

## **Looking Beyond Development: The Dynamics of International Development Institutions**

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### **Abstract**

The various International institutions like World Bank, International Monetary Fund, World Trade Organization and United Nations Organization have influenced the process of development both at local and global level. Since the time of their establishment the roles and dynamics of these institutions have undergone tremendous changes. These changes are the response to changing world scenario owing to various factors including Globalization. However these institutions have been inviting criticisms all over for their pro capitalist stand and pro-rich approach. The questions have also arisen on the mechanisms of their aid delivery and structures within the institutions. The present paper tries to understand the dynamics of these international institutions. Do these institutions purely aim for development or have desires beyond development. There is a need to assess the role of these institutions especially in the contemporary times when the globe seems to be shrinking and new power structures and regional identities are emerging.

**Key Words:** World Bank, IMF, ILO, WTO, UN

### **INTRODUCTION**

The process of development is a complex one. It involves composite, multifaceted and intricate courses of action. It is supported by multiple partners and agencies including State, Civil Society, Non Government Organizations and various institutions operating at regional and international level. In the period followed by Second World War and end of Cold War regime, International institutions have become highly significant and their role has expanded momentarily not only in developed countries but also developing countries. These institutions have been influencing the domestic politics and policies. The functioning and operation of international institutions such as the United Nations, World Bank, World Trade Organization, International Monetary fund and other has been fundamental in development debates for decades, and is likely to stay central to the development agenda for the coming years. Whether the debate is on sustainable development, poverty alleviation, responding to security threats or initiating action to counter the climate change, financial crises or the basic infrastructure of a world which is globalizing, the performance and dynamics of these multilateral international institutions is a vital factor. These institutions influence the decisions on financial aid delivery, loan to different countries, evolving trade policies pertaining to goods and services and humanitarian response to name a few. Consequently the structure, objectives and their vision are crucial to development policies of not only these institutions but also that of states.

### **METHODOLOGY**

The present paper evaluates the roles and functioning of international agencies like World Bank (and International Financial Corporation), International Monetary Fund (IMF), United Nations Organization (UNO/UN) and World Trade Organization (WTO) which have direct or indirect bearing on development of developing countries. In recent times these international institutions have come under severe criticism for the influence and power exercised by the rich nations with reference to aid delivery and various international and domestic policies. Based on secondary data available through various sources, the paper looks in to various claims made by the supporters and opponents of these institutions. Some argue that these institutions have

minimal impact. Others argue that they are captured by either the powerful rich countries or by private producers and investors and so do not focus on the interests of the poor countries. Finally, the problems may lie with the dynamics of the institutions themselves and the failure of the member countries to monitor their behavior.

## World Bank

The Brettonwoods Conference in 1944 was instrumental in creation of World Bank and International Monetary Fund. The vision of World Bank as stated in its official website reflects that “...it is a vital source of financial and technical assistance to developing countries around the world. The mission of World Bank is to fight poverty with passion and professionalism for lasting results. It aims to help people to help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors.” (<http://go.worldbank.org/OVY1AKXN80>) World Bank is made up of two exclusive development institutions owned by 186 member countries: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Each institution plays a different but collaborative role in advancing the vision of inclusive and sustainable development. The IBRD aims to reduce poverty in middle-income and creditworthy poorer countries, while IDA focuses on the world’s poorest countries. Their work is complemented by that of the International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID). The world bank provides low-interest loans, interest-free credits and grants to developing countries (members) for a wide range of purposes that include investments in education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management. (<http://go.worldbank.org/OVY1AKXN80>). With more than 10,000 employees in more than 100 offices worldwide World Bank, established in 1944, is headquartered in Washington, D.C. The World Bank’s work plan in India is spelt out in its Country Strategy (CAS). The Country Strategy for India is closely aligned with India’s own development priorities and describes *what kind of support* and *how much* can be provided to the country over a period of around four years. The Country Strategy for India for 2009-2012 is aligned with the government’s Eleventh Five Year Plan. It focuses on helping the country to accelerate the infrastructural development and support the poorest states, and respond to the economic crisis and financial emergencies.

The World Bank has been criticized by many non-governmental organizations; the indigenous rights group Survival International, and academics. The former Chief Economist of World Bank Joseph Stiglitz is highly critical of the International Monetary Fund, the US Treasury Department, US and other developed country trade negotiators owing to their pressuring tactics and forcible structural adjustment programmes (SAPs). Critics argue that the so-called free market reform policies which the Bank advocates are often harmful to economic development if implemented badly, too quickly (“shock therapy”), in the wrong sequence or in weak, uncompetitive economies. In *Masters of Illusion: The World Bank and the Poverty of Nations* (1996), Catherine Caufield argued that the assumptions and structure of the World Bank harms southern nations. Caufield criticized its formulaic recipes of “development”. To the World Bank, different nations and regions are indistinguishable and ready to receive the “uniform remedy of development”. She argued that to attain even modest success, Western practices are adopted and traditional economic structures and values abandoned. A second assumption is that poor countries cannot modernize without money and advice from abroad. A number of intellectuals in developing countries have argued that the World Bank is deeply implicated in contemporary modes of donor and NGO imperialism, and that its intellectual contributions function to blame the poor for their condition.<sup>1</sup> One of the strongest criticisms of the World Bank has been the

way in which it is governed. While the World Bank represents 186 countries, it is run by a small number of economically powerful countries. These countries choose the leadership and senior management of the World Bank, and so their interests dominate the bank.

The IFC's mission statement is "to promote private sector investment in developing countries, which will reduce poverty and improve peoples' lives". It certainly has done much to achieve the first part of this. However, the IFC often appears to assume that poverty reduction will inevitably succeed the private sector investment. There have been various case studies and research to understand that how far private sector investment facilitates poverty reduction or is it the reverse of the same. The IFC aim to attract and catalyze private investment to different countries and sectors; it also seeks to build physical and financial infrastructure which leads to creation of job opportunities and market led growth. IFC ensures that companies meet high social and environmental benchmarks and standards if they intend to receive support from the financial institution

The financial experts claim that despite various strategy and policy restatements over the years the IFC still appears to operate without any clear methodology for estimating or evaluating development impacts. Moreover, the IFC has no mechanism in its project cycle to articulate the intended development impact of a given project. Without such a mechanism, the IFC is unable to factor development effectiveness into either project design or implementation. Thus, on the evidence available outside the institution it is hard to conclude that it has a clear approach to selecting projects that will maximize benefits for poor people and the environment.

There are innumerable instances to prove that private sector investment is not purely service based. For instance while responding to the World Bank structural adjustment policies, Bolivia privatized the water subsystem in its third largest city Cochabamba in 1999 and granted a 40-year concession to run the water system to Italy based International water Company and US based Bechtel, with an agreement that user fees would remain the same in dollars. So every time the local currency fell the price would spiral. Soon after bagging the contract the companies raised the water tariff to \$20 per month and imposed permits for collecting rainwater on roofs. For the majority with earnings of less than \$65 per month, the increased tariff meant less water access. Mass local protests organized into a coalition in defense of water and life. After weeks of intense protests, the government cancelled the contract with private companies. Bechtel is now suing the nation of Bolivia for \$25 million dollars for cancelling the contract.<sup>2</sup>

The priorities are usually that of profit making and exploitation of natural resources and in some cases it is so extreme that it not only adversely affects the poor but also impacts the environment negatively. The 1997 report, "Pangue Hydroelectric Project (Chile): An Independent Review of the International Finance Corporation's Compliance with Applicable World Bank Group Environmental and Social Requirements", lead by Jay Hair, concluded that:

"There is no indication at this time that IFC has in place the necessary institutional operating systems or clarity in its policy and procedural mandate, to manage complex projects in a manner that complies consistently with World Bank Group environmental and social requirements".

The report also argued that IFC is inconsistent in applying its policies. Similar to its sister institution, the World Bank, the pressure on departments and individual staff to find sufficient projects to back each year frequently overrides any instructions or good intentions to consider alternative projects, back small, local enterprises and maximize positive impacts. In some cases the issue is the adequacy of the IFC's policies, rather than the lack of will to apply them. IFC support for projects is supposed to be governed by the concept of "additionality" – the IFC is supposed to support projects that are unable to secure private financing. The critics argue that often the IFC comes to a project after key decisions have been made. In such cases, the

consultation and environmental assessment processes become after-the-fact rationalizations for a predetermined project design.<sup>3</sup>

### **International Monetary Fund (IMF)**

During the Great Depression of the 1930s, countries attempted to revive their failing economies by harshly raising barriers to foreign trade, devaluing their currencies to compete against each other for export markets, and curtailing their citizens' freedom to hold foreign exchange. These attempts proved to be self-defeating. World trade declined sharply, and employment and living standards tumbled in many countries. This breakdown in international monetary cooperation led the formation of IMF - *an institution charged with overseeing the international monetary system—the system of exchange rates and international payments that enables countries and their citizens to buy goods and services from each other*. The new global entity would ensure exchange rate stability and encourage its member countries to eliminate exchange restrictions that hindered trade. The IMF is an organization of 184 countries, working to promote global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty and is responsible for ensuring the stability of the international monetary and financial system - the system of international payments and exchange rates among national currencies that enables trade to take place between countries.

The World Bank and IMF were fairly successful in various development projects around the Globe. The rapid and drastic changes in global economy proved that these bodies and particularly IMF and its recommendations and advices sparked economic crisis and sometimes even has adversely political implications for the members and particularly for developing nations. Another significant difficulty of the body is that it has turned into a “politicized” body and turned into a political instrument and influences the developing economies for imposing their will on those who need financial assistance. As matter of fact especially IMF have proved that it has taken a selective and dual policies toward the nations.

There have been numerous cases which are clear evidences of high handedness of these international financial institutions. For instance IMF forced Indonesia to accept an economic package which it was reluctant to accept. Then IMF urged the Indonesian government to cut subsidies on essential goods and fuel; this inevitably raised the prices, adversely affecting the poor and low-income classes. This has in turn led to street demonstration and political tensions.<sup>4</sup> It has been observed that there have been instances when the economic package created by IMF has proven to be incompatible with the national economic and social conditions of recipient nations. Every country has its own respective conditions and problems that require its own solutions and naturally should be in conformity with its special conditions and requirements.

According to Joseph Stiglitz Nobel Prize winner and former chief economist for the World Bank, these institutions may not be so beneficial for the developing countries. In his “Globalization and Its Discontents” he claims that the IMF has mismanaged the globalization process for the least developed countries (LDCs). IMF has imposed the wrong policies on the LDCs and worsened their economic and political situations. The policies are completely obsessed by a “market fundamentalist” ideology and special interests of the advanced industrial countries. He argues that the IMF's single-minded concerns about inflation and fiscal integrity have been inappropriate for many countries and have neglected economic growth and employment in these countries.<sup>5</sup>

The World Bank and IMF aim at reducing poverty and helping countries in economic crisis. They have been however strongly criticized for the way they are being governed. Though these institutions represent majority of the countries of the world, they are run and managed by



few economically powerful countries. The managing board and leadership is selected by these few countries and thus these institutions seem to cater to the requirements of these powerful countries instead of developing and underdeveloped countries. It was suggested to modify the voting structure of these institutions to give a greater voice to developing countries. As a result of which the voting structure was modified in 2010 to give better deal to India, Brazil, China, Mexico and South Africa

The political scientist Randall Stone, in his “Lending Credibility” points out the interference by the dominant advanced industrial countries, especially the United States. He observes that the IMF can only be successful in its mission to reduce inflation and find macroeconomic stability when powerful countries do not intervene in the process of IMF’s conditionality. He observes that IMF programs tend to fail because they are not credible. These countries receive loans but deviate more often from the IMF’s conditions and thus fail to control inflation. In defense of IMF Stone opines that outside interference and politics undermine the IMF; its own policies are sound and effective. <sup>6</sup>

It is noteworthy that one of the tasks assigned to these institutions have been encouraging privatization which actually did nothing whatsoever in this area and so the job later was assigned to WTO. <sup>7</sup>

### **World Trade Organisation (WTO)**

The World Trade Organization (WTO) is an international organization designed by its founders to supervise and liberalize international trade. The organization officially commenced on January 1, 1995 under the Marrakech Agreement, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1947. The World Trade Organization deals with regulation of trade between participating countries; it provides a framework for negotiating and formalizing trade agreements, and a dispute resolution process aimed at enforcing participants’ adherence to WTO agreements which are signed by representatives of member governments and ratified by their parliaments. Most of the issues that the WTO focuses on derive from previous trade negotiations, especially from the Uruguay Round (1986-1994).

The WTO has 153 members, representing more than 97% of total world trade. The stated aim of the WTO is to promote free trade and stimulate economic growth. Critics argue that free trade leads to a divergence instead of convergence of income levels within rich and poor countries (the rich get richer and the poor get poorer). Martin Khor, Director of the Third World Network, argues that the WTO does not manage the global economy impartially, but in its operation has a systematic bias toward rich countries and multinational corporations, harming smaller countries which have less negotiation power. The Third World Network has called the WTO “the most non-transparent of international organizations”, because “the vast majority of developing countries have very little real say in the WTO system”; the Network stresses that “civil society groups and institutions must be given genuine opportunities to express their views and to influence the outcome of policies and decisions.” (<http://www.twinside.org.sg/>). It has rules and regulations that limit a government’s ability to create jobs. For example, under the measures of WTO’s Trade Related Investment Measures (TRIMS), governments cannot require a transnational corporation to meet job creation targets. Governments cannot demand that the transnationals balance their imports with exports to maintain a level of job security. The WTO’s mechanism for settling disputes gives the organization incredible power to enforce trade rules. The WTO can strike down laws, policies and programs of democratically elected legislatures — including economic, health, social and environmental laws. All it takes is a panel of unelected trade experts to say that a country is violating the WTO trade rules. If a country refuses to change its laws, it could face economic penalties that get bigger and bigger. No other global institution has such powers. The WTO rules are also a threat to the Earth’s biodiversity.

Under the WTO rules on Trade Related intellectual Property Rights, (TRIPS) transnational corporations can claim ownership by taking out patents. It requires all products and processes to be patented and this includes plant varieties, seeds, genetic materials (animal and human) and pharmaceuticals, which are all life-creating and life-sustaining substances.

It has been alleged that WTO protects the interests of pharmaceutical companies against governments especially in health sector with regard to life saving medicines in African and Latin countries where thousands die from HIV/AIDS. The constraints and restrictions by WTO on production of inexpensive generic drugs including life saving medicines is a matter of serious concern.

The main elements of the Agreement on Agriculture (AoA) (which came in to existence after negotiations under Uruguay round of GAAT the fore runner of WTO) are market access, domestic support, and export competition. Trade liberalization commitments in these three areas are required for all members of the WTO. Under free trade policies, countries should produce only the goods which they can produce cheaply or with which they have comparative advantage and import those including the food crops which they produce domestically, from others who can produce them cheaper and more efficiently. The implication is that developed countries, which by virtue of their huge subsidies can dump food products in the international market, should continue supplying developing countries with their highly subsidized agricultural surplus. The developing countries should focus on exporting crops that will earn them the foreign exchange to buy food from rich countries. Thus, developing countries end up becoming more dependent on imports that continually drain their scarce foreign reserves, stunt the growth of their agriculture and economies and weaken their capacity to feed their own population in the long-term.

A study conducted by the Food and Agriculture Organization (FAO) on the impact of AoA on 14 developing countries in 2001 revealed that AoA's liberalization policy significantly increased food importation in these countries, with many registering sudden increases in the value of their food imports in the years following their accession to the AoA. The food import bill more than doubled in countries that are significant food producers and exporters such as Brazil and India and increased 50-100% in countries like Bangladesh, Pakistan and Thailand. In fact, many agricultural exporting countries in the 70's and 80's like the Philippine have been transformed into net food importers as a result of import liberalization under AoA. As there were no corresponding dramatic increases in developing countries' agricultural exports after their accession to the WTO, the massive food imports and import surges contributed to the huge trade deficits in agriculture during this period. The study also pointed to the general trend towards land concentration as small-scale farms were edged out in the competition. This has led to displacement of small farmers and food-insecure groups, further intensifying and worsening hunger and food insecurity among rural households.

### **United Nations Organization (UNO)**

The United Nations Organization (UNO) is an international multilateral organization whose stated aims are facilitating cooperation in international law, international security, economic development, social progress, human rights, and the achieving of world peace. The UN was founded in 1945 after World War II to replace the League of Nations, to stop wars between countries, and to provide a platform for dialogue. It contains multiple subsidiary organizations to carry out its missions. The organization has six principal organs: *the General Assembly* (the main deliberative assembly); *the Security Council* (for deciding certain resolutions for peace and security); *the Economic and Social Council* (for assisting in promoting international economic and social cooperation and development); *the Secretariat* (for providing studies, information, and facilities needed by the UN); *the International Court of Justice* (the primary judicial organ);

and the *United Nations Trusteeship Council* (which is currently inactive). Other prominent UN System agencies include the World Health Organization (WHO), the World Food Programme (WFP) and United Nations Children's Fund (UNICEF). There are many UN organizations and agencies that function to work on particular issues. Some of the most well-known agencies are the International Atomic Energy Agency (IAEA), the Food and Agriculture Organization (FAO), United Nations Educational, Scientific and Cultural Organization (UNESCO) etc

It is through these agencies that the UN performs most of its humanitarian work. Examples include mass vaccination programmes (through the WHO), the avoidance of famine and malnutrition (through the work of the WFP) and the protection of vulnerable and displaced people. The United Nations Charter stipulates that each primary organ of the UN can establish various specialized agencies to fulfill its duties and ensure development. The UN is involved in supporting development, e.g. by the formulation of the Millennium Development Goals. The UN Development Programme (UNDP) is the largest multilateral source of granting technical assistance in the world. Organizations like the WHO, UNAIDS, and The Global Fund to Fight AIDS, Tuberculosis and Malaria are leading institutions in the battle against diseases around the world, especially in poor countries. The UN Population Fund is a major provider of reproductive services. It has helped reduce infant and maternal mortality in 100 countries. The UN also promotes human development through various related agencies. The UN annually publishes the Human Development Index (HDI), a comparative measure ranking countries by poverty, literacy, education, life expectancy, and other factors. The *Millennium Development Goals* are eight goals that all 192 United Nations member states have agreed to try to achieve by the year 2015. This was declared in the United Nations Millennium Declaration, signed in September 2000. The Millennium Development Goals are to eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria, and other diseases; ensure environmental sustainability; and develop a global partnership for development.

It is proven beyond doubt that UN has been instrumental in development activities pertaining to different field all over the world from least developed countries to developing ones. There has been criticism that the five permanent members of the United Nations Security Council (Russia, the United States, China, the United Kingdom, France), who are all nuclear powers, have created an exclusive nuclear club whose powers are unchecked. Unlike the General Assembly, the United Nations Security Council (UNSC) does not have true international representation. This has led to accusations that the UNSC only addresses the strategic interests and political motives of the permanent members, especially in humanitarian interventions: for example, protecting the oil-rich Kuwaitis in 1991 but poorly protecting resource-poor Rwandans in 1994.<sup>8</sup> The dominance of UNSC was quite visible in Iraq war. Another criticism of the UNSC involves the veto power of the five permanent nations. A veto from any of the permanent members can halt any possible action the Council may take. One nation's objection, rather than the opinions of a majority of nations, may cripple any possible UN armed or diplomatic response to a crisis. For instance, John J. Mearsheimer claimed that "since 1982, the US has vetoed 32 Security Council resolutions critical of Israel, more than the total number of vetoes cast by all the other Security Council members."<sup>9</sup> In recent years there have been many calls for "reform" of the United Nations. There is, however, little clarity, let alone consensus, about what "reform" might mean in practice. Some want the UN to play a greater or more effective role in world affairs, others want its role confined to humanitarian work or otherwise reduced use. In 2004 and 2005, allegations of mismanagement and corruption regarding the Oil-for-Food Programme for Iraq under Saddam Hussein led to renewed calls for reform.

### Developing Countries and International Financial Institutions

Anti-globalization forces perceive especially the international financial institutions as a means

for the dominating the developing countries by both the rich countries and the forces of international capitalism. Others view these institutions as appropriately playing the role of the market and easing pressures on developing economies to adopt proficient, market-promoting policies. These institutions, the supporters opine that they are instrumental in controlling the most powerful countries and provide information and monitoring capacities that enable states to cooperate.<sup>10</sup> Easterly (a former economist at the World Bank), in his critical work “The Elusive Quest for Growth” argues that “Neither aid nor investment nor education nor population control nor adjustment lending nor debt forgiveness proved to be the panacea for growth.”<sup>11</sup> He emphasizes that the political and social factors like corruption, ethnic conflict, inequality in least developed countries (LDCs) enhance their economic problems, owing to which the development aid and assistance from these institutions become aimless.

It has been claimed that the States approach the financial institutions and with consecutive sanctioning of the aid, it is utilized in ways which do not help the poor groups. However as international institutions they are expected to be more responsive, still they sanction the aid with such conditionality which again favors the capitalist countries and not the LDCs. In one such research “The IMF and Economic Development”, James Raymond Vreeland, a political scientist, presents a social scientific analysis of the impact of IMF programs on growth in the LDCs. He illustrates that IMF programs do not promote growth. This result holds when compared with other countries not undergoing such programs, with the same country when it was not under such a program, and when selection bias for entry into the program is taken into account). Vreeland argues that countries often choose to undergo IMF reforms; they are not always forced to do so. Further, governments often choose to distribute the costs of such programs in ways that hurt poor groups, thus worsening inequality in addition to reducing growth. He blames the IMF for loaning to such countries and like Stiglitz, for imposing conditions that prioritize controlling inflation and government spending.<sup>12</sup>

Thomas Pogge through his collection of essays “World Poverty and Human Rights” argues that the developed countries and the international institutions are harming the poor countries. In the interdependent world we live in, “the advanced industrial countries support an international system that makes coups, civil war and corruption in LDCs not only possible but likely. By upholding a government’s privileges to borrow and assign rights for domestic resources—no matter how bad the government is, the rich countries encourage a free for all for control of developing countries. Failure to recognize the rich nations’ role in harming the poor countries depends on the “explanatory nationalism” that dominates current research and thinking.”<sup>13</sup> Pogge further argues that the resource and borrowing privileges conferred by the international system on the leaders of poor states constitute a causal link from rich countries, who maintain that system, to the misery of the poor. Pogge opines for a reform of global institutions so that they do no harm, or at least less.

Debate over these institutions has arisen from the seeming lack of progress in the developing world. There is a change in their roles from the 1970s onward, they have increasingly been judged by their impact on the poor. Fairly or not, the question has been whether these institutions have fostered development.<sup>14</sup> As Easterly concludes, “there was much lending, little adjustment, and little growth in the 1980s and 1990s” in the developing world. Annual per capita growth for the developing countries averaged 0 percent for the years from 1980 to 1998, whereas from 1960–1979 their growth had averaged about 2.5 percent annually.<sup>11</sup> Poverty remains very high, with roughly 20 percent of the world’s population living on less than a dollar a day and more than 45 percent on less than two dollars a day.<sup>15</sup> Because of these conditions, some 18 million people a year die of easily preventable causes, many of them children.<sup>13</sup>

In the course of the last quarter century, a very decent initiation have been prevalent in various



regions of the world, that has borne good results; and that is the indigenous and native solutions for their developmental problems of the countries and of course within the regional groups. Despite their diversifications, they have common economic interests, and so they could have taken national and regional policies and relatively overcome their economic problems. Association of Southeast Asian Nations, (ASEAN), and South Asian for Regional Cooperation (SAARC) and some other region groups are among these establishments and so far have had remarkable achievements.

### **Globalization and International Financial Institutions (IFIs)**

The technological innovation, reduced communications and transportation costs, and policy changes and under the effects of Globalization the developing countries have been increasingly exposed. Their trade dependence has grown significantly from approximately 50 percent in 1960 to over 80 percent in 2000, or nearly a 60 percent increase, for the about 80 developing countries accounting for more than 70 percent of world population. But the capacity of the IMF and World Bank has not grown proportionately, and thus, they are less able to help, especially at times of crisis. The IFIs seek to fulfill their role of technical and financial support, but the relative size of their financing remains low. They constitute only about 19 per cent of total debt outstanding by developing countries, and only 13 per cent among middle-income countries. The developing countries have thus experienced increasing globalization while the IFIs capacity has not kept up with the rising demand for funds. However many experts have argued that political instability, corruption, civil war, lack of the rule of law, and authoritarianism are viewed as the bigger sources of the problems because of which no amount of aid from international institutions is of constant help to ensure development.

According to ILO “There are thus serious problems with the current structure and processes of global governance. Foremost among these is the vast inequality in the power and capacity of different nation states. At the root of this is the inequality in the economic power of different nations.”<sup>16</sup> The industrialized countries have far higher per capita incomes, which deciphers into economic influence in negotiations to shape global governance. They are the source of much-needed markets, foreign investments, financial capital, and technology. The ownership and control of these vital assets gives them immense economic power. This creates a built-in tendency for the process of global governance to be in the interests of powerful players, especially in rich nations.

The IFIs especially World Bank and IMF have invited relevant criticism in recent times with regard to their aid delivery systems. Thacker shows that the United States exerts a great deal of influence over which countries get IMF loans.<sup>17</sup> Even Helen Milner is of the opinion that Countries voting similarly to the United States in the United Nations do better at the IMF. The literature on foreign aid also suggests that a country’s relationship to powerful sponsors makes a difference. Countries tend to get more aid from all sources. The more ties they have with powerful, rich countries, especially the once colonial powers. Loans, aid, and advice may respond to the pressures of the most powerful developed countries, while trade agreements may promote the agendas and interests of these rich countries. But are these effects more or less likely when multilateral institutions exist than when these relations must be negotiated bilaterally?<sup>18</sup> The present global economic crisis has unequivocally proved that all, including the international financial institutions need deep and thorough changes of their vision. To achieve that goal, certainly restructuring is unavoidable.

Buira in his ‘Challenges to the World Bank and IMF: Developing Countries Perspective’ endeavors to explain the systemic failures of these institutions by articulating the goals and governance structures of the international financial institutions. He very clearly alleges that the sovereignty of the states has been compromised to the extent of violating it by imposing several

political and economic directions and conditions.<sup>19</sup>

Aziz Ali Mohammed has studied the structural asymmetries between the creditors and debtors in which the former are mostly G7 countries. The debtors thus end up bearing the huge economic and political costs to run the institution.<sup>20</sup>

The Heavily In-debt Poor Countries (HIPC) initiative was set up in 1996 by the IMF aimed at reduction of external debts through writing off by the official donors. According to the World Bank, the debt of the HIPC countries was, on average, more than four times their annual export earnings, and 120 percent of GNP. Thus the HIPC initiative was set up for the poorest economies. However HIPC has been seriously criticized for actually supporting and helping the rich and powerful economies instead of the indebted and poor economies with very less income. The HIPC initiative is tied with several conditionalities through structural adjustment programmes.

The European Network on Debt and Development (Eurodad) has thus pointed out in a report that the HIPC is unlikely to free up resources to tackle poverty for three main reasons which have been quoted on their website:

1. *“Threshold levels to measure debt sustainability are arbitrary and still too high” and that “sustainability is defined in economic terms and not in terms of human and social development.” As a result, they point out; several least developed countries with significant debt burdens have not been included in the HIPC initiative.*
2. *The debt reduction on offer is too small. They point out, for example, that Zambia and Niger will actually pay more after the initiative than they did before.*
3. *The “piling up” of different sets of conditionalities slows down the process. Conditionalities such as the much-criticized Poverty Reduction Strategy Papers (PRSPs) from the IMF and World Bank “do not succeed in aligning macro-economic issues and poverty issues more closely than in the past and macro-economic frameworks haven’t changed significantly as a result of PRSPs.”<sup>21</sup>*

The PRSPs adopted in September 1999 are based on the principles of country ownership, results orientation, and comprehensive focus on poverty, a partnership-oriented approach and a long-term perspective for poverty reduction. It also focusses on involving civil society. It is a mechanism through which low and middle income countries receive concessional assistance. These lay down the country’s macroeconomic structure and policies usually for a three year period or longer than that with the aim of poverty reduction. It also focusses on external financing needs and major significant sources of funding.

The critics have argued that the IFIs have used power through various policies of SAPs, HIPC, PRSPs to forward their own agenda. Several examples through several studies and institutions are available in literature on IFIs. For instance Brendan Martin opines that IMF through its technical and structural adjustments has enforced its will and thus states:

“...for decades, the Fund has imposed its will on the countries of the South, reshaping their economies with virtually no input from the millions of people affected by their policies. Farmers, workers, consumers, small entrepreneurs, indigenous people and many others have taken to the streets to express their anger and frustration, but to little avail. Not only has the Fund failed to respond, but it has ensured that governments are unresponsive as well by threatening a cut off of all international financing if its adjustment policies are not implemented. Now the institution that has undermined democratic processes around the world as it forces the adoption of poverty-inducing measures is set to be the arbiter of the adequacy of citizen involvement in the design of

poverty-reduction programs.”<sup>22</sup>

Geske Dijkstra (2005)<sup>23</sup> studied the PRSP experiences of Bolivia, Honduras and Nicaragua. She has found disappointing results. She is of the opinion that PRSP emphasizes on rational planning and ignores the political factors. This leads to unintended, harmful consequences. The intervention of the donors should be reduced by supporting the existing government plans. Interestingly she says that it should be accepted that the result of the aid is uncertain.

### Multinationals and the Private Sector

Globalization has increased the influence of the private actors. The governance structure of the global financial system has also been transformed. As private financial flows have come to dwarf official flows, the role and influence of private actors such as banks, hedge funds, equity funds and rating agencies has increased substantially. As a result, these private financial agencies now exert tremendous power over the economic policies of developing countries, especially the emerging market economies. The international institutions have been under constant pressures and lobbying from the Multinationals to propagate market friendly policies. Bhagwati claims, “The multinationals have, through their interest-driven lobbying, helped set the rules in the world trading, intellectual property, aid and other regimes that are occasionally harmful to the interest of the poor countries.” He notes that a key example of this harmful effect has been in intellectual property protection where “the pharmaceutical and software companies muscled their way into the WTO and turned it into a royalty-collection agency because the WTO can apply trade sanctions.”<sup>24</sup> He goes on to describe how the industries lobbied to get their views onto the American trade policy agenda and then used the United States government to force this onto the WTO and the developing countries. Chaudhuri, Goldberg, and Jia (2003)<sup>25</sup> show in a sophisticated analysis that in a key segment of the pharmaceuticals market in India, the losses to Indian consumers are far greater than the increased profits of foreign producers from the introduction of Trade Related aspects of intellectual property rights (TRIPs). The impact of private actors seems most well documented in the case of the IMF. Gould’s research, for example, shows that the number and nature of conditionality in the IMF have responded increasingly to private investors. Their influence has grown because such investors play such a prominent role in international financing.<sup>26</sup>

Moreover there are evidences showing that bureaucratic set up and processes within the IMF and other international institutions lead to policies and practices inappropriate for their stated purposes.<sup>27</sup> Concerns over career advancement and budget size induce actors within these agencies to focus on making loans and giving aid, but not on monitoring the results.

### CONCLUSION

The various international institutions have been playing pivotal role in development of developing and poor countries. The world definitely needs such institutions for greater collaboration on various issues of development and place the poor countries in a better position to receive resource information and bargain the conditionalities of aid. However the pressures and interests of developed countries and multinationals in finalizing the conditionalities of aid cannot be ruled out. There is an urgent need to *increase the transparency, accountability, representativeness and autonomy of these institutions. The role of UN needs to be enhanced with more countries getting the power of Veto and more representativeness of developing countries in UN Security Council.* Further various developing countries and least developed countries should be given a much wider platform in the international financial institutions to ensure development through these institutions. It should not be however forgotten that the domestic policies and conditions play an important role in ensuring the effectiveness of these international multilateral institutions. Apart from initiating reforms in these institutions to best suit the present situation there is also

immense need to have *region specific policies* to suit the requirements and enhance the process of sustainable development.

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