

MPUP 530 I:
GLOBALIZATION, SOCIAL
PROBLEM AND POLICY

LECTURE 4: IS
WORLD BANK
GOOD FOR THE
POOR PEOPLE?

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World Poverty

The Voices of the Poor (World Bank, 2000)

WHAT IS POVERTY?

A POOR WOMAN IN MOLDOVA



- ▶ *Poverty is pain; it feels like a disease.*
- ▶ *It attacks a person not only materially but also morally.*
- ▶ *It eats away one's dignity and drives one into total despair.*

A YOUNG WOMAN IN JAMAICA

- ▶ *Poverty is like living in jail, living under bondage, waiting to be free.*



VOICES OF THE POOR

- ▶ At the turn of the new millennium, the World Bank collected the voices of more than 60,000 poor women and men from 60 countries, in an unprecedented effort to understand poverty from the perspective of the poor themselves
- ▶ this participatory research initiative is called, chronicles the struggles and aspirations of poor people for a life of dignity. Poor people are the true poverty experts. Poor men and women reveal



THE POOR ACROSS FIVE CONTINENTS

- ▶ Poverty is multidimensional and complex -- raising new challenges to local, national and global decision-makers.
- ▶ Poverty is voicelessness. It's powerlessness. It's insecurity and humiliation



Family in the Bolivian community of Horengo, with whom the researchers consulted



POVERTY AROUND THE WORLD

MILLENNIUM DEVELOPMENT GOALS (MDG)

- ▶ The Millennium Declaration in 2000 was a milestone in international cooperation, inspiring development efforts that have improved the lives of hundreds of millions of people around the world.
- ▶ In 2010, world leaders gather again at the United Nations in New York to review progress, assess obstacles and gaps, and agree on concrete strategies and actions to meet the eight Millennium Development Goals by 2015.

8 MDGS



Goal 1: Eradicate extreme poverty and hunger



Goal 2: Achieve universal primary education



Goal 3: Promote gender equality and empower women



Goal 4: Reduce child mortality



Goal 5: Improve maternal health



Goal 6: Combat HIV/AIDS, malaria and other diseases



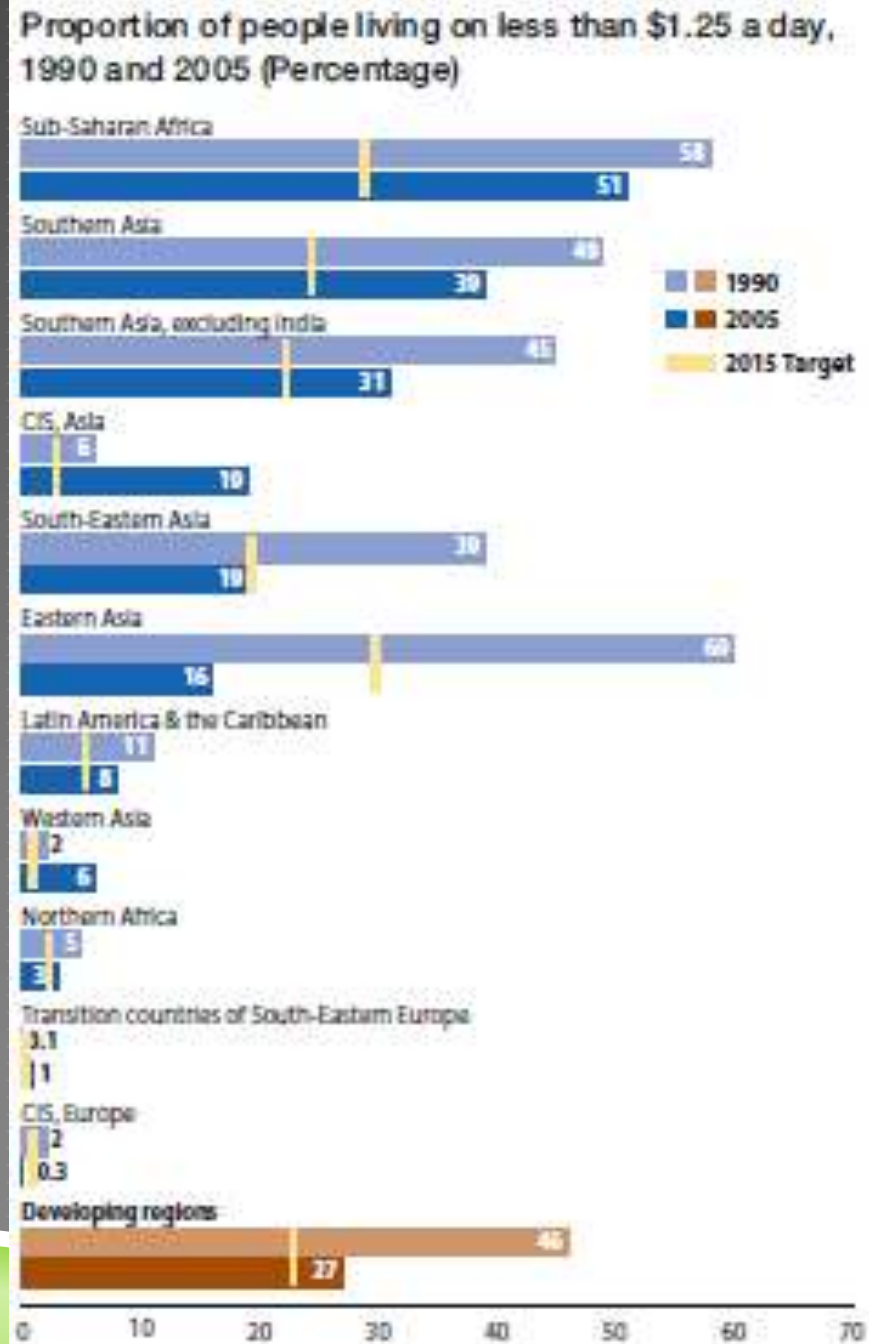
Goal 7: Ensure environmental sustainability



Goal 8: Develop a Global Partnership for Development

THE RESULTS SO FAR

- ▶ Robust growth in the first half of the decade reduced the number of people in developing regions living on less than \$1.25 a day from 1.8 billion in 1990 to 1.4 billion in 2005, while the poverty rate dropped from 46 per cent to 27 per cent.



GFC IMPACTS ON MDGS

- ▶ GFC began in the advanced economies of North America and Europe in 2008, sparked abrupt declines in exports and commodity prices and reduced trade and investment, slowing growth in developing countries.
- ▶ Nevertheless, the momentum of economic growth in developing countries is strong enough to sustain progress on the poverty reduction target.

TARGET MEET

- ▶ The overall poverty rate is still expected to fall to 15 per cent by 2015, indicating that the Millennium Development Goal (MDG) target can be met.
- ▶ This translates into around 920 million people living under the international poverty line—half the number in 1990.

EXTENDED IMPACTS OF GFC

- ▶ Newly updated estimates from the World Bank suggest that the crisis will leave an additional 50 million people in extreme poverty in 2009 and some 64 million by the end of 2010 relative to a no-crisis scenario, principally in sub-Saharan Africa and Eastern and South-Eastern Asia.
- ▶ Moreover, the effects of the crisis are likely to persist: poverty rates will be slightly higher in 2015 and even beyond, to 2020, than they would have been had the world economy grown steadily at its pre-crisis pace

EASTERN ASIA

- ▶ Poverty rates in China are expected to fall to around 5 per cent by 2015. India, too, has contributed to the large reduction in global poverty.
- ▶ Measured at the \$1.25 a day poverty line, poverty rates there are expected to fall from 51 per cent in 1990 to 24 per cent in 2015, and the number of people living in extreme poverty will likely decrease by 188 million.

SUB-SAHARAN AFRICA STILL LEFT BEHIND

- ▶ All developing regions except sub-Saharan Africa, Western Asia and parts of Eastern Europe and Central Asia are expected to achieve the MDG target.



POVERTY SITUATION OF DEVELOPING COUNTRIES

- ▶ In 2001, fully *half* of the developing world lived on less than 2 dollars a day.
- ▶ Yet poverty rates are much lower today than twenty years ago.
- ▶ In the last two decades, the percentage of the developing world living in extreme poverty has been cut in half.

GLOBALIZATION & POOR COUNTRIES

- ▶ While poverty rates were falling, developing countries became increasingly integrated into the world trading system.
- ▶ Poor countries have slashed protective tariffs and increased their participation in world trade.
- ▶ If we use the share of exports in GDP as a measure of “globalization”, then developing countries are now more “globalized” than high income countries.

POVERTY LINE

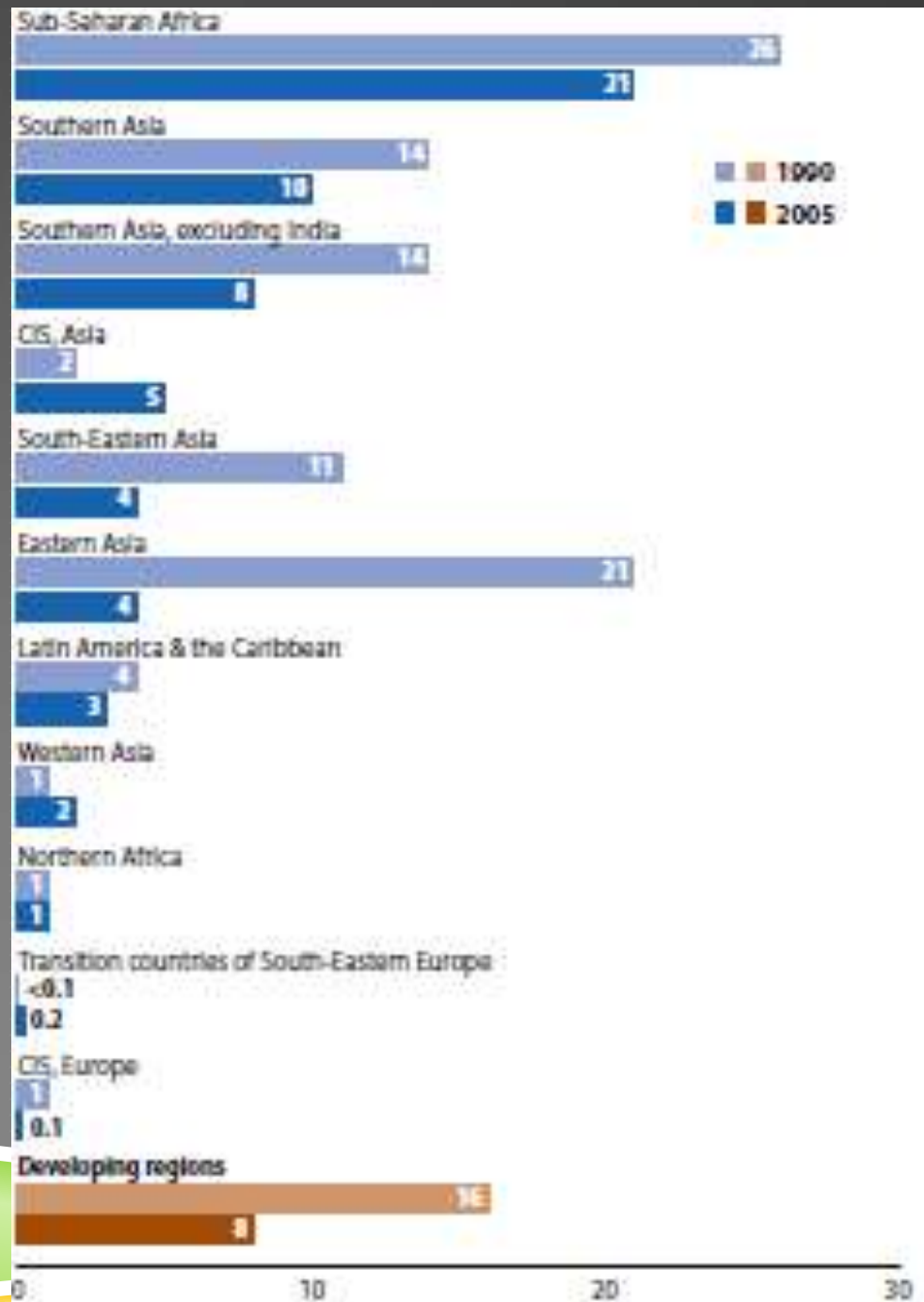
- ▶ Poverty is typically measured by choosing a poverty line, which reflects the minimum income or consumption necessary to meet basic needs.
- ▶ For low income countries, the World Bank has calculated poverty lines at \$1 and \$2 a day (Actually \$1.08 and \$2.15 in 1993 Purchasing Power Parity dollars).
- ▶ Although these minimum requirements vary across countries and over time, the \$1 and \$2 a day measures allow policy makers to compare poverty across countries using the same reference point.

HEADCOUNT MEASURE OF POVERTY

- ▶ The headcount measure of poverty identifies the percentage of the population living in households with consumption or income per person below the poverty line.
- ▶ The headcount is reported either as a percentage (the incidence of poverty) or as the number of individuals who are poor.

POVERTY GAP

- ▶ measures the mean distance below the poverty line as a proportion of the poverty line



% VS. ABSOLUTE NUMBER

- ▶ While the incidence of poverty has been falling over the last twenty years
- ▶ The change in the absolute numbers of poor individuals depends on the poverty line chosen.
- ▶ The number of individuals living on less than one dollar a day declined in the 1980s and 1990s, while the number of individuals living on between one and two dollars a day did not.

an international financial institution
that provides loans to developing
countries for capital programmes

THE WORLD BANK



GOAL

- ▶ The World Bank's official goal is the reduction of poverty.
- ▶ All of its decisions must be guided by a commitment to promote
 - ▶ foreign investment,
 - ▶ international trade and
 - ▶ facilitate capital investment

Figure 2
Five Agencies – One Group



ORGANIZATION STRUCTURE

- ▶ World Bank: comprises only two institutions: the International Bank for Reconstruction and Development (IBRD: 187 countries) and the International Development Association (IDA: 170 countries)
- ▶ The IBRD aims to reduce poverty in middle-income and creditworthy poorer countries, while IDA focuses on the world's poorest countries.
- ▶ World Bank Group incorporates these two in addition to three more: International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), and International Centre for Settlement of Investment Disputes (ICSID).

WORLD BANK PROVIDES

- ▶ low-interest loans,
- ▶ interest-free credits and grants to developing countries for a wide array of purposes that include
 - ▶ investments in education, health, public administration,
 - ▶ infrastructure,
 - ▶ financial and private sector development,
 - ▶ agriculture and environmental and
 - ▶ natural resource management.

BRIEF HISTORY OF THE WORLD BANK



FORMATION

- ▶ The World Bank is one of five institutions created at the **Bretton Woods Conference** in 1944.
- ▶ Although both World Bank and IMF are based in Washington, D.C., the World Bank is, by custom, headed by an **American**, while the IMF is led by a **European**.

1945–1968: FISCAL CONSERVATISM

- ▶ From its conception until 1967 the bank undertook a relatively low level of lending. Fiscal conservatism and careful screening of loan applications was common.
- ▶ Bank staff attempted to balance the priorities of providing loans for reconstruction and development with the need to instil confidence in the bank

1945-1968: FRANCE

- ▶ Bank president John McCloy selected France to be first recipient of World Bank aid;
- ▶ Two other applications from Poland and Chile were rejected.
- ▶ The loan was for \$250 million, half the amount requested and came with strict conditions.

FRANCE: CLOSE MONITORING

- ▶ Staff from the World Bank monitored the use of the funds, ensuring that the French government would present a balanced budget and give priority of debt repayment to the World Bank over other governments.
- ▶ The United States State Department told the French government that communist elements within the Cabinet needed to be removed. The French Government complied with this diktat and removed the Communist coalition government. Within hours the loan to France was approved.

AFTER 1947: NON-EUROPEAN & INFRASTRUCTURE

- ▶ The Marshall Plan of 1947 caused lending by the bank to change as many European countries received aid that competed with World Bank loans.
- ▶ Emphasis was shifted to non-European countries and until 1968, loans were earmarked for projects that would enable a borrower country to repay loans (such projects as ports, highway systems, and power plants)

1968–1980: SOCIAL SERVICES

- ▶ Robert McNamara who was appointed to the presidency in 1968, shifted bank policy toward measures such as building schools and hospitals, improving literacy and agricultural reform.
- ▶ World Bank concentrated on meeting the basic needs of people in the developing world.
- ▶ The size and number of loans to borrowers was greatly increased as loan targets expanded from infrastructure into social services and other sectors.

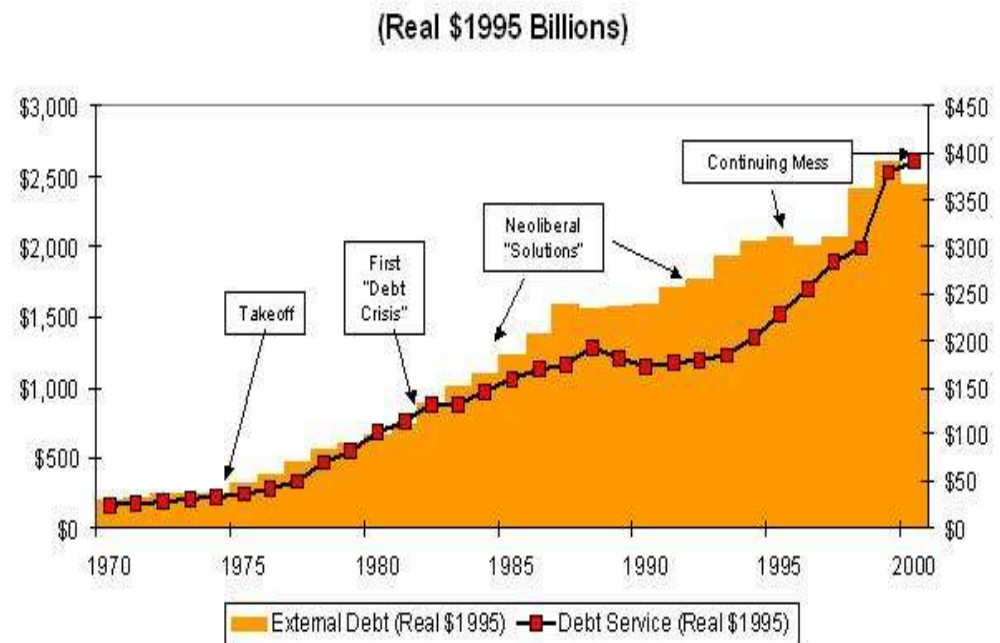
GLOBAL BOND MARKET

- ▶ McNamara created a new system of gathering information from potential borrower nations that enabled the bank to process loan applications much faster.
- ▶ o finance more loans, McNamara told bank treasurer Eugene Rotberg to seek out new sources of capital outside of the northern banks that had been the primary sources of bank funding.
- ▶ Rotberg used the global bond market to increase the capital available to the bank.

THIRD WORLD DEBT

- ▶ One consequence of the period of poverty alleviation lending was the rapid rise of third world debt. From 1976 to 1980 developing world debt rose at an average annual rate of 20%

Chart 1.1. Third World Foreign Debt and Debt Service, 1970-2000



Source: World Bank (2002) data, JSH analysis

© JSH 2003

1980-1989

- ▶ In 1980, A.W. Clausen replaced McNamara. The replacement of Chief Economist Hollis B. Chenery by Anne Krueger in 1982 marked a notable policy shift at the bank.
- ▶ Krueger was known for her criticism of development funding as well as third world governments as rent-seeking states.

LENDING TO SERVICE THIRD WORLD DEBT

- ▶ Lending to service third world debt marked the period of 1980–1989.
- ▶ Structural adjustment policies aimed at streamlining the economies of developing nations were also a large part of World Bank policy during this period.
- ▶ UNICEF reported in the late 1980s that the structural adjustment programs of the World Bank were responsible for the "reduced health, nutritional and educational levels for tens of millions of children in Asia, Latin America, and Africa"

STRUCTURAL ADJUSTMENT POLICIES

- ▶ Structural adjustment policies in the 1980s attracted criticisms of the World Bank.
- ▶ The 1979 energy crisis plunged many countries into economic crises.
- ▶ The World Bank responded with structural adjustment loans which distributed aid to struggling countries while enforcing policy changes in order to reduce inflation and fiscal imbalance.

STRUCTURAL ADJUSTMENT POLICIES

- ▶ Some of these policies included encouraging production, investment and labour-intensive manufacturing, changing real exchange rates and altering the distribution of government resources.
- ▶ Structural adjustment policies were most effective in countries with an institutional framework that allowed these policies to be implemented easily.

NEGATIVE IMPACTS

- ▶ For some countries, particularly in Sub-Saharan Africa, economic growth regressed and inflation worsened.
- ▶ The alleviation of poverty was not a goal of structural adjustment loans
- ▶ The circumstances of the poor often worsened, due to a reduction in social spending and an increase in the price of food, as subsidies were lifted

1989–PRESENT

- ▶ From 1989, World Bank policy changed in response to criticism from many groups. Environmental groups and NGOs were incorporated in the lending of the bank in order to mitigate the effects of the past that prompted such harsh criticism.

POLICIES CHANGE

- ▶ By the late 1980s, international organizations began to admit that structural adjustment policies were worsening life for the world's poor.
- ▶ The World Bank changed structural adjustment loans, allowing for social spending to be maintained, and encouraging a slower change to policies such as transfer of subsidies and price rises.
- ▶ In 1999, the World Bank and the IMF introduced the Poverty Reduction Strategy Paper approach to replace structural adjustment loans.

POVERTY REDUCTION STRATEGY

- ▶ The Poverty Reduction Strategy Paper approach has been interpreted as an extension of structural adjustment policies as it continues to reinforce and legitimize global inequities.
- ▶ Neither approach has addressed the inherent flaws within the global economy that contribute to economic and social inequities within developing countries.
- ▶ By reinforcing the relationship between lending and client states, many believe that the World Bank has usurped indebted countries' power to determine their own economic policy.

WATER PRIVATIZATION

- ▶ Michael Goldman has argued that "Industry analysts predict that private water will soon be a capitalized market as precious, and as war-provoking, as oil".
- ▶ Goldman says "These days, an indebted country cannot borrow capital from the World Bank or IMF without a domestic water privatization policy as a precondition".
- ▶ The Bank is utilizing "the 'Washington Consensus' model of "development" to promote water privatization

COMMODIFY WATER

- ▶ The World Bank is forcing many countries to commodify their water resources, rather than using their expertise in the public sector to acknowledge water as a universal human right and an essential public service".
- ▶ The push for water privatization development plays upon "the shocking tragedy that much of the world lacks affordable clean water". This image creates "new opportunities in development, though it may have little to do with ultimately quenching" the needs of impoverished countries.

PUBLIC SECTOR HAS FAILED TO DELIVER

- ▶ "The problem of water scarcity for the world's poor has been analyzed by the World Bank as one in which the public sector has failed to deliver, and has therefore prevented development from "taking off", and the economy from modernizing.
- ▶ If the state cannot deliver something as basic as water and sanitation, the argument goes, it is a strong indication of a general failure of public-sector capacity".

POSTCOLONIAL INSTITUTIONAL FORCES

- ▶ However, "with the sale or lease of a public good comes more than simply a privatized service; alongside it comes a wide set of postcolonial institutional forces that intervene in state-citizen relations and North-South dynamics".
- ▶ One notable example is the privatization of water forced upon Bolivians by the World Bank which led to multiple protests including the 2000 Cochabamba protests .

BOLIVIA WATER WARS

- ▶ <http://www.youtube.com/watch?v=aTKnI7uZRAE>
- ▶ the 2000 Cochabamba water wars. The Bolivian people took to the streets after the water giant, Betchel, took over the public water infrastructure.
- ▶ The privatization of the water in Bolivia was a condition of loan from the World Bank.

GLOBAL CHALLENGES

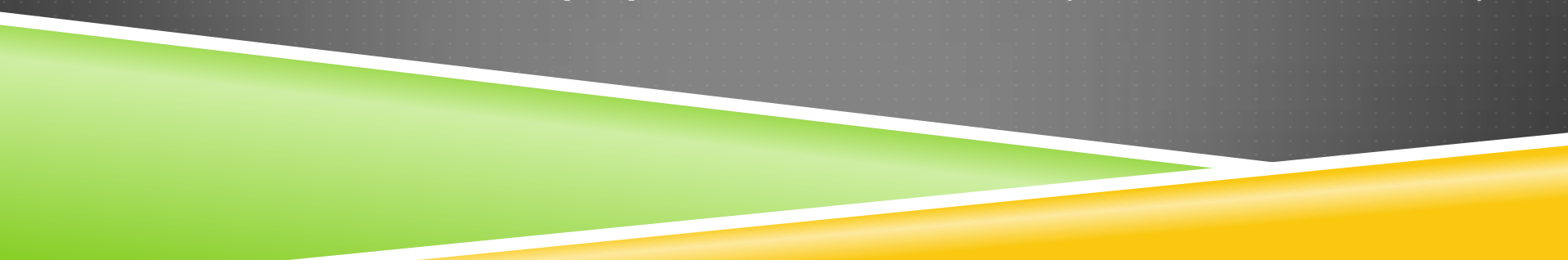
- ▶ poverty reduction and the sustainable growth in the poorest countries, especially in Africa;
- ▶ solutions to the special challenges of post-conflict countries and fragile states;
- ▶ development solutions with customized services as well as financing for middle-income countries;



GLOBAL CHALLENGES

- ▶ regional and global issues that cross national borders--climate change, infectious diseases, and trade;
- ▶ greater development and opportunity in the Arab world;
- ▶ pulling together the best global knowledge to support development

GLOBALIZATION ON INEQUALITY AND POVERTY: THE POSITIVE VIEW (DOLLAR, 2006)

- ▶ Growth rates in the poor economies have accelerated and are higher than growth rates in rich countries for the first time in modern history.
 - ▶ Developing countries' per capita incomes grew more than 3.5 percent a year in the 1990s.
 - ▶ Global inequality has declined modestly, reversing a 200-year trend toward higher inequality
 - ▶ Within-country inequality is not growing, though it has risen in several populous countries (China, India, U.S.)
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RISE OF WAGE INEQUALITY

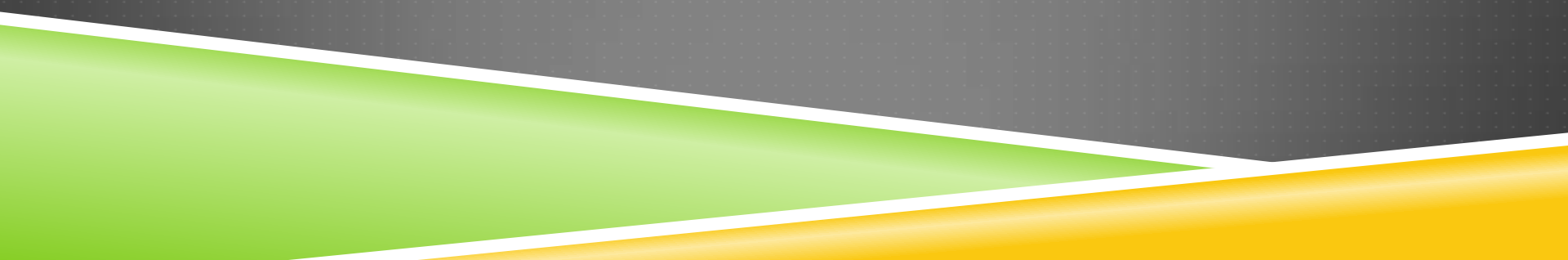
- ▶ Wage inequality is rising worldwide.
- ▶ This may seem to contradict the fourth trend, but there is no simple link between wage inequality and household income inequality
- ▶ More woman in employment → Rise in household income + Drop in unskilled worker's wage

POSITIVE VIEWS

- ▶ Faster growth and poverty reduction are strongest in the developing economies that have integrated with the global economy most rapidly, which supports the view that integration has a positive force for improving the lives of people in developing areas



GLOBALIZATION AND POVERTY: A CRITICAL VIEW (HARRISON, 2007)

- ▶ How has global economic integration affected the poor in developing countries?
 - ▶ Do trade reforms that cut import protection improve the lives of the poor?
 - ▶ Has increasing financial integration led to more or less poverty?
- 

QUESTIONS ON GLOBALIZATION AND POVERTY

- ▶ How have the poor fared during currency crises?
- ▶ Do agricultural support programs in rich countries hurt the poor in developing countries? Or do such programs in fact provide assistance by reducing the cost of food imports?
- ▶ Finally, does food aid hurt the poor by lowering the price of the goods they sell on local markets?

FOCUS ON TWO ASPECTS OF GLOBALIZATION

- ▶ international trade in goods and
- ▶ international movements of capital--including
 - ▶ foreign investment,
 - ▶ portfolio flows, and
 - ▶ aid.

BESLEY AND BURGESS (2003)

- ▶ Poverty can be reduced by growing the economy or through improvements in the income distribution or both.
- ▶ If a country is growing slowly or not at all, then measures that improve the distribution of income will reduce poverty.

MISLEADING VIEW

- ▶ Past researchers have argued that global economic integration should help the poor since poor countries have a comparative advantage in producing goods that use unskilled labor.
- ▶ Such a simple interpretation of general equilibrium trade models is likely to be misleading.

PRE-CONDITION

- ▶ For comparative advantage to increase the incomes of the unskilled, they need to be able to move out of contracting sectors and into expanding ones.
- ▶ Developing countries have historically protected sectors that use unskilled labor, such as textiles and apparel. Trade reforms may result in less protection for unskilled workers, who are most likely to be poor.

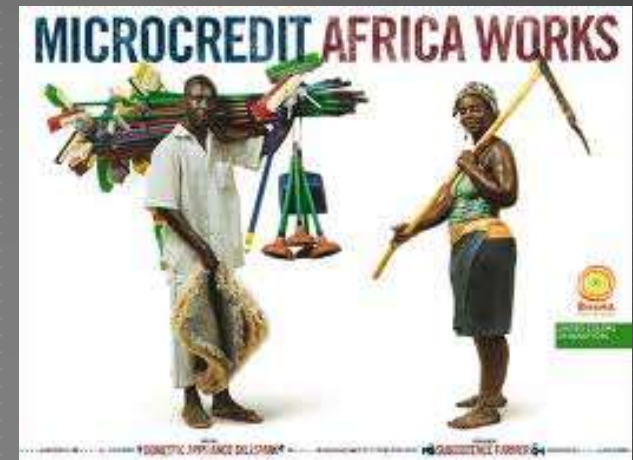
POOR MAY NOT POSSESS NECESSARY SKILLS

- ▶ Penetrating global markets even in sectors that traditionally use unskilled labor requires more skills than the poor in developing countries typically possess.



COMPLEMENTARY POLICIES

- ▶ The poor are more likely to share in the gains from globalization when there are complementary policies in place.
- ▶ Such complementary policies include investments in human capital and infrastructure,
- ▶ as well as policies to promote credit and technical assistance to farmers, and policies to promote macroeconomic stability.



INDIA AND COLOMBIA

- ▶ globalization is more likely to benefit the poor if trade reforms are implemented in conjunction with reducing impediments to labor mobility.



ZAMBIA

- ▶ poor farmers are only expected to benefit from greater access to export markets if they also have access to credit, technical know-how, and other complementary inputs. The studies also point to the importance of social safety nets.



MEXICO

- ▶ if poor corn farmers had not received income support from the government, their real incomes would have been halved during the 1990s.



ETHIOPIA

- ▶ if food aid had not been not well targeted, globalization would have had little impact on the poor



TRADE AND FOREIGN INVESTMENT REFORMS

- ▶ Trade and foreign investment reforms have produced benefits for the poor in exporting sectors and sectors that receive foreign investment.



MEXICO

- ▶ the poor in the most globalized regions have weathered macroeconomic crises better than their more isolated neighbors.



BETTER INVESTMENT & TRADE

- ▶ In India, opening up to foreign investment has been associated with a decline in poverty.
- ▶ The study on Zambia suggests that poor consumers gain from falling prices for the goods they buy, while poor producers in exporting sectors benefit from trade reform through higher prices for their goods.



THE END

