

## **50<sup>th</sup> Anniversary of the World Bank and IMF Prompts Criticisms**

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In 1994 the World Bank and the International Monetary Fund (IMF), collectively called the Bretton Woods Institutions or BWIs, turned fifty years old. While most birthdays are occasions for celebration, the 50th anniversary of the BWIs was met with mixed emotions. Supporters observed that these institutions, despite their flaws, had accomplished much of what their founders intended: a more peaceful world and increased global prosperity through liberalized economies.

Some critics of the BWIs greeted the 50th anniversary with a rallying cry of "Fifty Years Is Enough," signifying their dissatisfaction with the policies and programs of the World Bank and IMF. Among the most visible and vocal of BWI critics, a campaign called "Fifty Years Is Enough" was founded to respond to the 50<sup>th</sup> anniversary of the BWIs. In 1994, the campaign included more than 200 religious, labor, human rights, and environmental organizations from more than fifty countries across the globe. The coalition is still active today. Additionally, groups and regions critical of the BWIs are found everywhere and represent every conceivable ethnic, religious, political, and socioeconomic background.

Criticisms of the BWIs are as varied as the critics. At their half-century mark, *The Baltimore Sun* editorialized that the BWIs were "under attack from left and right, from environmentalists and libertarians, from economists with conflicting ideologies who nevertheless see the power of private financial markets overwhelming these government behemoths [the World Bank and IMF]." In 1994, even funding nations such as the United States and Germany had begun to question the wisdom of World Bank and IMF initiatives.

In this section, you will learn about criticisms of the BWIs that were being made in the early 1990s, leading up to 1994, on the occasion of the BWIs' 50<sup>th</sup> anniversary. We will concentrate on criticisms regarding the environment, human rights, and the perpetuation of inefficient state-dominated economies. As you read this section, keep in mind that many—if not all—of the criticisms voiced in 1994 are still being raised today. As you think about these issues, ask yourself whether the BWIs are necessary. Would smaller regional or local institutions

accomplish more in the global struggle against poverty? At the fifty-year mark, was the BWIs' approach to development on the whole a success or a failure? In considering these questions, you may want to think about the BWIs' responses to some of the criticisms enumerated here, which can be found in the next section, "The IMF and the World Bank Respond to Criticisms."

***A. Environmental Criticisms of the BWIs by Environmental Organizations and Indigenous and Local Populations in the Developing World***

In the 1980s and 1990s, the World Bank and IMF were criticized for contributing to environmental devastation in the economically-poor but resource-rich countries that received their aid and advice. Specifically, the World Bank was decried for funding projects that resulted in massive environmental damage. Critics also targeted the IMF, claiming that its role in degrading the environment was a function of the measures taken by poor nations to quickly repay short-term loans made to stabilize their foundering economies. Critics asserted that poor nations squandered their resources and by extension the environment in efforts to repay loans from the BWIs.

**1. The World Bank: Criticized for Contributing to Adverse Environmental Impacts in the Developing World.**

This sub-section focuses on three primary criticisms of the World Bank's alleged effects on the global environment, as advanced by groups such as environmentalists and indigenous populations in the early 1990s: 1) that the World Bank consistently funded projects that contributed to massive environmental damage, 2) that World Bank projects advanced the interests of industrialized nations at the expense of developing nations, and 3) that World Bank projects worsened the plight of sustenance farmers in developing countries.

**a. Critics charged that the World Bank funded projects that contributed to massive environmental damage.**

In 1994, the first ever official complaint was filed with the World Bank's Inspection Panel by a coalition of local and indigenous Nepalese groups over plans to finance the Arun III dam in Nepal. The Inspection Panel was created by the Bank in 1993 to respond to the concerns of local citizens about Bank-funded projects. The case study below tells the story of local,

national, and international opposition to Arun III. The Bank ultimately withdrew from the Arun III dam project in 1995.

**i. CASE STUDY: Nepal: The Arun III hydroelectric project sparked protest around the world and was ultimately abandoned by the World Bank.**

The World Bank's proposed Arun III hydroelectric project in Nepal was opposed by environmentalists and local populations who charged that it threatened "unique environmental and cultural treasures" of Nepal. In testimony before the United States Senate, they noted that the proposed site was in an "isolated, biologically-rich and ethnically diverse mountain valley" located in one of the last virgin forests of the Himalayas. They also contended that public involvement by the Nepalese—at both local and national levels—had been nonexistent because the Bank withheld crucial technical information on the project from the parties.

The Bank conceded that the dam would "bring rapid and irreversible changes to the area," but continued to promote the project. Environmentalists asserted that some of these "changes" would include "severe erosion, stream disruptions, floods, land slides, and the diminution of the rich biodiversity in the valley." They also noted that the project was expected to have "serious adverse impacts on the economic, social, and cultural environment" of the Arun Basin, then home to more than 450,000 people representing ten ethnic groups.

These concerns as well as the lack of public involvement in the project planning process were raised by the non-profit Arun Concerned Group in its Request for Inspection by the World Bank Inspection Panel on October 24, 1994. The request included a list of World Bank policies and procedures that the Arun Concerned Group alleged had been violated in promoting the Arun III project. The Arun Concerned Group also charged that the Bank and its partners ignored alternative proposals by Nepalese organizations for a more cost-effective, less environmentally-damaging plan. The project was investigated by the Inspection Panel and the Bank ultimately withdrew support for the dam in 1995.

**ii. Critics linked other controversial projects funded by World Bank to environmental degradation in the developing world.**

The Arun III dam is not the only highly criticized project financed by the World Bank in the developing world during the 1990s. Other World Bank projects that have been opposed by environmental and indigenous groups include:

- The Sardar Sarovar Dam in India, which displaced over 240,000 people. This population was relocated to sites with poor land, no clean water, and no electricity. The World Bank withdrew from this project in 1993.
- The Polonoroeste Frontier Development Scheme in Brazil, which also led to mass human resettlement, this time in formerly pristine rain forests; the project also resulted in significant deforestation of an area of rainforest equal in size to Great Britain.
- The Pak Mun Dam in Thailand destroyed critical fisheries on the Mun River, impoverishing the people who relied on the fish as a source of income.
- The Singrauli in India, where twelve open-pit coal mines resulted in pollution that tainted the region's water, food crops, and fish stocks. Over 300,000 people were relocated to complete the project, many to slums that lacked basic sanitation facilities and no possibility for securing land rights.

Critics of the Bank used these examples to illustrate how the greatest burdens of environmentally harmful projects fell disproportionately on the poorest segments of the population. They claimed that the world's poorest people face significant challenges including overpopulation, unsanitary water supplies, soil erosion, and air pollution that are made worse by Bank projects. Further, critics highlighted how the wealthy, elite leaders of poor nations and the civil servants of the BWIs were themselves unaffected by these adverse conditions.

**b. Critics of the World Bank alleged that it advanced the interests of industrial countries and their environmentally destructive policies.**

Critics also contended that World Bank projects and policies ignored sustainability in favor of promoting environmentally destructive projects advanced by industrial countries. Such an approach, these critics claimed, exacerbated environmental problems. They asserted that industrialized nations should press for global solutions recognizing the need for sustainability in developing countries.

**i. CASE STUDY: In 1994, Greenpeace charged that the World Bank had neglected its duties, undermining implementation of the Montreal Protocol.**

The Montreal Protocol on Substances that Deplete the Ozone Layer (Protocol) was originally signed in 1987. It was the world's first environmental compact, an international response to the threat posed by chlorofluorocarbons (CFCs) to the earth's ozone layer. The World Bank was designated as the primary implementing agency for the agreement.

In September 1994 Greenpeace, an international environmental organization, released a report alleging that the Bank failed to implement and in fact undermined the Protocol. Greenpeace charged that the Bank, which controlled 80% of the monies pledged by governments to implement the Protocol, had abused its power and instead benefited transnational chemical companies that produced CFCs. Through research of Bank projects and its management of the money contributed to implement the Protocol, Greenpeace found that ozone-depleting substances were still in use and that they were being "vigorously promoted" in developing nations by the Bank. Greenpeace concluded that "the Bank's bureaucracy is slowing down the process of CFC phase-out, and establishing markets for obsolete, destructive technologies throughout [developing nations]."

**ii. Critics claimed the World Bank enabled exploitation of natural resources in developing countries by the industrialized world.**

Critics further claimed that the BWIs played a major role in compounding the problems faced by developing countries in the push to fuel economic growth and repay loans to the industrialized world. They asserted that this situation led poorer countries to deplete their resources or sell them to foreign companies for exploitation. Additionally, critics charged that the projects the World Bank chose to fund advanced industrialized countries' desire for cheap raw materials, further fueling the rapid depletion of natural resources in developing countries.

**iii. Critics charged that the World Bank facilitated the export of environmentally harmful technologies from the industrialized world to developing countries.**

Critics suggested that the Bank used "transfer of technology" credits to finance the movement of out-of-date production systems to developing countries from industrialized nations,

where they were no longer in use. The transfers usually involved heavy polluting industries that would have faced stricter regulations and higher costs in industrialized countries. Critics condemned this trend because they said banks and companies in the industrialized world realized profits from these transfers at the expense of public health and the environment in developing countries. They asserted that the results for developing countries were only further indebtedness and increased vulnerability to environmental and public health degradation.

**c. The World Bank was criticized for worsening the plight of the small farmer.**

Allegedly ill-conceived agricultural projects served as further evidence to critics that the World Bank did not adequately consider the impact of its plans. Critics recounted how World Bank projects encouraged small local farmers to substitute food production for cash crops, often in areas that were ill-suited for raising the latter. This strategy reduced the amount of food available for consumption and led to soil depletion, increased use of fertilizers and pesticides, and financial difficulties for the impoverished. Critics charged that the World Bank advocated agricultural programs that were damaging to farmers while claiming that they were beneficial.

**i. CASE STUDY: Bangladesh: Hajera's story—how a flood control project funded by the World Bank threatened the livelihood of Bangladeshi rice farmers.**

The story of Hajera, a fifty-year-old Bangladeshi rice farmer, appeared in the July 1994 issue of *International Wildlife*. Hajera and her family depended on seasonal floods brought by the Jamuna River to provide fertile soil for the crops on which she and her family subsisted. The article reported that her way of life was threatened by the "Flood Action Plan," a World Bank-funded initiative to funnel floodwaters to the sea using a series of embankments. The embankments threatened to permanently submerge the shifting sandbar islands on which Hajera and other Bangladeshi rice farmers lived. Hajera claimed that she and other subsistence farmers were not involved in decisions about the Flood Action Plan. The article concluded that unless the Bank altered its approach to this project, Hajera and rice farmers like her would most likely end up homeless. Hajera's story provides a useful backdrop against which to consider the criticisms that follow.

**ii. Critics contended that the World Bank ignored project design flaws and poor planning, pushing ahead with expensive and sometimes harmful or unnecessary initiatives.**

Some critics claimed that the World Bank and the governments of borrower countries in the developing world willfully ignored inherent flaws in project design, only to blame the “ignorant peasants” when the project failed to meet expectations. This approach, critics claimed, gave the government continuing long-term control over projects and allowed the World Bank to say that the failures were not their doing. Environmentalists alleged that the resulting problems would not have been as severe if the World Bank had incorporated environmental planning at earlier stages in project development. Critics also argued that the World Bank’s environmental office was understaffed, and that the few staffers available did not become involved with projects until they were already well underway and little could be done to ensure the environmental soundness of the initiative. In some countries, local activists sought to force the World Bank to comply with its stated operational policies regarding relocation, resettlement, and environmental assessment by petitioning the World Bank’s Inspection Panel, which is discussed above. One such example is the Arun Concerned Group of Nepal’s response to the Arun III project, also profiled above.

**2. The International Monetary Fund was also Criticized in the Early 1990s for Contributing to Adverse Environmental Impacts in the Developing World.**

A 1994 article pointed out that “...the IMF escapes the public criticism that awaits its sister institution [the World Bank], largely because it does not lend for individual projects and so does not attract the attention of the vocal environmentalist groups who closely monitor the World Bank’s lending for dams and power stations in the developing world.” That is, the IMF does not receive as much criticism because of its “behind-the-scenes” role in international finance and development. Rather than funding individual projects, the IMF works to insure global economic stability through the provision of technical advice and short-term loans to “support the currencies of governments in dire financial straits.” The problems and criticisms of the IMF tend to arise in regard to the manner in which it insures that its loans are repaid. This is as true today as it was in 1994.

To insure prompt loan repayment, the IMF requires government recipients of its short-term loans to undertake austerity programs known as structural adjustment programs (SAPs). In 1994, critics contended that the SAPs threw local economies into chaos: wages fell, taxes rose, social programs shrank or disappeared altogether, and precious natural resources were squandered in the drive to repay loans by increasing export earnings. Critics claimed that the IMF's indirect but pervasive effects were devastating to the developing world.

Environmentalists contended that the IMF contributed to environmental degradation in the developing world through unsustainable short-term economic development programs. They also claimed that the IMF lacked the expertise to deal with environmental issues and alleged that it had done a poor job of implementing reforms mandated by the U.S. Congress in 1992. Critics further asserted that the IMF should promote sustainable trade policies. They called on the IMF to consult with independent environmental and social experts to meet that goal, rather than pursuing its alleged "one-size-fits-all" approach to the developing world.

### ***B. Human Rights Criticisms of the BWIs in the Early 1990s***

Critics in the early 1990s often charged that the BWIs undermined human rights in the developing world. This section provides an overview of three primary areas that prompted these criticisms: 1) Bank-funded projects; 2) the BWIs' approach to loan repayment; and 3) the BWIs' willingness to lend to governments that engaged in direct violations of human rights.

#### **1. Critics of the World Bank Claimed that it Habitually Funded Projects that Undermined Human Rights.**

Critics claimed that the World Bank ignored opportunities to improve life for people in developing nations, instead promoting massive projects that worsened their situation. This section considers three areas that critics highlighted in enumerating the human rights-related shortcomings of Bank-funded projects in the early 1990s: 1) forced resettlement, 2) disregard for the interests of indigenous peoples, and 3) failure to address the role of women in development.

##### **a. Forced resettlement of indigenous and local populations as a part of initiatives funded by the World Bank was reviled by critics in the early 1990s.**

Critics charged that the World Bank funded programs designed to benefit one group of citizens at the expense of another. They cited forced resettlement programs as one of the chief examples of such a project. Forced resettlement programs often compel native populations to leave traditional tribal lands or relocate from densely populated to less-densely populated areas. The use of forced resettlement as a component of Bank-funded projects appeared at that time to be prevalent: one study completed by the World Bank in the early 1990s stated that one in seven dollars spent by the Bank funded projects that included forced resettlement.

Forced resettlement occurs throughout the developing world, both in the 1990s and today, especially in areas of South America and Southeast Asia. In 1994, critics claimed that common threads ran through the rationale for these projects. Specifically, critics noted that in each case both the governments and the Bank promised: 1) financial assistance for those who voluntarily resettled; 2) that resettlement sites would be as good as or better than currently inhabited sites; and 3) that no indigenous peoples would be forced to move, or overwhelmed by settlers. Little to no evidence supports the claim that governments sponsoring resettlement abided by these promises. Anecdotal evidence points to the opposite state of affairs. Too often, areas targeted as resettlement sites were unfit for the skills of the settlers or were already inhabited, resulting in increased poverty and strife.

Farmers tended to be especially hard hit by resettlement. When farmers were moved to new areas as a result of Bank-funded projects—either directly through transmigration programs or indirectly by displacement due to the building of dams, mines, roads, or other development activities—they usually were not prepared to cope with the new conditions they encountered. From Indonesia to Brazil, settlers were moved to areas where the soil and conditions were not suited to farming food crops. Additionally, in attempting to cultivate such lands, farmers often overused fertilizers and pesticides. Moreover, there was little access to markets in many areas chosen for resettlement. Under these circumstances, the resettled farmers and their families faced starvation if their crops failed.

- i. **CASE STUDY: Indonesia's transmigration program—critics asserted that the plan was a failure, pointing to rampant poverty, strife, and disease at resettlement sites.**

In 1994, Indonesia boasted the world's largest resettlement program under its transmigration policy; the program was undertaken with World Bank support and funding. It began in the 1950s, and in roughly forty years hundreds of thousands of poor farming families from the highly populated islands of Java, Bali, and Madura were moved to less-populated islands in the Indonesian archipelago. Indonesian officials claimed that the program "help[ed] spur the development of the sprawling island nation and give its poorest families the chance to own their land and significantly improve their living standards." The program's critics painted a different picture.

Critics of the program pointed to a survey finding that transmigrants were unable to improve their living standards on eighty percent of the resettlement sites. Many of the farming families had been relocated to rainforest areas that did not support agriculture. Another challenge for Indonesian transmigrants arose in cases where relocation sites were already inhabited by indigenous tribes who responded violently to the arrival of transmigrant settlers. Indonesian government documents from this era reveal that one group of transmigrants was first "thrown out of Java" and was later "chased out of Aceh" by their unwilling indigenous "hosts," who themselves saw the program as an attempt to eradicate their traditional culture.

Officials touted the program as voluntary and asserted that transmigrants received relocation assistance in the form of housing and agricultural support. Based on the government's own data however, neither of these promises was fulfilled, say critics. Rather, critics contended, transmigrant populations were composed of the poor, the powerless, and the unpopular; specifically, farmers, beggars and vagrants, and political prisoners. These groups were relocated to make way for industrial and tourism projects. According to critics of the program, transmigrants were also used to provide cheap labor for new economic sectors that the Indonesian government sought to develop.

Environmental groups noted that tens of thousands of acres of rainforests were cut down to create additional relocation sites. Disease and hunger were rampant and transmigrants were attacked or ejected from resettlement sites by indigenous inhabitants. Over fifty percent of transmigrants lived below the poverty level and twenty percent lived below the subsistence level. The Indonesian government's reply, in this case to an appeal from transmigrants in South

Kalimantan: “Don’t rely on the government and don’t wait for divine intervention to overcome your problems.” Critics replied that through relocation, the government had in fact created these problems.

Finally, critics of the Indonesian transmigration program and the World Bank’s involvement in it pointed to the problematic politics involved. In 1994, Indonesia was ruled by an authoritarian military dictator, General Suharto, who was accused of numerous human rights violations. Critics added the “impropriety” of the Bank loans to a ruthless dictator to their charges that it had enabled a program that negatively impacted the environment and economics of Indonesia, while increasing human suffering.

**b. World Bank critics alleged that the institution threatened the rights of indigenous peoples.**

Critics claimed that the World Bank played a substantial role in enabling the severe mistreatment of indigenous peoples in the developing world. In 1982, the World Bank responded by establishing its first operational management statement (OMS 2.34) on indigenous peoples, “Tribal People in Bank-Financed Projects.” This statement was updated in 1991 as the Bank’s “Operational Directive on Indigenous Peoples” (OD 4.20). This was the policy in place in 1994. Advocates for the human rights of indigenous peoples like the non-profit Bank Information Center conceded that the policy “looks good on paper,” but countered that its implementation by World Bank staff was poor to non-existent.

They claimed that the directive was not routinely applied to projects that adversely affected indigenous peoples. Critics also asserted that many Bank project managers were unfamiliar with the policy or resisted its application. Additionally, while the policy was clear with respect to its application in projects that had “territorial impacts,” e.g., dams and roads, it was silent on how to deal with projects requiring “development” of indigenous lands.

**c. In the early 1990s, the World Bank was charged with failing to deal with women’s role in development.**

Critics also claimed that women, especially poor women, paid a disproportionate share of development’s costs. Women comprise over fifty percent of the global population, but earn only

one percent of the world's income and own less than one percent of its property. Despite these statistics, the World Bank did not include women as a separate category in its reports on the world's poorest groups.

In the 1990s, organizations that worked with poor women throughout the world were concerned that efforts to include women in development were futile. A major problem they raised concerned efforts to improve women's productivity. In calculating the output and productivity of women throughout the world, major multilateral institutions like the BWIs considered only earned income in measuring market value and productivity. However, in the vast majority of developing nations, the woman as homemaker earned no income. Primarily responsible for child rearing duties, housecleaning, cooking, gardening, collecting water, purchasing food, and so on, her productive activities were not measured when economic statistics were compiled. Therefore, when statisticians' measures indicated that women's productivity levels had increased, it meant that women had secured a job outside the home. This approach ignored the fact that women in the developing world still had to perform traditional duties in the home as well, so becoming "productive" really meant doubling their workday.

## **2. More Criticisms of the BWIs: Observers Claimed that Structural Adjustment Programs Exacted Enormous Social Costs on Developing Countries.**

The second primary area of criticism directed at the BWIs' impacts on human rights related to the "structural adjustment programs" or SAPs. These SAPs are typified by what critics claim—both in the early 1990s and today—are harsh economic adjustments that developing countries are compelled to make in order to receive funds from the IMF and the World Bank. SAPs typically include: 1) devaluations of a country's currency (i.e., making the currency worth less in relation to other currencies); 2) cuts in government spending and subsidies, including spending for social programs; 3) reductions in the money supply, which may result in higher interest rates; and 4) privatization of state-owned entities, which may result in loss of jobs.

During the debt crisis of the 1980s, many debtor countries implemented these measures. Critics of the BWIs believed that vulnerable groups, such as the poor and women, were hit the hardest by the SAPs. Indeed, most statistics show that during the debt crisis, poverty increased

and the gap between the rich and the poor widened. This led observers to label the 1980s as the "lost decade," when debtor countries lost all opportunities for growth and development.

**a. CASE STUDY: Latin America: Finance Ministers from three countries touted by the World Bank and IMF as “model economic reformers” challenged the BWIs’ fiscal policies.**

Some of the most vocal critics of the BWI-imposed SAPs in the early 1990s were the governments of nations that felt compelled to adopt them. The criticisms came from countries the BWIs had held up as “model economic reformers,” including Mexico, Chile and Argentina.

- **Mexican Finance Minister Pedro Aspe** noted that he had learned from his nation’s experience with the BWIs that high levels of economic growth are not enough to ensure true economic health. He stated that “[s]ustained growth is not sufficient. Its fruits must be shared fairly by society.”
- **Chilean Finance Minister Eduardo Aninat** asserted that his nation could not conscience “breakneck speed” in economic growth at the cost of human suffering. He said “[w]e see development as a wider issue, not just a question of posting record Economic [sic] growth rates.”
- **Argentinian Finance Minister Domingo Cavallo** argued that “it was unrealistic for him to achieve budget surplus after budget surplus if it meant continuous cutbacks in social spending.”

The effects of SAPs imposed by the IMF and the World Bank in the 1990s were even more profound than measures applied during the debt crisis of the 1980s. Critics claimed that the SAPs were not just intended to ensure prompt loan repayment, but to fundamentally change the economic and cultural foundations of countries seeking the BWIs’ assistance.

**3. The BWIs Were Reviled by Critics for Making Loans to Nations that had a History of Human Rights Violations.**

Supporters of human rights initiatives expressed anger and dismay at the lending practices of the BWIs in the 1990s. However, the harshest criticisms were leveled at the BWIs for lending to countries that had records of mistreating their own citizens. To some observers, it

even appeared that the BWIs preferred to work with authoritarian rather than with democratically-elected leaders.

Critics pointed to cases where the BWIs denied aid to democratically-run countries, only to approve the provision of funds when the same countries were ruled by oppressive regimes. For example, in the late 1970s, Chile (under Augusto Pinochet), Uruguay (under Juan Maria Bordaberry), Argentina (under Leopoldo Galtieri), and the Philippines (under Ferdinand Marcos) received hundreds of billions of dollars in loans from the BWIs. The aid was provided despite the fact that each of these countries was governed by an authoritarian leader who engaged in repressive tactics including torture. Critics also noted that the World Bank refused to make loans to Brazil's democratically-elected Goulart administration, and then approved lending to Branco's military dictatorship in the same nation in 1964. In response to the Asian financial crisis, both the World Bank and the IMF agreed to make loans to Indonesia, a country excoriated for its violations of human rights under General Suharto's dictatorship. The BWIs claimed that their funds were not directly utilized for programs that repressed or tortured citizens. Critics responded that when the BWIs provided loans to repressive regimes, other resources were "freed-up" that could be used to harm citizens.

### ***C. Critics Charged that BWI Funding Policies and Preferences Fostered State-Controlled and Therefore Inefficient Economies***

This section considers critics' claims that the BWIs' lending choices promoted statism and enabled inefficient governments. Further, critics asserted that the resulting project failures proved that the BWIs themselves were inefficient. This section focuses on three charges made in the 1990s against the BWIs' policies in this respect. First, the assertion that BWI lending policies promoted state-dominated development is discussed. Second, it reviews the proposition that the BWIs actually encouraged risky investments. Third it discusses the contention that the BWIs failed to distinguish between good and bad credit risks in making loans.

#### **1. Supporters of Liberalized Markets Claimed that the BWIs Promoted State-Dominated Development.**

Another school of criticism accused the BWIs of supporting inefficient and corrupt governments. They asserted that this practice resulted in government dependency on BWI

assistance. Rather than moving countries towards market-based economies, these critics charged that the IMF and the World Bank promoted inefficient state-dominated development.

The BWIs cited to Asian economies as examples of countries that succeeded in industrializing and developing with their aid. While Asian nations were successful in this regard, critics noted that Asia was home to some of the most tightly regulated economies in the world. High import tariffs, quota systems, and high levels of regulation and governmental control were typical attributes of the economies in that region.

The BWIs work only with governments or government-sanctioned projects. In the 1990s this approach greatly increased the power and control that the government had over the economy. Loans were typically either used to fund potentially unnecessary, large infrastructure projects or repay debts owed to foreign commercial banks in times of economic crisis.

## **2. Fiscal Conservatives Criticized BWI Lending as Encouraging Risky Investments.**

Critics in the 1990s as well as today also contend that the cycle of dependence created by BWI lending contributes to what is called a "moral hazard." They believed that by continuing to provide assistance when needed, the BWIs encouraged risky investments and poor planning by both public and private sector institutions. As a result, potentially high-risk projects did not appear so because of the unspoken assurance that the BWIs would help if things did not work out as planned. Critics claimed this situation discouraged countries from making sound economic decisions or market-based changes to their economies to encourage and sustain growth. Instead, leaders continued to rely on the BWI "safety net." When a crisis manifested, such as the Asian financial crisis of the late 1990s or the Mexico peso crisis in 1994, the IMF (along with the World Bank) could be counted on to step in and "rescue" the economy.

## **3. The BWIs were also Criticized for Failing to Distinguish Between "Good" and "Bad" Credit Risks.**

Critics in the 1990s found fault with the BWIs' failure to distinguish between good and bad credit risks. A commercial lending institution would normally charge customers with poor credit histories higher interest rates or loan them less money. However, the BWIs did not follow this policy with respect to their borrowers. Critics asserted that the BWIs failed to create real

financial incentives for countries to maintain good credit. Instead, they charged that many developing countries operated on the understanding that they could always get money from the BWIs. Further, critics charged that these countries assumed that once the BWIs were involved, commercial lenders would likely loan funds as well. As a result, there was no incentive for borrower nations to maintain good credit and sound economic policies. Further, there was no reward for the countries that did maintain good credit. Some argued that the BWIs should have rewarded countries that implemented sound market-based reforms, reduced their debt load, and brought spending and inflation under control, but this was not done, the critics charged.