



WORLD BANK

The World Bank's Role in Latin America

By Rachel Wilson

Introduction

Much like the rest of the world, the economies of Latin America were drastically affected by the economic downturn of 2008. However, at the Conference of the Americas on September 29, 2009 Augusto del Toro, the chief economist for the World Bank, claimed that Latin America is poised for an economic **turnaround**. While this is certainly welcome news, a comment that del Toro made at the end of the speech was especially **poignant**, "The region has improved its social and macroeconomic policies in recent years, but it still lags behind Asia in terms of innovation and productivity." Though del Toro's statement is not overtly controversial, when examined more closely it raises key questions. An immediate question is what has caused Latin America to lag behind its Asian counterparts? Whether positive or negative, the World Bank plays a role in the answer. With a history of assistance to Latin America, the World Bank continues its investments there today; however, its influence and success in Latin America may be threatened. Critics of the World Bank dislike its influence and power in the region and are determined to establish a regional bank as competition. Latin America, both South and Central America, have been a profitable investment for the World Bank. As members of this organization, you must decide how the World Bank may continue its success.

turnaround- *a reversal*

poignant- *designed to make an impression*

Explanation of the Problem

Current Structure of the World Bank in Latin America

As a quickly developing continent in need of capital, the World Bank has many investments in Latin America. Some of the World Bank's loans go to projects that include sanitation, agriculture, education, et cetera. For example, an active project that is being financed by World Bank loans is the "Rio de Janeiro Sustainable Rural Development Project." This project seeks to adopt integrated and sustainable farming systems in the area. In fact, the region is one of the World Bank's most profitable areas of investment. According to an article from the *Economist* published May 12, 2007, 36 percent of the World Bank's profit came from Latin America. The article explains that the World Bank makes so much profit in Latin America because "only a handful of countries in the region are poor enough to qualify for the bank's soft loans and hand-

outs.” This is because the World Bank lending system is separated into two parts: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD gives loans to countries at a very low interest rate, whereas the IDA aids the poorest countries and offers interest free loans. Latin American countries that receive IDA loans include Bolivia, Honduras, and Nicaragua, The other countries must borrow from the IBRD.

The Washington Consensus

Critics of the World Bank in Latin America allege that the bank is structured so that Americans are in control. This stems for the 1989 concept of the Washington Consensus. Coined by economist John Williamson, the Washington Consensus refers to the economic policy initiatives that were implemented in developing countries during this time. The World Bank and the IMF were the main facilitators of the Washington Consensus. Some of these economic initiatives included **trade liberalization**, fiscal discipline, and **privatization** of utilities. Many critics of the Washington Consensus argued that the World Bank exerted too much influence by not giving loans to countries unless they followed these particular initiatives. Though the World Bank has relaxed many of its requirements since 1989, some such as privatization and regulation are still in place. Additionally, in order for a country to receive a World Bank loan, the country must agree to a “**cross conditionality**” clause. The IMF is a much more invasive institution in terms for economic policies.

trade liberalization-
the removal of barriers of trade (i.e. tariffs) between countries in order to enhance the free flow of good and services

privatization-
the act of switching a service from public ownership to private ownership

“cross conditionality” clause - *in order to get a loan from the World Bank, a country must also have an agreement with the IMF in place*

Regional Development Banks

There are other channels by which Latin American countries can receive loans. One such channel is development banks, such as the Andean Corporation and the Inter-American Development Bank. These two banks are similar to the World Bank; however, certain Latin Americans may prefer the regional banks because they consider them to be more likely to have Latin America’s interest at heart rather than American interests.

Recent Developments

World Bank’s Recent Investments

The World Bank website explains that its current involvement in Latin America has recently taken a hit during the current worldwide economic downturn. According to the website, Latin America has been

experiencing annual economic growth averaging over five percent. However, this growth has come to “a screeching halt” in the current economic climate. The bank invested approximately an additional \$14 billion in Latin America for the fiscal year ending in June 2009, primarily through the International Bank for Reconstruction and Development (IBRD), the moneymaking arm of the bank. The bank detailed its strategy for assisting Latin America. According to the website, “The Bank offers an integrated package of services, including analysis and advice, country dialogue, new financial products and assistance with the implementation of financed projects. For low-income countries, the Bank provides **concessional** financing, donor coordination and specialized support for fragile states.”

concessional- the admitting of a point claimed in argument

Hugo Chavez and the Bank of the South

One of the World Bank’s most vocal opponents is Venezuelan President Hugo Chavez. In May 2007, under Chavez, Venezuela stopped taking loans from the World Bank. But Venezuela is in a unique position -- as a large oil exporter Venezuela is more monetarily independent than many of its neighbors. In addition, Venezuelan President Hugo Chavez has spearheaded the creation of the Bank of the South (*Banco del Sur*) as a reaction to what he views as the dominance and negative influence of the World Bank. A *Time* article from July 2, 2007, explained that Chavez created the Bank of the South “as a direct competitor to the World Bank.” It goes on to say that Chavez has “long railed against the meddling of the Washington-dominated World Bank.” Chavez has been an extremely vocal critic of the US, often displaying his distaste for American policies. He feels that the US is trying to control Latin America by interfering in politics and sending assistance. For this reason, he mistrusts the World Bank and has gained enough supporters to create the Bank of the South. He foresees his bank as promoting “greater regional trade and integration,” according to a *New York Times* article from October 22, 2007. This would be to counteract what influence the US holds in Latin America.

However, whether the Bank of the South will actually be viable is in question. According to a *New York Times* article from May 20, 2009, the start date for the Bank of the South has been repeatedly pushed back. Also, there is the possibility of continued delays because the strong force behind the bank, Venezuela, is experiencing financial difficulties. Venezuela’s national oil industry, its main revenue source, is slowing production. This means that revenue is falling and Venezuela might not have the required capital to get the Bank of the South to start being active.

Potential Trouble for the World Bank

The World Bank might be in trouble if the Bank of the South and the other regional banks actually turn into competition. In addition to more competition, the World Bank could potentially be facing tougher competition because the regional banks do not have to lend money with strings attached like the World Bank. Latin American countries might be more tempted to borrow from its neighbors or even private banks because they do not attempt to shape nations by dictating their policies. According to an *Economist* article, the leaders of the World Bank say that their “loans come with valuable technical advice.” However, “critics say they should do more to separate the two.” This feeling that the World Bank’s loans interfere too much in nations’ policies could lead many to other banks, such as the Bank of the South.

Focus of the Debate

Agenda

Critics, such as Hugo Chavez, claim that the World Bank has pressured Latin America into adopting its agenda by attaching strings to its loans and handouts. The World Bank holds influence over its clients because they are able to dictate how the money is used, as well as who receives their loans. This means that the World Bank can support certain groups, organizations, or regimes that best fit its agenda.

However, critics have not been limited to Latin Americans. For example, former chief economist at the World Bank, Joseph Stiglitz, has been vocal in his criticism of the World Bank. According to an Australian paper *The Age*, Stiglitz stepped down because he did not like the World Bank’s ideology. Stiglitz believed that the leaders were too focused on market economies and did not really accurately assess the governments that they were working with. Furthermore, Stiglitz claimed that the World Bank ignored the insufficient markets in their client countries and treat them as though they were **market economies**, which was not very successful.

market economy – an economy in which most goods and services are produced and distributed through free markets

Structure

Other criticisms point to the structure of the World Bank because the leadership is heavily dominated by Americans, due to the bank’s rules. According to the World Bank website, the president of the bank is always an American and is “responsible for overall management of the Bank.” Also, the United States is “the Bank’s largest shareholder,” giving Americans even more control. Critics argue that the American’s sup-

posed control of the bank gives it the ability to shape nations with strings attached to loans and investments. They claim that the US has too much power and that other nations do not have enough input. Critics also point to the fact that the five nations with the most power, the United States, Japan, Germany, France, and the United Kingdom, do not present a true diversity of opinions.

NGO Perspectives

Oxfam International

A press release from August 29, 2006 on Oxfam's website claims that "Public not private [projects....are] the key to ending global poverty." The statement criticizes the World Bank for pushing many private sector projects because Oxfam, a **conglomerate** of organizations dedicated to ending poverty and injustice, believes that governments are the solution to projects aimed at solving poverty.

conglomerate – made up of parts from various sources or of various kinds

Amnesty International

In Amnesty International's 2009 Report, they criticized the World Bank for its "structural adjustment policies," claiming that these policies have eliminated social safety nets by advocating smaller government and more market economics. The report also criticized the World Bank for promoting user fees "in areas such as education and health care" because they "often put these services out of the reach of the poorest." An NGO dedicated to human rights and justice, Amnesty believes that the World Bank is not advancing policies that are always in the best interest of the poorest proportion of the population.

Possible Solutions

Change Agenda or Policies

One way to address criticisms of the World Bank would be to adjust its agenda or policies. The World Bank could possibly reduce the requirements it generally attaches to loans and investments. In other words, the bank could refrain from dictating as much of its clients' policies by attaching fewer strings to the loans. Also, the bank could shift its ideology to a more moderate ideology representative of diverse opinions.

Restructuring

In order to alleviate fears that the US is too dominant in the World Bank, the governing body could be restructured. For example, the US could reduce its role by changing the rules about the president of the bank. Another idea would be adding more representatives to the board. There are many ways that the World Bank could restructure in order to add more diverse opinions to the procedures and dealings of the bank. In addition, the World Bank separate itself more clearly from the IMF, which is a far more controversial entity. This could allow for Latin America and the international community to feel less suspicious towards the World Bank.

Questions for Policymakers

When trying to decide what is the best way to continue World Bank investments in Latin America, it is important to ask questions such as: Why are Latin American countries turning to regional banks and private loans? What is the current competition? What can the World Bank do to make its loans more appealing? Should the World Bank continue with its current types of loans? What could the World Bank do to **assuage** fears that the US dominates the bank? Should the World Bank restructure? Should the World Bank reduce the requirements that countries have to comply with when they accept a loan from the bank?

assuage – *pacify, quiet*

Conclusion

Historically a profitable place for the World Bank, Latin America is becoming less dependent on World Bank loans and looking more to regional banks. The many criticisms leveled at the World Bank have led to the creation of regional banks, such as the Bank of the South, Hugo Chavez's brainchild. The criticisms coupled with the new competition in Latin America could be detrimental to the World Bank if it does not do anything to address these threats to its success. It is up to you, the policymakers, to decide the fate of the World Bank in Latin America.

Guide to Further Research

When conducting further research, I suggest that you look first to the World Bank website and get an understanding of the types of projects that the World Bank supports in Latin America. Then I would suggest researching the criticisms of the World Bank in order to see what needs to be addressed in your policies. Below is a helpful spreadsheet

from the World Bank website listing the themes and sectors in which the World Bank is invested in Latin America:

http://siteresources.worldbank.org/EXTANNREP2K8/Resources/LD02e_Lending_LCR.pdf

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