so small they could only become active in a few projects. For the first two years the
office consisted of one person. As late as 1986 there were only five environmental specialists in the Bank (Wade, 1997, pp. 618-629). This same year the Bank was involved in 131 projects in 41 states and lending over $13 billion. It would have been a difficult task indeed for five people to evaluate the environmental impact of all these activities. The subsequent creation of the environmental department created a larger, more influential entity. Conable proposed that “these organizational changes do not just add layers of interference to head off errors of commission. The added staff will help define policy and develop initiatives to promote growth and environmental protection together” (Conable in Wade, 1997, pp. 673-674).

Creation of the environmental department was accompanied by a commitment to conduct environmental assessments in “about thirty developing countries over the next five years.” Additionally, “new offices have been created in each region’s technical departments to function as watchdogs over Bank-supported projects” (Bank, 1987, p. 33). These REDs (Regional Environmental Divisions) were provided with “sign-off authority.” Before a project could go forward it had to be signed-off on by a RED division chief. This provided greater theoretical control than actual influence, particularly since staffing was a problem. Though none of these activities are overwhelming, the changes are direct evidence of the Bank restructuring to meet the demands of greater environmental awareness and action. The five-year timetable may seem slow and limited but was a great change from the lack of activity previously witnessed.

12 Environmental assessments were seldom conducted and often ignored until a new directive in 1989 was passed to strengthen their importance (see below).
The new environmental department was underfunded and for much of its first year lacked a department head. Since the 1987 reorganization involved a slimming of the staff, the environmental department was the only area growing. Consequently, through a lack of direction and cronyism, they hired many of the former staffers who had lost their jobs. "We took guys who were standing about the hallways, called them environmentalists, and stuck them in the environment division. Overnight we hatched environmentalists!" (Wade, 1997, p. 677). It took the department over two years to acquire the staff with the appropriate environmental expertise.

The year 1992 turned out to be one of transition for the environmental department. They had floated for a few years trying to organize themselves and understand where they fit into the overall Bank structure. By 1992, they were a stable department and in charge of the GEF (Global Environmental Fund) and leading the Bank's activities at the United Nations Conference on the Environment and Development (UNCED) in Rio. This strengthening of the environmental division was greatly enhanced by changes in the Bank's operational procedures and its growing involvement with NGOs, both as an active participant and promoter and as a target. There is significant growth in sustainable development lending after this year and the 10% threshold is achieved by 1994. These areas are discussed in the next two subsections.

Organizational interactions

As evidenced in the section on US preferences, an important player in the sustainable development movement was NGOs. The Bank had been working with NGOs since 1972, but this activity was mostly in the realm of project implementation. There was no input from NGOs into the project planning stage, a more recent phenomenon. By
1998 a Bank report stated that in the Bank projects in which NGOs were involved, only
18% of the projects involved participation in the planning stage (Department, 1999, p. xii). Though this interaction has a long history most of the activity has been in the last
decade, representing 70% of all NGO participation in Bank projects.

Real progress with NGO-Bank interaction began with the creation of the NGO-
World Bank Committee in 1981. This is a group of NGO representatives and members
of the World Bank. Access to the Bank was still limited; the Bank told NGOs how
NGOs could be involved in lending projects, but the Bank did not solicit or follow advice
from NGOs. This began to change with the 1987 reorganization. Initially the NGO-
World Bank Committee was under the auspices of the Bank’s External Affairs
department. This was moved to the Strategic Planning and Review Department. This
change exhibited an effort to seriously consider the opinions of NGOs and bring them
into the planning stage which they had been pushing for (Covey, 1998). This author’s
interviews with Bank staffers confirms this strategy and has increased to the point where
NGOs now meet with executive directors (interviews, May 1999).

The change that resulted in almost immediate increase in NGO participation in
Bank projects occurred in 1989. The Bank passed a directive which “sets out a
framework for involving nongovernmental organizations in Bank supported
activities...bearing in mind their potential contribution to sustainable development and
poverty reduction” (Bank, 1989, para. 1). The directive goes on to describe ways in
which NGOs can be involved in Bank activities including: analysis of development
issues; project identification; project design; project financing; project implementation,
and; monitoring and evaluation. A tremendous change in the level of interaction is
witnessed here. The following year NGO participation in Bank projects tripled and by 1994 they were involved in nearly 50% of all Bank projects.

The importance here for sustainable development is that the NGOs were seen as a real engine for environmental concerns and sustainable development. As shown above, NGOs were the ones pushing Congress to press the Bank towards a greener policy. NGOs lobbied the US government extensively in 1986 to vote against the Brazilian dam project, which the US ultimately did (Wade, 1997, p. 670). Also in 1986 NGOs held an "alternative" annual meeting in Washington, D.C. at the same time the Bank was holding its meeting. This was highlighted by a rock climber who scaled the walls of the Bank and unfurled a banner, "World Bank destroys tropical rain forests." This demonstrated the strong contrast between "traditional" and this "new" approach to development strategies.

Not only were the NGOs fighting for greater environmental concerns but simply more openness on the part of the Bank. In the early 1990s, this campaigning started to show results with the opening of the Public Information Center, a Bank-funded entity whose purpose is to disclose Bank information. Surprisingly, the first director was Chad Dobson who organized the "alternative" annual meeting. Bringing in critiques of the Bank became more common policy in the 1990s. Currently, all members in the Bank's NGO unit, several of whom were interviewed for this study, formerly worked for NGOs.

Change in operational procedures. The initial operational response by the Bank came in 1984 after the first moves by Congress to push the organization to be more environmentally friendly. The result was an Operational Manuel Statement that tried to reassure the public that the Bank was concerned about the environment. It even went so
far as to claim that the institution had been actively lending in this area since 1975.

While true, the data details very limited environmental lending activities (see Tables 6.1 and 6.2). It also reminds Bank employees that “Bank policy emphasizes the need for prudence when assessing environmental effects, especially when these are potentially irreversible” (Bank, 1984). This policy statement is extremely vague and only states broad environmental guidelines with no enforcement mechanism. This was clearly not the type of response the environmental NGOs or some members of Congress were anticipating and ultimately led to Senator Kasten’s response (as outlined in the section on US preferences).

After the increasing pressure from NGOs and the US, the Bank created an environmental department (as described above) and then gave it some teeth in 1989 with the passage of several Operational Directives. This corresponds with a significant increase in Bank lending to sustainable development. Creating environmental assessments of all Bank projects was the basis for these directives. Unlike the early days of the Bank’s environmental activities, these assessments must be created and signed off on before the project can go forward. Oversight and expertise in this area is expressly given to the REDs and the environmental division, thus raising their importance in the Bank bureaucracy. Operational Directive 4.00, Annex A: Environmental Assessment provided very explicit instructions covering how, when, and why environmental impact statements were necessary. Here the Bank was finally making explicit commitments to the environment and sustainable development: “The purpose of environmental assessment is to ensure that the development options under consideration
are environmentally sound and sustainable” (Bank, 1989). Included in this directive was a sample outline of an environmental assessment report, a checklist of potential problems, and explicit categorization of different types of projects requiring varying degrees of environmental assessment before the project could be implemented. Within the same year the Bank passed specific criteria for evaluating environmental impacts of dams and reservoirs. Dams and reservoirs were a particularly sensitive area for the Bank since these were some of the largest projects and had made headlines for their degree of both environmental and cultural destruction due to the displacement of large numbers of people. Often these groups were from poor, indigenous segments of society. Thus action on dams was vital to improving the sustainable development record of the institution.

The initial directive established the broad environmental guidelines for dam and reservoir projects including possible problems in the river basin. Large dam projects required an environmental unit to be attached to the project. And in recognition of earlier staffing problems it even explicates some of the skills these individuals should possess. Furthermore, such projects were required to “engage an advisory panel of independent, internationally recognized, environmental specialists” to evaluate the project in the planning stage (Bank, 1989). As with the environmental assessments, there were associated directives that described possible environmental problems and items to include in the bidding process.

13 Environmental assessments are in effect environmental impact statements and cover all aspects of a project.
Since the requirement for these directives was passed in 1989, all new projects had to comply. Clearly, the Bank was becoming serious about the environment and trying to integrate sustainable development into its lending philosophy. A lag in the directives' effects on lending should be expected. This lag would be amplified by the understaffing and general weaknesses of the environmental department mentioned earlier. A reasonable expectation would be that they would affect lending in 1991 or 1992.

An updated version of these policies was released in 1991 which attempted to limit technical loopholes by which projects did not have to complete an environmental assessment. Two other features were changed which increased the affect of these environmental assessments (EA): disclosure to NGOs and to the executive directors. The 1989 version only informed the executive directors about the EA at the time they were going to vote on the project. This gave them little time for environmental consideration or changes. The new directive released the information earlier. More significantly, it stated that in order for meaningful consultations to take place between the borrower and affected groups and local NGOs, it is necessary that the borrower provide relevant information prior to consultations. The information should be provided in a timely manner and in a form that is meaningful for, and accessible to, the groups being consulted. Such information normally includes (a) for the initial consultation, a summary of the project description and objectives, and potential adverse affects of the proposed project; and (b) once the EA report has been prepared, a summary of its conclusion in a form and language meaningful to the groups being consulted. Any consultation should pay particular attention to those issues most likely to affect the people being consulted. In addition, the borrower should make the EA report available at some public place.
accessible to affected groups and local NGOs for their review and comment (Bank, 1991, para. 22).

Since EAs were technically the property of the host state, the Bank could not force their disclosure. Instead the Bank stated that they would not consider any loans for which the state did not follow the EA disclosure guidelines. This openness and strong arm tactics of the Bank were said to surprise many on the staff but had been pushed through by the US executive director (Wade, 1997, p. 686).

The final piece of environmental policy passed as an example of another operational change was the environmental action plans (EAPs) in 1992. An “EAP identifies key environmental problems, sets priorities for dealing with them, and leads to a comprehensive national environmental policy and programs to implement the policy” (Bank, 1992, para. 4). These were to be integrated into the country plans and provide more forecasting and planning in the environmental area. All of these directives greatly influenced the Bank in moving towards sustainable development. After discussion of a final organizational change, the hypothesis will be assessed.

**Change in membership.** Membership in the institution grew significantly during this period adding 31 new states with membership rising to 177 by 1994. The majority of these new members were from Eastern Europe or former republics of the Soviet Union. There were two distinct groups of new states that entered during this time. The smaller group being micro-states of the Caribbean and the Pacific such as St. Kitts and Nevis, Tonga, and Micronesia. Interestingly, these states were focused on international environmental issues. In particular, they were concerned with global warming as were several other island states. For these small island states, global warming and the
subsequently projected rise in sea levels could destroy their cities, most of which were on
the coast, and also completely submerge their state. Because of this rather important
concern most of these states have joined together to form a bloc supporting their special
interests within the greater UN system. The main voice is the Alliance of Small Island
States (AOSIS) and they have worked to create an international working group call Small
Island Developing States (SIDS). Regardless of these interests it is highly unlikely that
they influenced the Bank to change its policies. Most of these states are extremely small
and consequently hold the minimum voting power within the Bank, .04% of a vote. Thus
the addition of three or four more of these states is highly unlikely to swing the institution
in a new direction. Additionally the timing is wrong; AOSIS was not formed until 1991
and the first SIDS conference, held on Barbados, did not take place until 1994.
Consequently, these states may not be opposed to sustainable development, but it is
unlikely that they tipped the balance of the institution either.

The other group of new member states consisted of states of Eastern Europe,
former republics of the Soviet Union and former republics of Yugoslavia. All of these
states certainly had highly documented environmental problems, but also had tremendous
economic problems and needed access to Western capital. They became large recipients
of adjustment aid from the World Bank. Consequently, instead of helping shift the Bank
towards sustainable development, these new members were more responsible for limiting
this change and increasing the amount of structural adjustment lending. Referring to
these states the Bank notes that “most countries have opted for rapid economic
transformation towards a market economy and have experienced difficulties as

14 Some of these states are relatively flat coral uplifts that stand only 20 or 30 feet above sea level.
production declined and unemployment rose" (Bank, 1991, p. 42). They go on to describe
the desire of these states to reform their economies and the problems they are facing,
including "The transformation process—which includes macroeconomic stabilization;
reform of incentives and price systems; enterprise reform, privatization, and financial
sector development; the abolition of state monopolies on foreign trade..." (Bank, 1991, p.
130). In response the "Bank's lending strategy for Eastern and Central Europe aims at
supporting structural and institutional measures critical for the success of reform
programs through structural adjustment loans..." (Bank, 1991, p. 44). It is evident that
these new members were more concerned with structural adjustment than integrating
sustainable development practices. New member states are not considered a critical
factor in promoting sustainable development, and may in fact have hindered its
implementation.

Summary

With the exception of the addition of new members, the structural and operational
changes detailed here do seem to have been important precursors to the shift toward
greater lending for sustainable development. Two qualifications arise here. First, many
of these changes are qualitative. In other words the Bank may be "greening" but it does
not show up on my indicators of change (levels of lending). Clearly, this is not a problem
with the Bank, but the conceptualization of the dependent variable. The variable was not
designed to pick up these qualitative differences, and to be fair to the variable this was
not a concern in previous periods of change. However, the research into the processes of

15 Since these economies were so large and the restructuring so dramatic, the size of many of these loans
dwarfed the normal loan size. Loans to Poland and Hungary in 1991 were $340 and $450 million
respectively, this is well within the highest loans granted by the Bank.
change points to fact that, unlike other strategies, the sustainable development agenda may show up in Bank behavior beyond the lending purely for sustainable development. Future research will need to consider this discovery. The bottom line is that more change, defined broadly, may have occurred than shows up as currently measured.

A second qualification involves causality. Do the structural and operational changes in the organization explain change? Yes, it does appear that the evidence supports the hypothesis. However, to some degree, as this analysis has shown, such an assertion begs the question of “where did the impetus for these changes come from?” As the discussion above indicates, NGOs and US pressure for change, and an openness to these changes on behalf of Barber Conable were also important. In other words, to have change it was necessary but not sufficient to change the operational procedures and organizational structure. However, these changes were instigated by outside actors, most significantly the US and NGOs. Their concerted pressure led the Bank to change policies. Most of these operational changes were implemented under the leadership of Barber Conable, a president who was more open to change, than Preston or Clausen.

6.5 Conclusion

Sustainable development is a complex issue that seems to immediately inspire heated debates. Part of this reason is the loose definition of what it actually means. Sustainable development for this dissertation is based on the definition proposed by the Brundtland commission, with its primary focus on environmental sustainability. This is because other features that are commonly put forward are included under human needs lending. Results of the independent variables is presented in Table 6.7 below.
US power within the Bank declined, as has been the case throughout the history of the Bank. However, the US maintains its position as the leading power in the institution negating any expectations of change. If anything, there is a diffusion of power and the corresponding expectation would be no change since decisions become increasingly difficult when the number of players necessary for change increases.

Though a diffusion of power can also lead to an opening for other actors to express their preferences, new constellations of power can form. There is not evidence of this in this instance.

The next variable looks at the preferences of the US as the leading power within the institution. US preferences do change during this period and move in the direction anticipated, towards sustainable development. Early on the US is pushing two distinct policies, structural adjustment lending, primarily through Treasury, and sustainable development, through members of Congress. Initially, the Bank reacts to the sustainable development propositions with hesitancy bordering on outright ignoring them. At the same time, they do respond to the preferences for more adjustment lending. An important contextual factor here is the international context with the continuing LDC debt problem and in particular the new member states, many of which require large sums of capital to transform their economies to a free market system. Still, as noted before, this context is not determinant since there were strong pushes toward sustainable development in the global community (especially within the United Nations) from the 1970s on.

It is not until the later 1980s when the US Treasury begins to back sustainable development that the Bank begins to change. Incorporating sustainable development
lending is still a slow process and lending in this area does not surpass 10% of the total until 1994. However, part of this lag is simply the time it takes to move new ideas through the lending process. On the other hand, the Bank was making changes to its lending criteria to incorporate sustainable development into its overall lending philosophy. Consequently, the US has considerable influence over the change in Bank lending, highlighting once again the importance of a focused policy. Yet the case study shows that timing is only explained when we consider organizational variables within the US “black box.” US decision-making is located in a diverse set of units, and to bring about change there needs to be a single voice that the Bank can respond to. Only when pressure groups work through Treasury do we see a change. Critical to this entire process of change is the issue of what caused the US preferences to change? It is clear that the real push for sustainable development policies arose out of NGOs. In the early 1980s they had extremely restricted access to the Bank. US decision-makers were accessible and experienced in listening and reacting to constituents. Consequently, the US was the power behind the Bank changes, but NGOs were power behind the new development ideas the US promoted.

Leadership in this instance was not an important player in the relatively direct way it was in other periods. There were three presidents during this period, each serving only one term. None of these individuals exerted the type of influence that McNamara or Black had on the institution, nor were they creative like Woods. Instead they seemed to follow the current policies and only reacted to the call for increased levels of adjustment lending. Preston showed an increase in viewing the environment as an important consideration, but by this time policies and US preferences were already at work.
changing the Bank. Probably more important was Conable’s representation of the problem. Although the comparison can only be suggestive and not conclusive, holding this time period next to the previous episode strengthens the conclusions in Chapter 5 about the relationship between leadership problem representations and organizational structural changes. The analysis here showed that Conable discussed the importance of sustainable development, yet there were no “enabling structures” to help him implement his ideas. It is only when the tools are in place and the new ideas about using these tools come together that a significant change can occur. Conable’s leadership is important though, because his representation of the problem of development made him amenable to promoting the organizational changes suggested by the US and NGOs. Again, these changes in turn eventually gave the NGOs promoting sustainable development a greater role in the policy process. It is now appropriate to revisit exactly how the “re-tooling” in the late 1980s affected Bank policies.

Indeed, alterations in the organizational structure played one of the key roles in bringing about change in lending. The inclusion of NGOs into Bank decision making allowed these previously institutionally critical actors to help plan, implement, supervise and criticize the organization. This clearly helped bring about a change in attitudes within the Bank. Promotion of change was also facilitated by the increasing flow of individuals working for NGOs to working for the Bank and vice-versa. No longer was it two distinct entities trying to get along and understand each other, but to some degree the relationship was becoming symbiotic (interviews with Bank staff members involved with NGO relations, May 1999).
Other changes in the institution that assisted the transition to sustainable development lending were new operational policies. Directives were passed by the executive directors that pushed environmental assessment policies and national environmental action plans. Though this process took several years to develop and strengthen, the impact was significant. The consideration of environmental criteria became policy of the Bank and was forced upon recipient states. These operational directives institutionalized environmental concerns within the Bank's culture. However, these changes were clearly instituted in response to US pressure and NGO criticism.

Ultimately, this period of change marks a turning point for the World Bank. Part of the process of incorporating sustainable development practices involved a modification in the basic operations of the Bank. The World Bank is marked by much higher levels of transparency, though unfortunately much is still locked away from the public. Regardless, there is a real opening of the institution to new "voices." During the late 1980s and early 1990s an entire new actor becomes involved in the policy process—NGOs. For the first three decades of the organization NGOs were not a factor in its deliberations. Then in less than a decade they emerged as a significant actor and have helped lead the Bank to adopt new development strategies. Additionally, they have helped make the organization more "democratic." This movement towards greater transparency has ingrained itself in the institution and is continuing today.
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Table 6.7: Independent variables and their explanatory power
7.1 Findings

After examining each of the five hypotheses for change over the four cases of organizational change it is clear that none of them adequately explain change on their own. However, there are a few best combinations of variables that provide a strong understanding of change in the lending practices of the Bank. Thus one of the primary findings of this dissertation is that single variable explanations miss too much of the process and do not provide a satisfactory understanding of change in international organizations.

The most significant variable was change in organizational procedures. This variable alone cannot explain change, but worked as an enabling factor for both leaders and preferences of powerful state[s] to bring about change. Before these other two actors could implement change, there had to be alterations in the structure or procedures of the Bank to enable them to integrate their new ideas about development lending into the Bank’s portfolio. This variable was also strongly significant in the initial statistical analysis conducted in Chapter 2.

Preferences of the powerful state[s] is an important variable in explaining changes in the Bank. However, one cannot just assume a powerful state will be able to
incorporate its preferences into the Bank's policies; instead there are several aspects that influence the effectiveness of a state to incorporate its preferences. First, the state must be focused on the organization. This may sound simplistic, but with hundreds of IGOs in the world, and growing, states often do not have the time, resources, or interest to carefully follow the practices and policies of international organizations. This dissertation has shown how US interests in the World Bank have waxed and waned over the years; focus is necessary to implement preferences. Second, the means by which a state pushes its preferences within an international organization can influence effectiveness. Using a state's power (in this instance voting shares) or threatening the withholding of funds is not effective. Instead, working within the organization to change policies, create new departments, or reallocate funds between departments are more effective means of bringing about change. Finally, when the preferences of the state coincide with the problem representation of the leader of the organization, then this also becomes powerful variable for change. In summary, for preferences to be most effective, enabling organizational changes should be in place, the state must be focused on the organization, the state should work with the organization and not force the organization to change, and preferences should reflect the leader’s problem representation. Under such circumstances, the expectation for change is extremely high.

Leadership also is an important variable of change. In particular the problem representation of a leader strongly influences change in the organization. This variable was also the strongest variable in the initial statistical analysis conducted in Chapter 2, thus this variable is strongly supported both statistically and in the case studies. However, again it must be reiterated that structural changes to the organization must be in
place first to enable the leader to bring about change. Additionally, the preferences of the leading state affect this variable. If the preferences reflect the leader’s PR and the state is focused on the organization, then change is extremely likely. However, if the preferences differ and the state is focused on the organization, then the ability of the leader to bring about change is limited. Finally, if the leading state limits its attention to the organization then the leader’s role in change increases.

The next several sections summarize the findings across cases; the chapter then turns to the broader theoretical implications, especially in reference to the areas of literature discussed in Chapter 2.

7.2 Independent variables: Explanatory power across cases

A brief review of each independent variable is presented in Table 7.1 along with its expectations and empirical evidence. The explication of the variables can be found in Chapter 2.
Variable | Expectation | Empirical Patterns of Ind. Variables
--- | --- | ---
**Power in Institution** | Change in institution is a reflection in the change in distribution of power | Minimal change, US power declines but still overwhelmingly the strongest state

**Preferences of Most Powerful State** | Preferences of most powerful state are same as new lending preferences of institution | Preferences change but are not always related to change in lending by the Bank

**Leadership Change** | Change precedes change in Bank lending | Change in president, eight presidents over four periods of change

**Leadership changes problem representation** | Change reflects new lending practices | Large differentiation in preferences, not always related to change in lending strategies by the Bank

**Organizational Structure** | Changes in organization affect changes in lending | Numerous changes in organization, not causing change but creating an enabling environment for other actors to influence change

Table 7.1: Summary of hypotheses and empirical findings, 1946-1994

7.2.1 **Power**

*Hypothesis 1: When there is a change in the distribution of power within the Bank, then the institution will change to reflect this new distribution.*

For this variable, the study examined the changes in the power of the leading state (the US) and anticipated that changes in the organization will be the result of a new distribution of power. The measure of power in this dissertation is voting power since the Bank operates on a weighted voting system based on the amount of financial contributions of each member state. These weights are roughly commensurate with
economic power in the broader international system. The bottom line for this variable is that it is the least useful in understanding change in the institution.

Principally, this is because the empirical evidence refutes the hypothesis. Organizational change is anticipated after a change in power. Yet, in the instance of the World Bank, mission change has occurred four times but the most powerful state has remained the same from day one until today. There seems to be little support for this hypothesis. To be fair however, the US has retained its dominant position within the institution, but at the same time the US has experienced a steady annual decline in its absolute power (see Table 2.3 in Chapter 2). Still, this decline does not answer the question since it is a constant and there are only four periods of change in lending, not a constant barrage of new lending strategies.

Of potential import to this variable is where the power is going; have other states been rising up to challenge US leadership? According to the voting power in the Bank, there has been an absolute decline in US power, but an increase in its relative power to the next leading contender. In 1947, the US voting share was 2.4 times larger than the UK's, the second leading power. By 1994, absolute US power has declined, but its voting power relative to the second leading state, Japan since the 1980s, increased to 2.6 times the size. Thus the gap in power has not declined and consequently cannot account for the change in lending strategies. The transition from the UK to Japan as the leading contender to the US position is another plausible factor, but does not hold any validity. As discussed in Chapter 5, the only period of change this transition is related to is from human needs to structural adjustment lending. Yet, this relationship was shown to be nonexistent since empirical evidence showed that Japan was not pressing for SAL.
A final interpretation of this voting power variable is that as US power declines, as all other major powers do also, there is a shift to greater “equality” in the IBRD. In other words, power is diffused from a few to many states. There could be a possibility of a new array of powers, but this variable does not help us understand who these actors would be or what their preferences would support. Again however, this greater equality is unlikely to cause change for two reasons. First, the US retains a dominant position; the diffusion of power has resulted in a large percentage of members with very little voice. Second, some believe that change is difficult to bring about without overwhelming power: “great tasks can be accomplished only by agents of great capability” (Waltz, 1979, p. 109). It would be a stretch to argue that the US possessed overwhelming power; the examples discussed in previous chapters, in which the Bank granted loans that the US had explicitly opposed, is further evidence against such a view. This supports the view of some that “organizations are not simple mechanical tools obediently doing the work of their creators. They are live collectives interacting with their environments” (Ness and Brechin, 1988, pp. 246-247).

In sum, this variable does not provide any insights into the changes of the lending strategies of the World Bank. In fact, the period during which the US seemed to have the greatest ability to impose its preferences on the Bank was during the time that its voting power was weakest, the change to sustainable development. Additionally, even if it did explain change it could not answer the important questions of timing and the direction of change. An understanding of these two features of change requires a closer examination of the concepts promoted in the institution by specific actors. The first of these is the preferences of the leading power.
7.2.2 Preferences

Hypothesis 2: When the preferences of the most powerful state change, then the lending practices of the Bank will change.

This variable explores the preferences of the leading power, the US, towards the World Bank. The underlying concept is that powerful actors are able to change institutions to resemble their preferences. To investigate whether this was in fact the case, this dissertation examined US preferences towards the Bank and compared them to changes in the lending strategies of the institution. Two aspects are important to recall; that the documents from the executive directors are not open to public disclosure, and that this dissertation attempted to trace preferences being promoted at the Bank in a forthright manner. One may hypothesize that if the US, or other actors, is promoting a particular development strategy, than any similar Bank actions are a response to these preferences. Yet other actors could have been the cause of change; leaders, NGOs, etc… One could also hypothesize that the Bank pursued policies different from the US because the US had particular bases covered already, so to speak. However, this dissertation attempted to trace preferences in a clear and observable manner to limit suppositions. It is impossible to show that the leaders at the Bank chose particular policies because they “sensed” or “anticipated” that the US would squelch any other initiatives, or alternatively, that they pursued particular policies to fill in gaps that US policy did not cover.

US preferences towards the Bank have undergone several changes from 1945-1994. In the early years after World War II, the preferences were for the Bank to be the institution responsible for the reconstruction of Europe. As the realization of the enormity of this task grew, the initial US response was to increase reconstruction
resources but to funnel at least a significant portion of them through the IBRD. Members of the Bank’s board of directors and president, a US citizen, were displeased with this process since it would increase the influence of the US to such a level that the Bank would no longer resemble an international organization, but an agency of the US. After more deliberations and the realization of the Bank’s discomfort with this process, US preferences changed to promoting reconstruction through a bilateral agency where they had complete control. Preference changes towards the Bank became minimal for the next couple of decades.

The second period of mission change highlights the lack of attention by the US. Once US preferences were not focused on the Bank, there was little policy direction pushed by the US. The exceptions to this were calls for the creation of the IFC and the IDA. These were both important international organizations, but the research found no evidence that they influenced World Bank lending strategies. Another area of US preference expression was in lending to particular states. This was an example of the most powerful state trying to use the institution to achieve its self-interested goals (see Chapter 4 for a discussion of this practice). Lending was promoted in states that were perceived as important to the US effort at containment (i.e. Yugoslavia, India). At the same time, there was an active practice of denying loans to states that were not seen as “friendly” to the US, (i.e. Poland, Czechoslovakia). Again, this was an expression of US preferences, but such practices were not related to and did not influence mission change (either its timing or direction).

Once the US does begin to increase its development lending and address issues of human needs in the early 1960s, there is little evidence of these strategies being promoted.
on the Bank. There is a barely perceptible increase in Bank lending to human needs in
the early 1960s, rising from 0 to a high of 1.7%. This increase was nothing very dramatic
and coincidentally, the Bank had already made its first loans in this area back in 1958.
The point is that by 1963 there is a noticeable rise in Bank lending to human needs, but
there is not a clear connection to US preferences. Obviously, the Bank loans are not
contrary to US preferences, but that does not imply that the institution is led by its most
powerful actor. Arrayed against the other explanatory factors, evidence indicates that
differences in the presidents and changes in the policies and procedures of the IBRD
provide a more powerful explanation of change (see sections below).

During the third period of change, human needs to structural adjustment lending,
there was increased pressure from the US on the Bank’s lending practices. As in the
previous two decades, the US continued to use the Bank in a self-interested manner. In
particular, it used its power over loans to oppose any state that had nationalized US
corporations’ properties. The stated policy was to vote against loans “when a country
expropriates a significant US interest without making reasonable provision for prompt,
adequate and effective compensation” (Policies, 1972, p. 74). This was a campaign to
promote US interests, not to encourage a new type of development strategy as evidenced
by the fact that the US would vote against loans when US corporations overseas
investments were expropriated, but not against loans to state-run industries. It was not a
campaign against state run-enterprises, just against nationalizing US firms’ overseas
investments.

In the third period, the other feature of US preferences promoted in the Bank did
concentrate directly on the Bank’s lending policies. By 1973, Congress had begun to
take a new interest in the World Bank that it had not shown since the early years just following WWII. Flowing from this interest were a series of declarations defining policies (see Chapter 5) that the US wanted promoted within the Bank and other MDBs. Interestingly, though, the primary concern was for the promotion of human needs lending, to improve the condition of the poor, promote education, assist in rural development, etc... By the time the US was promoting these policies, the Bank had been actively engaged in this area for over a decade and had been supplying significant resources to it for half a decade. US preferences did not influence the change of the organization, but instead followed and at best reaffirmed the direction the Bank has already chosen. So in this instance, preferences of the leading state change, but only to reflect changes in lending strategies that the Bank had already undertaken. Thus, in this case as well, this hypothesis does not explain change.

The final episode of change entailed a movement to include sustainable development lending in the developmental tool kit of the World Bank. In this instance US preferences play an important role in the changing the lending policies of the institution. The US promoted change in the organization for several years before there was any lending response, and for over a decade until lending in this area surpasses 10%. Consequently, an interesting question is why when the leading power did express a clear set of preferences did it take the institution so long to respond? One piece of this puzzle is that initial US preferences were being promoted by Congress, while Treasury is technically the US liaison with the Bank. This is a question that is more adequately addressed by the organizational perspective.
Indeed, the preference variable highlights the importance of looking across variables when studying an institution. Preferences of the leading power can affect the changes in an organization. However, first the powerful actor must be focused on the institution. In the 1950s and 1960s, there was limited interest in the World Bank and to some degree the organization could function as an autonomous actor. Thus, change in preferences can lead to change in developmental strategies, but the organization has to be on the “radar” of the powerful actor, and this is not always the case. Additionally, these case studies show that before the leading state can push the organization to conform to the state’s changed preferences, it has to wait until there are appropriate structures created within the organization (how and why this may happen is discussed below). A model that relates change in preferences to change in organizational output misses much of the action and limits understanding of the change process. Finally, the preference change of the US towards sustainable development was actually a response on its part to the demands of non-state actors. This fact raises the issue about why the US would change its preferences toward the Bank in the first place; again, interest-based theories are too vague about these processes. The relationship between the US, NGOs, and the organization will be discussed below.

7.2.3 Leadership

Change in the president

Hypothesis 3: When there is a change in the president of the Bank, then there will be a change in the lending practices (consistent with the leader’s prior experiences)

This variable builds on the idea that leaders of organizations have a unique ability to affect change. An important factor for research about this variable is that change in
lending has first to be associated with any change in leadership; then whether any features of these leaders' past experiences influenced this change has to be investigated. During the time frame of this dissertation there were four episodes of change in lending strategies, and eight presidents led the organization, so change is not simply a matter of new leadership but of particular leaders. The leaders who have been shown to have a limited effect on change are Eugene Meyer (June to December 1946), Eugene Black (1949-1962), A. W. Clausen (1981-1986), and Lewis Preston (1991-1994). This is not to say that these were not important individuals serving the Bank, only that they did not contribute to changes in lending strategies.

In the first period of change, there is little influence from leadership. Eugene Meyer's time in office is too short and he is in constant conflict with the executive directors. John McCloy is serving as president when the change in lending strategies to infrastructure occurs. However, there is nothing in his background to believe that he was particularly interested in this type of lending. In fact, much of his overseas career had focused on Europe and the war, so reconstruction would seem to be his emphasis. Instead, an understanding of the structure of the Bank, in particular its Articles of Agreement that specified LDC development, and the inauguration of the Marshall plan better explain this change.

The second period of change is dominated by the presidency of Eugene Black, but he is not responsible for change. Indeed, this is one of the greatest periods of lending stability by the Bank. This is not surprising and fits with his cautious bankers' view of the IBRD and the bond markets that the Bank must rely on to raise its funds. It is not until George Woods takes office that there is a noticeable change in lending. Woods had
a background as a consultant that had brought him into contact with Bank programs and the conditions of the poor in LDCs. He had more experience with developing states before he became president of the institution, and though from a banking background, had other experiences too. These may have assisted him in envisioning a different role for the Bank. To fully understand this vision it is important to investigate his representation of the development problem (see the next section). Robert McNamara came in and oversaw dramatic changes in lending to human needs. Yet, it must be remembered that these changes were already taking place under Woods who was the creative innovator, whereas McNamara followed and built on these human needs strategies.

For the change to structural adjustment lending, the presidents who were important are McNamara and Clausen. McNamara strongly supported his human needs projects and continued to push these until he left office. Clausen was also a supporter of human needs lending but served during a period of dramatic global economic changes marked by rising LDC debt levels and declining will and ability of EDCs to fund aid. His background was firmly in the area of the free market, meaning less government intervention. Clausen did not lead the Bank to structural adjustment lending, but was certainly more amenable to the global circumstances than his predecessor was.

Finally, the change to sustainable development lending occurred under the presidencies of Conable and Preston. Neither have backgrounds that show an interest in the environment, though Conable as a backer of the McNamara era was opposed to SAL and was a supporter of human needs lending. Consequently, change could be anticipated,
but most likely it would have been back to human needs and not towards a new direction (protecting the environment).

Another intriguing finding from this research is that time in office does not strengthen a president’s ability to bring about change. Indeed, most change was instigated with either a new president or in the early years of a president’s term. Long terms in office tend to lead to greater lending stability rather than change.

In conclusion, this variable does not provide much explanatory power. When a case does seem show effective change initiated by leadership, the leadership variable is underspecified. Change may occur when there is a new leader and change may not; what are the differences and how do we understand the direction of change? Greater understanding of the leader’s problem representation of development is necessary to properly evaluate their impact on the organization.

*Change in problem representation of leader*

**Hypothesis 4:** When the president changes his representation of how the organization can best meet its goals, then the lending activities will change to reflect this new representation.

To observe this variable, speeches made by the presidents of the Bank were content analyzed according to the development strategies they promoted. Most speeches included references to several, if not all, of the development strategies. Emphasis was then determined according to percentage of total for each strategy. This allows for a comparison both across a single leader’s time in office and across multiple leaders. Additionally, comparison to the actual lending strategies is possible with these data. The one gap is the problem representation of President Meyer. He only served six months and did not address the Board of Governors.
In the change to infrastructure development, it is difficult to determine the role of
the leader. Partially, this is the result of the short time frame (three years) and the
instability in leadership (two presidents served). There is a marked change in the
problem representation of McCloy to de-emphasizing reconstruction. It is less clear the
direction he envisioned for the Bank. While there is decreasing emphasis on
reconstruction, he dramatically increases his references to structural adjustment lending,
and infrastructure remains the same throughout. Consequently, from the speeches one
may assume that the Bank is planning to lend to both of these categories, but only
infrastructure ultimately receives loans, and SAL has to wait another three decades. Thus
for this period the variable does explain change away from reconstruction, and is less
powerful in explaining the new dominant strategy.

During the second period of change there is considerably more data available
which presents a fairly clear picture of the presidents’ problem representations. Human
needs lending is a relatively insignificant category during the Black presidency. There is
a brief moment, 1950-52, where it rises to prominence, but then quickly disappears. This
is a clear response to the Korean War (see Chapter 4), but did not affect the activities of
the Bank. Black’s focus is on infrastructure lending and he maintains this throughout his
tenure. There are also numerous references to structural adjustment, but this is more in
the abstract than it is related to anything the Bank will do. When George Woods takes
over the office of president, there is an immediate and significant increase in human
needs lending references—a doubling of the total references. This is matched by a
 tripling of lending in this area. Human needs is close to being the dominant strategy,
along with infrastructure, for Woods. A clear distinction between the two representations of the problem is observable.

Human needs lending then becomes the overwhelmingly dominant strategy when the next president takes office, Robert McNamara. Throughout the first decade of his time in office, human needs lending is so dominant that it almost completely pushed out other development strategies. This coincides with the moment when human needs lending surpassed the 10% threshold. Here is some of the reason why McNamara is considered the one who changed the direction of the Bank towards human needs lending. With Woods and McNamara, the significant role of leadership and their problem representations is supported.

The examination of the change to adopting structural adjustment strategies shows an unanticipated result: through nearly the first two decades structural adjustment lending was the second most referenced category. At times, SAL was 40% to 47% of the leaders’ strategies, which made it the dominant strategy. At the same time the organization did not start lending to this area until 1975, not on an annual basis until 1980, and not more than 10% of all lending until 1983. Change came in the last years of the McNamara and the Clausen presidency. This shows that there is less of a connection between presidential problem representations and change. Not only was the earlier recognition of structural adjustment ignored in the actual lending, but by the time the change did occur, the presidents were focused on human needs in the case of McNamara, and infrastructure and human needs in the case of Clausen. For Clausen there is a significant change in his representation of the development problem towards SAL, and the Bank has already begun to lend in this area, so like McNamara before him he is not an innovator, but does
dramatically change the lending mix. Thus in this case leadership is important, but it also is significant to understand the international economic environment, especially the second oil crisis that exacerbated development dilemmas for LDCs.

Finally, sustainable development shows a dramatic rise in the presidential problem representations under Barber Conable. The sustainable development lending by the Bank also increases, but does not achieve the 10% threshold under Conable, and certainly does not satisfy Bank detractors who to this day are criticizing the institution over its environmental record. The threshold of change is crossed while Preston is president, yet his problem representation reflects a reversal to the Clausen era where the primary goal (in leader statements) is structural adjustment lending. Even infrastructure lending references are equal to sustainable development references, yet the institution changes to adding sustainable development to the strategies employed by the Bank. In this instance, the explanatory power of the problem representations is limited. What becomes significant is knowing the preferences being promoted by the leading power in the organization, the changes in the development environment, and bureaucratic changes to the organization.

An overall conclusion for this section is very mixed. As just stated, problem representation of presidents does matter in determining the direction of the Bank. Yet it is also important to look at other variables, especially the preferences of the leading power and bureaucratic changes (discussed below). In the earlier years of the Bank, leaders were necessary but not sufficient to change the organization, or in the case of President Black, to not change. What was required was an organizational structure that enabled them to bring about their vision of change (see below). By the time McNamara
left office, the president's freedom of action was greatly curtailed by increasing attention from the leading power (US) if not from other states, increasing attention from non-state actors, and a vastly larger organization (the size of the staff grew from about 750 members in 1964 to about 5,000 by 1980).\(^1\) In today's world leaders are no longer sufficient, but they remain necessary to bringing about organizational change.

One important corollary to add is that if the leading power is not focused on the institution (or other vocal actors) the leader will have more influence over change, additionally, as the leader's problem representation converges with the preferences of the leading power, then the leader is more likely to affect change. When the leading power is not engaging the organization directly, presidents are able to make significant and dramatic changes to the institution in a short period of time (as was the case with Woods and McNamara). They are able to operate with a greater degree of autonomy which will probably not appear again, if for no other reason than the communications revolution. Access to the Bank's activities through the Internet and email links among interested pressure groups creates a situation in which a leader has less space to act on his own. Likewise, a leader like Clausen is able to bring about change because his problem representation corresponds to the changing preferences of the US, and to the dramatic changes in the external environment.

Finally, leaders like Conable and Preston are unable to influence the organization in a manner that follows their problem representations. To understand this it is important to examine aspects of the bureaucracy of the organization, especially its ability to resist

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\(^1\) This information was provided by a World Bank historian, interview with author (Washington, DC, March 1999).
or bring about change on its own. It becomes evident that bureaucratic changes are critical for a leader to affect lending changes. Even in the case of Woods and McNamara, the changes in what loans could be utilized for was necessary before heavy investment into human needs lending was possible. This change was implemented before Woods took office, and without the intent of making this particular change, but it created an enabling environment for the new leader. This bureaucratic variable will be discussed next.

7.2.4 Organizational change

Hypothesis 5: When there is a change in the organizational structure, a change in lending strategies will follow.

For this variable, change in the general structure of the organization, the operational procedures, and the membership were examined to see if they had an impact on the lending of the Bank. When looking at the first period of change, this is the most significant factor. Change away from reconstruction to LDC infrastructure lending was partially dictated in the Articles of Agreement of the IBRD. The organization was created to assist in the reconstruction of Europe and in the economic development of the LDCs. When the Bank’s reconstruction lending was superceded by the vast sums and low interest rates of the Marshall plan, then the institution simply reverted to its second mandated duty, LDC economic development. Infrastructure lending in particular can be explained by the requirement that the Bank raise most of its funds in the bond markets. This resulted in the new institution being extremely cautious about its lending practices to appease the bond markets. Second, loans were to be used only to finance the cost of
imported goods on any particular project. This gave precedence to infrastructure projects where large quantities of advanced machinery, materials, and technical know-how were necessary.

For the second episode of change, structure again was a key element in understanding the timing of the change, in particular there were four significant changes. First are the aforementioned lending restrictions. These were lifted in 1964 as a result of the financial stability of the organization. An unintended consequence of this change was that it allowed the Bank to be more creative in its lending and become involved in human needs lending for which the majority of the expenditures were “in country.” This enabled the leadership to increase the area of human needs where before it was more difficult because of the restrictions on financial outlays.

Second was the creation of the Economic Development Institute (EDI) in the mid-1950s which was designed to train individuals from member states on development and economic issues. Over the years this institute grew and became progressively larger and a full-time operation. One of the secondary consequences of EDI was to bring educators into the organization; as a result staff members could see the importance of the education of host country nationals. Third was the creation of the IDA in 1960. IDA was created to satisfy LDC governments about non-concessional lending and had fewer restrictions on the use of its monies since they were provided by member states and not raised on international bond markets. The IDA immediately became involved in human needs lending and seemed to function as a “guinea pig” for Bank lending, preceding similar loans by a few years during the 1960s and 70s. The close relationship between the IBRD and the IDA enhanced the flow of ideas and experiences. Additionally, the IDA brought
renewed interest in the World Bank from member legislatures since it had to seek replenishment every few years. By the 1970s, this helped in limiting the autonomy of Bank presidents.

Finally, on a related note were the increased formal interactions that Woods established with other IGOs. He established formal working relationships with FAO and UNESCO. These organizations were heavily involved in human needs lending since this was the basis of their mandates. Here is a clear indication of a formal interaction between the Bank and other "development" organizations. These structural changes did not cause the Bank to change to human needs lending, there still had to be guidance from the president. However, these changes created the formal structures and intellectual environment that enabled the presidents Woods and McNamara to increase the institution's involvement in human needs.

When looking at the change to structural adjustment lending, bureaucratic changes mostly do not explain change. In fact, most of the changes made would seem to reinforce human needs lending such as the creation of departments for population growth and health and nutrition. However, one change that does assist in making structural adjustment loans is limiting the restrictions on project lending. This had been the cornerstone of Bank lending since the European reconstruction loans. Allowing the Bank to lend to programs instead of projects enabled the Bank to become involved in broad economy-wide projects. Initially, this change was promulgated to assist in reconstruction of Nigeria and Peru. Program lending enabled the Bank to later become involved in structural adjustment lending, in which loans are either by sector or are economy-wide. In general though, in this episode of change, structural changes are not very significant.
The last period of change to sustainable development highlights a long, steady progression of operational changes that enhanced the ability of the organization to shift lending strategies. This episode of change provides significant support for the organizational hypothesis. As the Bank increased the environmental requirements on its loans, it became increasingly supportive of sustainable development. Operational changes were not the only significant factors. Structural changes in the organization also contributed to this shift. The most significant of these structural changes was the creation of an NGO unit, which led to an increasingly active role for NGOs in Bank policies. This started as an interaction only at the implementation stage and grew into a process where NGOs were increasingly consulted and brought into the planning process. NGOs were leaders in the movement to promote sustainable development practices throughout the world. They spent years of effort and resources pressuring the US government to promote these strategies in the Bank. However, creating an opening for these actors within the Bank allowed them to pressure the Bank more directly. Ultimately, this has led to an exchange between Bank and NGO personnel, which helps to change the culture of the organization. Consequently, changes in the structure of the organization are significant to changing the organizational outputs.

In conclusion, structural changes are important in bringing change to an international organization. They provide an enabling environment within which other actors can change the lending policies of the Bank. However, it is also important to understand where the impetus for these structural changes originated. The next section will examine some of the theoretical lessons learned here, including concerning this issue.
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<td>Little relationship between power and change. The institution changes several times but power does not, only becomes more diffuse</td>
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*Table 7.2: Summary of Study*
7.3 New model

From this research a model of organizational change can be hypothesized. First, the significant variables would include preferences of the most powerful state, leadership (both understanding of past experiences and current problem representation), other actors (i.e. NGOs), and organizational structure. What is missing is significant, the power variable. This provided the least insights into change, and in fact the US was most important in bringing about change when they were the weakest. This is of importance to those who criticize IOs with weighted voting systems. Instead of these institutions being the pawns of the leading powers, there seems to be many other factors that are more significant. Certainly a weighted voting system limits states’ voices, but the ability of the powerful to control these organizations is overstated and “overfeared.” The most critical factor is to implement changes in the structure and/or operational procedures of the organization that will support the type of change desired. Leadership’s role is critical in bringing this about. Leadership cannot bring about mission change alone, but it is difficult to conceive of structural changes in the organization without the acquiescence of the leader. Instigators of change may also be non-state actors, especially working through leading states to get those states to express their preferences.

Expectations

None of these variables is sufficient. However, operational changes in the organization are the most important and are necessary. If operational/structural changes are not made or do not enable change in desired new direction than the organization will not experience mission change. It may be possible for an overwhelmingly powerful actor
to influence change for a brief period of time, but this will be fleeting. The preference variable and the leadership variables are the most contingent.

Leadership's role will vary according to the degree of interest from the leading state and other important international actors. The less attention, the greater the ability of organization leaders to implement change. Additionally, as size and degree of decentralization increase, leaders' power to bring about change decreases. Problem representation of the leader is also important, but mostly in conjunction with preferences of other actors. Finally, if examining a more historical period of time, leadership's role will increase as we move further back in time. This is partially due to the smaller size of the organizations, but mostly a result of limited attention from other actors, and slower communications and information flows.

The preferences of the leading state can be important, but it depends on timing and means by which try to implement preferences in organization. First, leading state or states must be paying attention to the organization or preferences will not matter. Second, though common sense, these preferences must be expressed before the organization changes. Otherwise preferences may be important in maintaining new direction but are not a cause of change. Then third, and most importantly for this study, the power of preferences depends on how they are promoted. Since structural/operational changes of the organization are so critical, this is the most important means of implementing preferences. For instance, voting against loans that cause environmental degradation does not lead to mission change; promoting the incorporation of operational procedures and mandates that support the environment does lead to mission change most of the time.
7.4 Theoretical Implications

The broader implications of this study for understanding international organizations are many and varied. The most obvious and significant has been stated above, that single variable explanations of change do not do justice to the dynamics involved. A full understanding of change requires consideration of a combination of variables. This is an important methodological insight because much research in international relations likes to focus on single or a few variables for explanation (Waltz, 1979; Gilpin, 1981; Wapner, 1995; Haas & Haas, 1995). Part of this reason is the admirable search for parsimony in the field. However, a quest for parsimony should not obscure what is truly taking place, otherwise our understanding of international phenomena becomes stunted and not reflective of the global events. Additionally, a multivariable explanation allows for change or addition of new variables over time. This project has shown how different variables have affected change in the Bank at different periods of time. Research that is limited to a single causal variable or a single point in time (Lerner, 1964; Finnemore, 1996) is not likely to pick up these often subtle but significant changes in causal power. Indeed, previous theoretical work on organizational behavior in the international arena has argued for a better understanding of its multiple causes:

How the balance is struck...depends, for the most part, on the larger political-economic environment, the structure controlling the organization itself, and the other internal characteristics, such as leadership...(Ness and Brechin, 1988, p. 253).

Each subsection below points out how the various bodies of literature in the field help address the question of change in international organizations.
Organizational structure

The empirical results of this dissertation provided support for the importance of this variable. Of all the variables, this was the most robust. In all the cases of change, the structure of the organization, especially the actual bureaucratic arrangement of the institution and its operational procedures, was critical to bringing this about. However, many scholars who have written about this variable envision an institution as an organization operating and reacting to a loosely defined environment, receiving feedback and changing its operations accordingly (a few of the many examples of this mindset are Ness and Brechin, 1988; Billings and Hermann, 1998; Staw, 1981). This dissertation shows the ways in which “politics” should be brought back into organizational literature. When “politics” is referred to it usually means within the organization (for example, Allison, 1971 discusses some of these perspectives), but here I mean politics among states and politics between states and non-governmental organizations, for example. Changes in structure and operating procedures are certainly important, but to understand why the institution responds to particular aspects of its subjective environment requires an understanding of actors that can affect change within the institution. For instance, the World Bank turned to human needs lending well after other IGOs had become involved in this area. Why did they resist this direction at first and then eventually come around and adapt their lending strategies? To understand when and why particular changes were made to the organization, it is critical to incorporate the role of political actors such as states, non-state actors, and leaders.

Part of problem in the literature is the reliance on “feedback from the environment” to explain change. This is an underdefined variable because it leaves
unanswered questions about what in the environment can/might/does provide feedback, when do the actors observe and not observe potential feedback, and what determines how they respond to it? The implication is that organizations observe the external environment and then respond to signals about success or failure from this environment. As one set of authors state, "When faced with disappointment about organizational effectiveness, actors typically respond by first altering the means they use to realize their common interests" (Haas, 1992, p. 268). This dissertation shows that this is not always the case. In fact, one view in psychology notes that there is a sunk cost to actions which may contribute to continuing down the road of failure (this is termed "escalation of commitment").

Under traditional models of economic rationality, resources should be allocated and decisions entered into when future benefits are greater than future costs. Losses or costs that may have been experienced in the past but that are not expected to recur should not (at least from a normative perspective) enter into decisions calculations. However, individuals may be motivated to rectify past losses as well as to seek future gain...[this helps us understand] at least some of the tendency to escalate commitment may be explained by self-justification motives (Staw, 1981, p. 578).

Thus, an organization is just as likely to continue or intensify current approaches upon receiving negative feedback as it is to change practices. Consequently, the role of the other actors is significant in understanding when and how the organization understands and responds to its environment. For example, non-governmental organizations played a role in pressuring that the response to environmental damage from other projects should be a change in future projects.
Preferences and leadership

At the same time that organizational theory needs to incorporate particular actors to better understand how and when organizations respond to their environment, so too do preferences and leadership perspectives need to include an understanding of how institutions function. Ultimately, the rules and the procedures must be altered to affect meaningful change in organizations. The US has attempted to exert its preferences in the Bank at times by voting against loans to particular states for reasons of the Cold War, nationalization, etc… However, most of the time the US is outvoted in these instances, even when it voted against a Brazilian dam project for environmental reasons. Yet, when changes are incorporated into the policies of the Bank then the institution will change direction. This is significant for those wanting to affect change (see below).

Power

The findings reveal that research focusing on the importance of power (Waltz, 1979; Gilpin, 1981; Mearsheimer, 1995) in bringing about change does not provide much insight into change in the World Bank. In this case distributional changes in power do not occur, yet changes in actions by the organization do take place. There was little, if any, connection between changes in power, or lack thereof, and changes in the lending strategies of the World Bank. The variable is underspecified when trying to understand direction and timing of change in an organization. Even if connected with preferences, there is evidence of the organization resisting the strongest state both in the early years and later as US power declined. This variable needs to be reworked to consider an understanding of the processes and structures of organizations; it is the weakest of the variables explored in this research project. It is recognized that this is not a true test of
these theories since these authors primarily focus on systemic power and systemic changes. However, since the voting power within the Bank is a reflection of systemic economic power this is not an unjust criticism of these theories.

Looking inside an organization

All of the above points focus on the importance of knowing an organization and how it operates because, ultimately, the “devil is in the details.” This is echoed in the statements of Keohane, Finnemore, and Martin at the 1998 APSA conference when they claimed that what needs to take place in organizational research is a greater understanding of how organizations work. Often research in international relations theory has focused on whether international organizations matter. For example, one of the core debates is between those who say institutions are epiphenomenal—powerful states build institutions and work within them when it furthers the states’ causes (see Martin and Simmons, 1998 for a discussion of this literature; also, Mearsheimer, 1994). An issue that is raised less often is that important to understanding the role of international organizations is understanding how they function. This enables us to understand how states can or cannot use, or be used by these entities. For example, the US often did not succeed when it tried to use the IBRD to further its agenda. This study has revealed that a state (or any actor) has to apply pressure for change in a much more nuanced way than implied in extant work, if that state wishes to bring about enduring change.

It is not possible to understand the influence of “new” actors on international institutions, either, without looking at the processes like those investigated here. Otherwise the details can be missed and these are vital to the task of developing a clear...
understanding of change. A good example of the off-base conclusions that are made when the actual events are not fully investigated is the following. Haas and Haas (1992) describe change to sustainable development in the Bank in the following manner:

US NGOs sounded the alarm in the early 1980s that large-scale Bank-funded projects in Brazil were contributing to massive destruction of the Amazon rain forest. With the US government, they pressed the International Bank for Reconstruction and Development (IBRD) governing board to pay greater attention to environmental consequences of its funded development projects... (Haas, 1992, p. 268)

The authors go on to describe how President Conable changed the Bank to be responsive to environmental concerns. This description is not necessarily wrong, but could be more right. There is an implication of great agency on the part of NGOs. It misses the role of NGOs within the organization. Additionally it misses the entire process of change, that these demands were resisted, that Congress was not the best forum from which to address change, and that when the US did vote against projects on environmental grounds they were overruled. It was changes in policies and procedures that led to a change in the Bank.

7.5 Implications for affecting change

An important finding of this dissertation is closely related to the previous section, that one of the strongest relationships was the organizational structure variable. Those wanting to affect change in the World Bank, and presumably in other international organizations, should focus their efforts on changing the policies and procedures. This is when change is most likely and when it can be institutionalized as a permanent feature of the organization, otherwise attacking particular projects does not lead to positive results. Either the Bank ignores these types of protests because they are trying to uphold the
integrity of the institution as only making decisions based on sound economic principles. Likewise, even if a project is cancelled because of the powerful states' moves, the "old" thinking can continue. To really change the institution entails changing the procedures.

The case of the NGO pressure on the US government in the 1980s is a perfect example. These actors put tremendous pressure on the government, which passed this on to the Bank, but there was little change until procedures were changed. Additionally, pressure from Congress was more likely to be ignored than pressure from Treasury. This may be the institution responding to what it sees as a serious expression of US preferences (from Treasury, the "proper" liaison with the Bank) and a less genuine one (Congress, which is motivated by narrow political interests). In fact, during interviews at the Bank when Congress was brought up, many rolled their eyes that "yes, this institution does try to influence us." Many in the Bank saw Congressional behavior as part of a political game played for domestic stakes with this international organization. Thus pressure should be applied to Treasury because it was seen as a more legitimate voice.

7.6 Future research

The research conducted for this project provided an understanding of the complexities of the IBRD and of LDC development and its struggle to learn about and redefine what is meant by the term. The recent protests in Washington (in April 2000) brought to light the importance of understanding this history and being able to place the actions of the Bank in an historical context. While it is so often the target of vitriol, it is important to be fair to the Bank and study the institution in a serious and systematic manner. As mentioned at the beginning of this dissertation, many who study this
institution do not undertake this type of analysis. More research needs to be conducted that does not use the Bank and its loans to prove a particular point of view.

Changes in the structure and procedures of the organization were shown to be critical in this research. A further analysis of this type of change in other organizations would help to determine if the findings of this study are generalizable. A first new focus would be other institutions of an economic nature; the International Monetary Fund and United Nations Development Program are the most obvious cases. The IMF has a similar structure and voting system to the Bank, and the UNDP has different governance structures and closer ties to the UN system. Exploring how these IOs reacted during various times of change would help illuminate the explanatory power of the variables. Also, the way this variable was related to others, especially the preferences of leading states, could be explored by turning to an institution in the political or political-military arena, because it is in those types of issue areas that state preferences push around institutions in the pursuit of security. One possible study would be the changes in the mission of NATO, whether there were corresponding changes in operational procedures before mission change, or after the mission had already changed. The expectations derived from this research are that the former would have occurred. Finally, one finding noted above was that the institution's response to pressure by leading states may be contingent upon who the liaison within the leading state is. The World Bank staff was resistant to pressures from Congress, but less resistant to working with the Treasury Department. When looking at other IOs, future work can also investigate this relationship.
As was shown in this dissertation the role of non-state actors was only significant in the last episode of change. To see how their role as an agent of change is evolving, research can take two approaches. First, is a look at recent Bank/NGO interactions. In the 1980s, the NGOs needed the US as a mouthpiece for their criticisms. Now that they have a place within the organization it is plausible that this will diminish the role of state preferences in the model of organizational change. Additionally, the role of NGOs in other organizations is critical. This research pointed out the importance of being included into the formal decision-making structure of the organization. A comparative analysis across organizations could help bolster or refute this finding.

Additionally, I have an interest in exploring further this change to sustainable development and especially what exactly the bank has done in this area since 1994 under the new president, Wolfensohn. A systematic study of lending and policy outputs over the last ten to fifteen years would help begin to address concerns and bring the debate out of the polemical world. Following this reasoning, research needs to be conducted into the implications of these policy changes for the goal of development. In other words, is the most recent change a “good” one? Is the current repertoire of lending, a mix of four to five strategies, the optimal mix, incorporating how much has been learned about development over the years? A few comparative case studies would be interesting to see how Bank projects have actually met sustainable development goals and addressed issues of development more generally. Overall, this research into the effects of four perspectives has provided a road map for additional in-depth investigations of the dynamics of institutional change.
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