Lecture 22: The World Bank

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Today’s Plan

• Housekeeping
• Reading Quiz

• Today’s topic:
  • The World Bank
    • What the World Bank Does
    • Why is the World Bank so controversial?
    • A couple of mini-cases
Housekeeping

• South Area Tuesday Nights with the Faculty
  • Susan Napier Berger, VP at Goldman Sachs
  • Hiliary Critchley, Senior Manager at Optimity Advisors
• 6:00pm Tonight, Marks Hall 101 — enter Marks hall, turn right, go through the study room and into Tim’s apartment.
Reading Quiz (1)

1) Which of the following is/are FALSE in regard to The World Bank?

- A. There are five separate institutions that make up The World Bank
- B. The World Bank came out of the Bretton Woods conference
- C. The World Bank focuses on short term aid for some of the world's most industrialized nations
- D. The World Bank provided almost half of Korea's public funding in the high-growth years of the 1970s and 80s
- E. D & C
Reading Quiz (2)

Which of the following is not one of the World Bank’s 5 largest shareholders?

A. France
B. Germany
C. The United States
D. China
E. Japan
Multilateral Aid and the World Bank

- World Bank’s goal is to reduce poverty
  - Also mandated to promote foreign investment, free trade, and capital investment
- Grants, no-interest or low-interest loans to governments
  - Infrastructure, education, health, etc.
- Also in the WB group: Insurance and loans for private investors, and assistance in resolving investments disputes
The World Bank as Development Brain Trust

- The World Bank has a large research arm
  - Develops best practices
  - Educates governments and NGOs
- The World Bank also collects and disseminates a lot of data
  - World Development Indicators
  - Database of Political Institutions
  - World Governance Indicators
  - Doing Business Indicators
So everyone loves the World Bank, right?
Why the haters gotta hate?

• Poverty reduction is hard
• Big infrastructure projects aren’t enough
• So the bank tries to address health and education too
• But they have to address macro-economic policy too
• And then there are the political institutions that are causing this bad macro-economic policy
• And by now there isn’t much left of sovereignty....
Why the haters gotta hate?

- The World Bank has pushed developing countries to open up their economies
  - This creates winners and losers
Why the haters gotta hate?

• Especially prior to the late 1990s, the World Bank didn’t pay much attention to the environment
  • Dams in particular have been criticized
Why the haters gotta hate?

- World Bank is unaccountable to the poor
  - Created by rich countries, accountable to rich countries
- The foreign investment and trade they promote may help investors more than receiving countries
Why the haters gotta hate?

• Even no-interest loans can be hard to pay back
  • Governments in poor countries are generally weak and often corrupt
    • Working through them inevitably involves waste and corruption
The World Bank and Governance

- Building capacity is the (relatively) easy part
  - Slow, difficult, painstaking, but uncontroversial
- What about addressing corruption and accountability?
- There is a paradox to external impositions of democracy and accountability
Sovereignty and the Limits of Conditionality

• The World Bank has been running a land titling program in Cambodia.
• In 2009, the Boeung Kak lake development in the capital displaces thousands of families who are denied title under the program.
• Complaint filed with the World Bank.
• Bank withheld all future loans until government granted title & compensation.
Is the Bank overstepping its bounds?

- Eminent domain is used all the time by governments to achieve development goals
  - Including in the U.S.
- Is it right for the World Bank to decide whose property rights take precedent in Cambodia?
Is the Bank getting it right?

• What are the upsides of this project?
• How inevitable are these sorts of downsides?
• Should the World Bank be funding big infrastructure projects?